CHINA MERCHANTS BANK

BAIN & COMPANY

2009 China Private Wealth Study

China's private banking industry: An opportune time

The 2009 China Private Wealth Study's original Chinese title,坐看风起云涌, is a common expression meaning "sit and watch the wind blowing and the clouds shifting." This metaphor is symbolic of the changes and growth facing China's nascent private banking industry.

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Preface

Intentions and Expectations for the 2009 China Private Wealth Study

Widespread reform throughout China has given rise to the first generation of wealthy individuals, and it has been their entrepreneurial spirit that has led to their professional success. As they move forward, these young and middle-aged consumers will develop an even more sophisticated understanding of the economy and have more confidence in their own judgment and ability to invest. They tend to make investments on their own or through people they know well, and in channels with which they are familiar (e.g., the domestic stock market, the real estate market and other funds).

Beginning in 2007, some domestic and foreign banks started launching private banking services. However, these services failed to gain much traction with this group. The reason: such private banking services had not been designed to assist in the wealth management of those with first-generation wealth.

In 2008, the subprime crisis, triggered by the US real estate market, spiraled into a global financial downturn with even greater regional impact than the Asian economic slowdown in 1997. As domestic and international demand continued to decline and businesses suffered worldwide, China's real estate and stock markets lost significant value from the pre-2008 boom.

However, that financial crisis is also providing a tremendous opportunity to establish and develop China's emerging private banking industry:

- China's newly wealthy now recognize the volatility of the market, leading them to reconsider their investment strategies
- Many people have become more risk averse and are starting to seek professional advice on asset allocation in order to preserve their family's wealth

Private bankers can take advantage of the shift in attitude to discuss portfolio management with China's newly wealthy individuals and earn their trust.

To better understand China's newly wealthy and their attitudes toward wealth management - as well as the needs of different customer segments - Bain & Company and China Merchants Bank (CMB) jointly conducted a research study on the emerging wealth market. This collaborative effort relied on Bain's extensive experience with private banking research, rigorous methodology and effective data analysis tools, along with CMB's knowledge of retail banking and high-end customer resources. The resulting data analysis enabled the creation of a wealth-distribution curve, which estimated the number of wealthy individuals in China, their combined wealth and financial projections for 2009. By combining the wealth-distribution curve with information from surveys and interviews with a large number of the newly wealthy, experts and bank relationship managers (RMs) who had access to secondary data, the study provides new insights into the opinions of high-net-worth individuals (HNWIs) on China's private banking sector.

The study, based on a large sample, is the first in-depth look at China's private banking sector and segmentation within the wealth market. The collaboration between Bain - a global consulting firm - and CMB - one of China's premier financial institutions - provides a foundation for the development of China's private banking sector.

Acknowledgements

This study is a joint effort between China Merchants Bank and Bain & Company, Inc.

CMB initiated this high-level analysis of China's wealth market. The financial institution coordinated customer interviews and in-depth surveys with relationship managers. CMB also provided industry expertise, internal data and input on analytical methodologies. We would like to thank Mr. Weihua Ma, president of CMB; Mr. Zhihong Tang, vice president of CMB; Mr. Jianjun Liu, manager of the retail banking department; Mr. Kunde Chen, wealth management director; Ms. Jing Wang, vice general manager of the private banking department; Mr. Yuennan Chen, vice general manager; and other CMB team members, including senior managers Ms. Caiyun Gao, Ms. Yushi Shangguan, Ms. Songxue Li and Ms. Yan Jin.

In addition to the CMB customer surveys, Bain also interviewed many non-CMB customers and relationship managers. Using innovative methodologies, the Bain team built a market-sizing model, conducted detailed data analysis based on the survey results, and developed a clear conclusion and supporting arguments. We extend our gratitude to Bain partners, including Mr. Johnson Chng, Mr. Donie Lochan, Mr. Sameer Chishty, Mr. Philippe Debacker, Mr. Philip Leung, Mr. Nick Palmer and manager Ms. Lin An. We also appreciate the efforts from team members, including Ms. Dorothy Cai, the case team leader, Ms. Clare Song, Ms. Xin Liu, Ms. Weiling Yang, Ms. Shirley Song, Mr. Allen Li and Ms. Cynthia Sun.

We would like to extend our gratitude to each and every customer and relationship manager who has participated in our interviews, as well as CMB employees who facilitated the interviews and the study. They were actively involved in data screening and customer surveys and interviews. They also shared their years of experience in the sector. During the project, many Bain experts and other colleagues also helped with data collection, modeling, methodologies and analytical tools. Finally, many thanks to everyone at Bain Greater China, as well as other offices in the world, for their contributions. We express our sincere gratitude to all those contributing their valuable time and materials to the team.

Chapter 1: Overview and Trends in China's Wealth Market

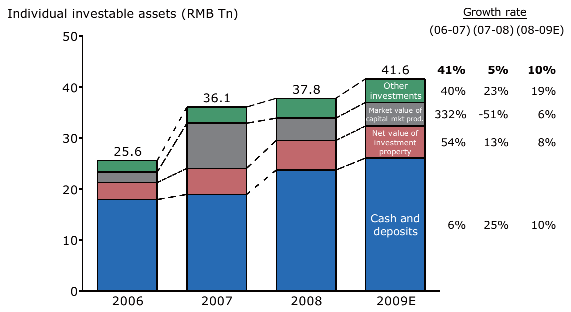
- In 2008, there were 300,000 high-net-worth individuals (HNWIs) in China, with investable assets worth at least RMB 10 million (USD $1.5 million, €1.1 million)[1]. Investable assets per capita are approximately RMB 29 million (USD $4.3 million, €3.2 million). Their aggregate investable assets equaled RMB 8.8 trillion (USD $1.3 trillion, €1.0 trillion)

- In spite of the global financial crisis, we predict that the number of Chinese HNWIs will reach 320,000 in 2009, with total investable assets exceeding RMB 9 trillion (USD $1.4 trillion, €1.0 trillion)

- By the end of 2008, 80 percent of Chinese HNWIs lived in 11 provinces and cities. More than 50 percent of China's wealthy were clustered in 5 provinces: Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang

[1]Exchange rate of USD $1 = RMB 6.8 and Euro €1 = RMB 9.0 used throughout this document

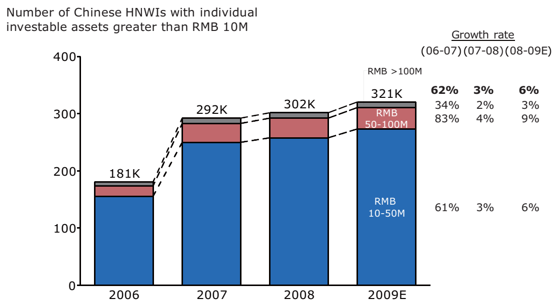
Figure 1: Total individual investable assets in China, 2006–2009



Note 1：“Capital market products” include stocks, funds, exchange traded funds (ETFs), open-ended funds and bonds.
Note 2：“Other investments” includes insurance, banking wealth management products, offshore investments and other investments (commodity futures, gold, etc.) but excludes residential property, equity of unlisted companies and consumer durables.

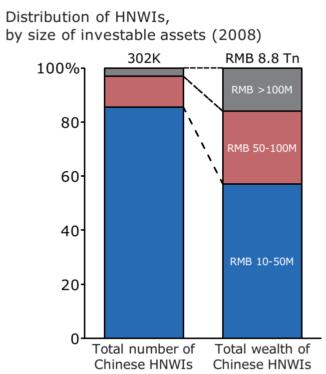
Source: Bain's HNWIs Income-Wealth Distribution Model

Figure 2: Number and composition of China's HNWIs, 2006-2009



Source: Bain's HNWIs Income-Wealth Distribution Model

Figure 3: Population and wealth distribution of HNWIs in China



Source: Bain's HNWIs Income-Wealth Distribution Model

The enormous potential value of China's wealth market[1]

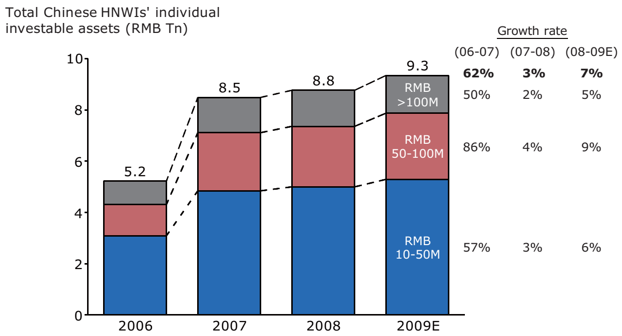
In 2008, China's economy experienced a slowdown of its explosive growth. The 2008 GDP growth rate dropped to 9 percent after five years of rapid and sustained double-digit increases. At the same time, the global financial downturn reduced market demand, domestically as well as abroad, resulting in major price drops in both the stock and real estate markets. Share prices plunged and property sales slowed significantly, with prices even decreasing in some areas.

The total value of investable assets[2] held by individuals in China in 2008 equaled RMB 38 trillion (USD $5.6 trillion, €4.2 trillion), a 5 percent increase, year-on-year. A detailed breakout shows that the market value of capital market products dropped by about 50 percent and the growth rate of investment property sales slowed, but total market capacity increased. The total net worth of the property market grew by about 13 percent; cash and deposits grew faster than any other type of asset - a 25 percent increase over the same period of 2007. (See figure 1.)

The number of Chinese HNWIs[3] continues to increase. In 2008, there were approximately 300,000 HNWIs in China, with nearly 10,000 Ultra-HNWIs[4] . In terms of total wealth, investable assets owned by Chinese HNWIs totaled RMB 8.8 trillion (USD $1.3 trillion, €1.0 trillion) in 2008, or RMB 29 million (USD $4.3 million, €3.2 million) per HNWI on average. The wealth owned by Ultra-HNWIs totaled RMB 1.4 trillion (USD $0.2 trillion, €0.2 trillion), which accounts for 16 percent of that of HNWIs. (See figures 2 and 3.)

[1] This study relates to Mainland China, excluding Hong Kong, Macau and Taiwan.
[2] Investable assets are a measurement of the total investable wealth (assets with a secondary market and certain liquidity) of an individual. Investable assets include an individual's financial assets and investable real estate. Financial assets include cash, deposits, stocks (tradable and non-tradable shares of listed companies, hereinafter inclusive), bonds, funds, insurance, bank financing products, offshore assets and other investments (commodity futures, gold, etc.), etc, excluding assets such as owner-occupied real estate, shares of non-listed companies and consumer durables.
[3] This study defines HNWIs (high-net-worth individuals) as those who have at least RMB 10 million in investable assets.
[4] This study defines Ultra-HNWIs (ultra-high-net-worth individuals) as those who have at least RMB 100 million in investable assets.

Figure 4: Total wealth and distribution of China's HNWIs, 2006–2009



Source: Bain's HNWIs Income-Wealth Distribution Model

Taking into consideration macroeconomic factors that can affect China's wealth market, we predict that the number of HNWIs will continue to grow in 2009, reaching about 320,000, which is a 6 percent increase, year-on-year. Total wealth of Chinese HNWIs will reach an estimated RMB 9.3 trillion (USD $1.4 trillion, €1.0 trillion), up 7 percent over 2008. Even given the current economic turbulence, China's wealth market has enormous market and growth potential. (See figure 4.)

2008 review of China's wealth market and the outlook for 2009

2008 review

Macro economy: In 2008, China's economy faced many challenges, both domestically and abroad. As the global financial crisis deepened, the export growth rate dropped by 9 percent, compared with 2007. At the same time, domestic consumption was weak, with the annual growth rate for real domestic consumption decreasing by 2 percent. That weakness in export and domestic consumption consequently reduced new fixed-asset investment. Several macroeconomic factors slowed the growth of China's economy. The real GDP growth rate dropped below 10 percent for the first time in five years. In the first two quarters, it increased at a rate of 10 percent. But in the third quarter, real GDP growth gradually fell 1 to 2 percentage points, or close to the 8 percent floor set by the government for macroeconomic control.

Stock market: In 2007, China's A-share market continuously set record highs. At one point, total market value topped RMB 30 trillion (USD $4.4 trillion, €3.3 trillion), making it the fourth-largest market in the world. However, China's A-share market index plunged from its high of 6,124 to 1,664 in October 2008, declining by as much as a 70 percent. Between December 2007 and the end of 2008, China's stock market had lost about 50 percent of its value.

Real estate market: The growth of real estate markets in large and midsize cities slowed tremendously and prices fell. Total sales of commercial housing dropped 20 percent from 2007. A breakout of sale prices based on data from China's National Bureau of Statistics details a decline in seven provinces and cities—Beijing, Tianjin, Shanghai, Zhejiang, Fujian, Guangdong and Hainan. In 2007, the sale price for commercial properties topped RMB 4,000 per square meter (USD $590 per square meter, €440 per square meter). By the end of 2008, prices declined by varying amounts in every area except Hainan.

Cash and deposits: Meanwhile, turbulence in the stock market and a depressed real estate market resulted in a surge of divestitures. Cash and deposits held by individuals increased by 25 percent in 2008.

Outlook for 2009

Macro economy: China will remain one of the fastest-growing countries in the world, despite serious economic pressures. The nation faces severe economic turbulence in 2009, both domestically and abroad, with its GDP growth rate declining dramatically when compared with previous years. As a result, we predict China's economy will experience a correction in 2009 but will maintain relatively rapid growth on the whole. In response, China's wealth market also will continue growing.

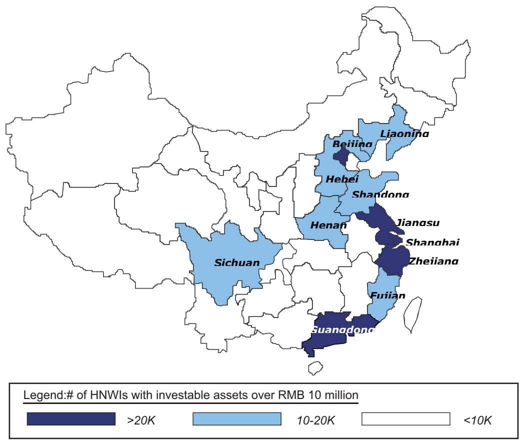
Stock market: The stock market is expected to vacillate, with prices initially remaining low and then rising. The market scale of tradable shares will increase. At the outset, the general economic environment will remain challenging. With a considerable drop in export orders and slowing domestic consumption, domestic businesses may see even more of a decline in profitability during 2009. However, the market has anticipated this trend and it is reflected in most stock prices. The government's economic stimulus policies will be the main driver of a stock market recovery this year. The RMB 4 trillion (USD $0.6 trillion, €0.4 trillion) in fiscal expenditures is a positive signal for the market. Coupled with the multiplier effect from a relatively loose monetary policy at the end of 2008, the economy is expected to remain depressed, followed by a rise.

Finally, lifting the ban on non-tradable shares will expand trading opportunities. It is unlikely that large holders of non-tradable shares will reduce their holdings, so the downward pressure on stock prices has now been largely realized. Return on investment for other financial instruments is not high, so if the stock market does see a dramatic rise, small holders of non-tradable shares are also unlikely to reduce their holdings in 2009.

Real estate market: As of February 2009, there was a backlog of commercial real estate inventory in large cities across China. Industry analysts project that it will take at least six months to two years for the market to absorb the current inventory. Although the government has implemented new policies aimed at reviving the real estate market, such as relaxing some restrictions on purchasing two properties and granting tax credits, consumers' confidence in real estate and investing depends on their outlook for an economic recovery. If export and consumption pick up in the second half of 2009 and economic stimulus policies increase household consumption and private investments, the real estate market may recover soon. However, if major economic indicators remain weak in the second half of 2009, a strong real estate market recovery might be delayed until after 2009.

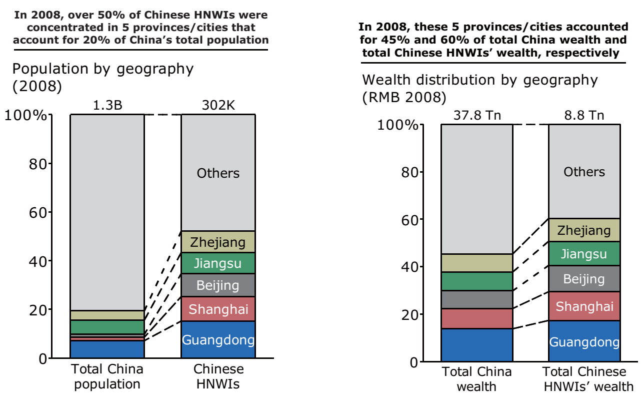
Cash and deposits: Considering the lackluster growth prospects for the stock and real estate markets, more lenient monetary policy and conservative market projections will result in the continued increase in cash and deposits. They are expected to remain one of the fastest growing assets in 2009, increasing at least 10 percent, year over year.

Figure 5: Geographic distribution of Chinese HNWIs in 2008



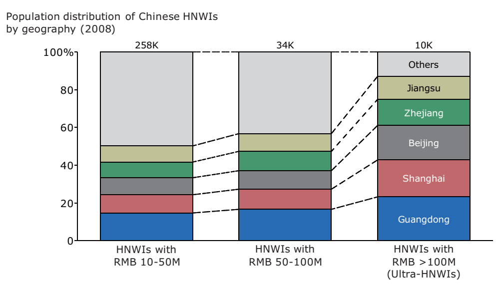
Source: Bain's HNWIs Income-Wealth Distribution Model

Figure 6: Five provinces/cities with more than 50 percent of Chinese HNWIs



Source: Bain's HNWIs Income-Wealth Distribution Model

Figure 7: Approximately 85 percent of China's Ultra-HNWIs are concentrated in Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang



Source: Bain's HNWIs Income-Wealth Distribution Model

Regional distribution of China's HNWIs in 2008

By the end of 2008, five provinces and cities had HNWI populations exceeding 20,000: Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang. Six provinces and cities had HNWI populations of between 10,000 and 20,000: Shandong, Liaoning, Hebei, Fujian, Sichuan and Henan. The HNWI populations in other provinces and cities were lower than 10,000. (See figure 5.)

Guangdong had the largest number of HNWIs, with a population of 46,000 - 15 percent of China's total HNWIs. Shanghai and Beijing had the second-and third-largest populations, respectively.

Top 11 provinces/cities that are home to 80 percent of China's wealthy

By the end of 2008, a total of 230,000 HNWIs were clustered in 11 provinces/cities - making up 80 percent of the national total. Each province/city had more than 10,000 HNWIs.

These 11 highly concentrated wealthy areas can be divided into 4 groups:

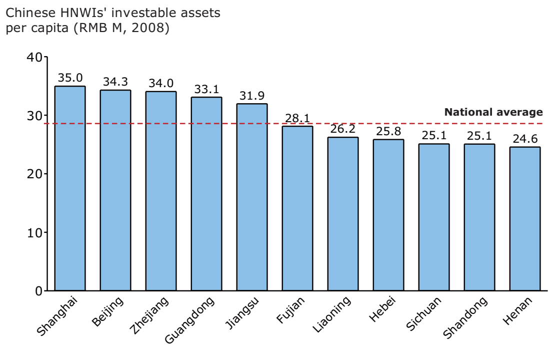
1) Eastern coastal areas that early on cultivated mass export businesses and successful private enterprises, such as Guangdong, Shanghai, Zhejiang, Jiangsu and Fujian. For example, in 2007, exports accounted for an average of more than 70 percent of the GDP growth in the five provinces/cities
2) Areas with large populations and rapid economic growth - Henan, Shandong and Sichuan
3) Areas with abundant resources and excellent transportation - Liaoning and Hebei
4) Beijing - China's political and cultural center

Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang account for more than 50 percent of Chinese HNWIs and 85 percent of China's Ultra-HNWIs

In the past three years, the number of HNWIs in these five provinces/cities has grown to at least 50 percent of the national total. In 2007, with rapid GDP growth, export expansion, and the soaring value of the Shanghai and Shenzhen stock markets, HNWIs in these areas grew by 68,000 representing a 69 percent increase, which is 7 percent higher than the national average. However in 2008, the number of HNWIs in these areas decreased by about 10,000 due to the plunging stock market, real estate prices with zero to negative growth, and the slowing of export-related business due to the global financial crisis. (See figure 6.)

As wealth increases, HNWIs are clustering in Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang - 85 percent of China's Ultra-HNWIs, with investable assets of more than RMB 100 million (USD $15 million, €11 million), live in these five provinces/cities. Typically, they are owners of large private enterprises, with businesses also concentrated in these areas. (See figure 7.)

Figure 8: Comparison of HNWIs' investable assets per capita in 11 provinces/cities for 2008



Source: Bain's HNWIs Income-Wealth Distribution Model

Growth rate of HNWIs varies among China's 11 wealthiest provinces/cities

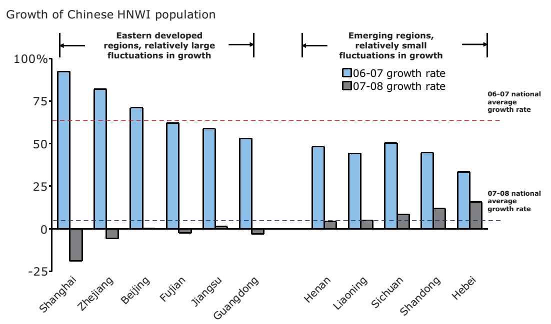
There are distinct differences in the size of investable assets held by HNWIs in China. In the five wealthiest provinces /cities - Guangdong, Shanghai, Beijing, Jiangsu and Zhejiang, assets per capita for HNWIs averaged RMB 33.6 million (USD $4.9 million, €3.7 million), 16 percent higher than the overall average for HNWIs in China. Shanghai had the highest investable assets per capita - RMB 35 million (USD $5.1 million, €3.9 million). In the six other provinces, investable assets per capita averaged RMB 25.7 million (USD $3.8 million, €2.9 million). Therefore we can conclude that the first 5 provinces/cities with the highest concentration of HNWIs are also on average the wealthiest. (See figure 8.)

Examining the growth rate of HNWIs in these 11 provinces /cities over the past two years reveals two patterns:

In areas with relatively large variations in growth rates: The wealth of HNWIs in eastern developed areas like the coastal cities of Shanghai, Zhejiang and Guangdong come primarily from business and capital market investment returns—most private enterprises are export-oriented. For example, in 2007, the average export dependence ratio[1] for Guangdong, Shanghai, Jiangsu, Zhejiang, Beijing and Fujian was as high as 68 percent. Guangdong topped the list with a ratio of more than 90 percent. In these regions, stocks, funds, bonds and investable real estate accounted for more than 50 percent of total individual investable assets in 2007. But as capital market value declined in 2008, this figure dropped to about 37 percent. The data analysis shows that in periods with rapid economic growth, strong export and stock market value expansion (during 2006–2007), the number of HNWIs increased much faster than the national average. However, when economic growth slowed, exports declined and stock market value plunged (during 2007–2008), the growth rate of HNWIs decreased dramatically, even falling below zero.

[1]Export dependence ratio = export volume / nominal GDP

Figure 9: Two patterns of HNWIs concentration, by region



Source: Bain's HNWIs Income-Wealth Distribution Model

In areas with relatively small variations in growth rates: Although the economies of areas like Liaoning, Hebei, Shandong, Sichuan and Henan are not as developed as eastern regions like Shanghai, Zhejiang and Guangdong, large population and strong domestic demand keep GDP growing at a relatively fast pace. Their export dependence ratio was only 14 percent in 2007. In these areas, stocks, funds, bonds and investable real estate make up a low percentage of individual investable assets - less than 26 percent at the end of 2007, dropping to just 18 percent in 2008. The trend indicates that when the economy experiences rapid growth and capital markets expand, the growth rate of the number of HNWIs in these areas falls below the national average rate; however, during economic and capital downturns, they are able to maintain rapid growth. (See figure 9.)

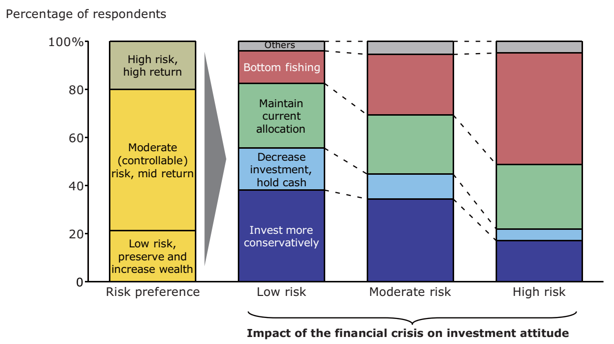
Shanghai is a powerful example of how varying growth rates affect the wealth of HNWIs. Shanghai has an export dependence ratio of 90 percent, which makes it vulnerable to international macroeconomic volatility. By the end of 2007, total investable assets owned by Shanghai residents equaled RMB 3.9 trillion (USD $0.6 trillion, €0.4 trillion), with a year-on-year increase of 80 percent, almost double the national average growth rate. The capital market value soared to almost RMB 1.9 trillion (USD $0.3 trillion, €0.2 trillion), accounting for 49 percent of investable assets, with cash and deposits making up only about 25 percent of the total. The capital market boom in 2007 led to an almost 100 percent increase in the number of HNWIs in Shanghai. But in 2008, the stock market plunge reduced their total investable assets to RMB 3.2 trillion (USD $0.5 trillion, €0.4 trillion) by the end of the year, with the value of capital market products declining by RMB 1 trillion (USD $0.1 trillion, €0.1 trillion), making capital market products only 28 percent of the total investable assets in Shanghai. HNWIs were also affected by slowing regional GDP and export growth as well as a reduction in national wealth, leading to a 20 percent decrease in the number of HNWIs in Shanghai.

Sichuan province, representative of emerging growth areas, experienced the opposite trend. Its export dependence ratio is low - just 6 percent - and Sichuan's economy is largely based on domestic demand. Investable assets owned by Sichuan residents grew steadily over the past three years to RMB 1.5 trillion (USD $0.2 trillion, €0.2 trillion) by the end of 2008, almost a 10 percent year-on-year increase. Cash and deposits accounted for about 70 percent of investable assets, up almost 10 percent, while the value of capital market products equaled only about 9 percent of the total, down 11 percent from 2007. Fluctuations in capital market prices had a limited impact on HNWIs. The increase in the number of HNWIs and their total wealth results from local industries and local demand (rather than from international trade or capital markets); rapid GDP growth in the past few years boosted Sichuan's population of HNWIs.

Chapter 2: Chinese HNWIs' Investment Behaviors, Segmentation and Attitudes toward Private Banking

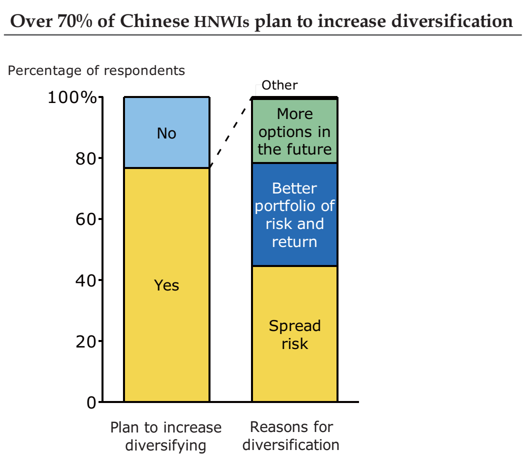
- 80 percent of Chinese HNWIs tend to be conservative or have moderate risk preference
- Occupation and size of individual investable assets are the two most distinctive indicators for the segmentation of Chinese HNWIs
- Expertise, customer service and relationship, and reputation are three key criteria for Chinese HNWIs when selecting a private banking service
- Due to the global financial crisis, 70 percent of Chinese HNWIs are more cautious about selecting foreign banks for private banking services. However, many wealthy individuals remain interested in foreign banks

Figure 10: Risk preferences of Chinese HNWIs and their responses to the financial crisis



Source: CMB/Bain HNWIs Survey

Figure 11: Investment diversification tendencies of Chinese HNWIs



Source: CMB/Bain HNWIs Survey

HNWIs tend to be more risk averse as a result of the financial crisis

Contrary to the common belief that the wealthy make high-risk investments, we observed that the risk preference[1] of most Chinese HNWIs is moderate to conservative. In today's turbulent economic environment, Chinese HNWIs have a deeper understanding of market risks, and their future investments will reflect their caution. We found that 45 percent to 55 percent of investors tended to be conservative, with a low to medium risk preference. They are shifting to investments with low risk and high liquidity, or divesting investments and holding cash. According to our customer survey, some risk-averse investors have gotten out of the stock market and vow never to invest in stocks again. A few investors with high risk tolerance regard the financial crisis as a golden opportunity for bottom fishing and are in search of ways to increase their investments. Such behavior is typical among professional investors, who took a big position in stocks prior to the survey, which was conducted in early February 2009. (See figure 10.)

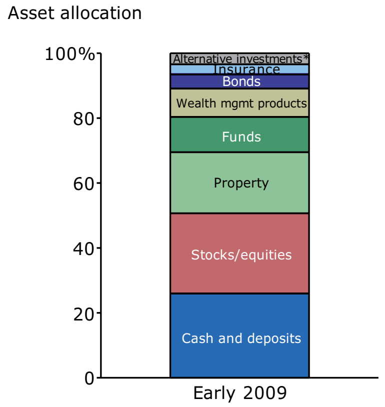
As a result of the financial crisis, Chinese HNWIs have shown a predictable interest in diversifying their future investments. Financial volatility has given them a better understanding of investment risks. In order to spread their risk, nearly 80 percent of Chinese HNWIs would like to further diversify their investment portfolio. Most of the relationship managers interviewed mentioned that customers are now more likely to take their advice on asset allocation. (See figure 11.)

Chinese HNWIs recognize that blindly increasing investment diversification can result in even greater risk. According to our survey, many customers indicated that the investment market and products are so complicated that they lack the time and energy needed to study them. To achieve higher returns, they would prefer to focus on familiar investment options, instead of investing in unknown or complex products that they do not fully understand.

[1] Risk preference: In this study, risk preference relates to individuals' risk preferences for their individual investable assets (as defined earlier) and does not include their risk preferences for investments in their own businesses.

Figure 12: Allocation of investable assets at the beginning of 2009

Chinese HNWIs invest primarily in savings, stocks and property



Note: *Alternative investments include commodity investment tools (e.g., energy, gold), art collections, private equity, etc.

Source: CMB/Bain HNWIs Survey

Stocks, deposits and real estate account for a high proportion of investments; investors plan to take a wait-and-see approach in 2009

Stocks, cash and deposits and real estate have long been investment staples for Chinese HNWIs - proportionately, they are the top-three vehicles for asset investment. In 2009, cash and deposits and stock/equity with the highest liquidity represent the largest share of investable assets, underscoring the fact that wealthy Chinese prefer to invest in assets with high liquidity. Real estate has attracted substantial investments over the past years, with huge returns. Other investment vehicles won a relatively small proportion of HNWIs' investable assets. They were viewed as less attractive than stocks and real estate based on return rates. Additionally, investments such as commodities, artwork and private equity are often viewed as investment vehicles that require specialized knowledge. (See figure 12.)

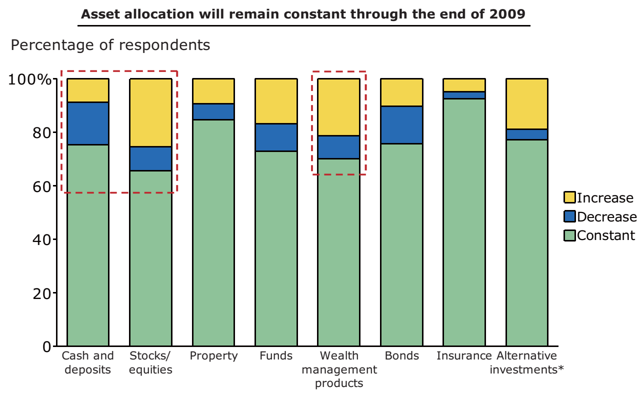
During 2008, the Chinese stock market value shrank considerably because of the global economic downturn. As a result, Chinese investors underweighted stock holdings (about half of survey respondents did so), leading to the market's largest decline. In late 2008, some HNWIs started bottom fishing - searching for undervalued stocks - which continued into early 2009, when the mainland stock market started recovering and values began rebounding.

As investors divest, the percentage of cash and deposits is up slightly. Worried investors are also parking more of their income in cash and deposits because of future uncertainty. Meanwhile, the market value of real estate decreased slightly in 2008. Because of the complicated procedures and high-realization costs in real estate investments, most investors plan for medium to long-term returns. They tend to hold assets in times of market fluctuation while paying close attention to future policy and market changes, instead of selling out immediately. In 2008, there was little change in real estate investments since they are less liquid than stocks and play an important role in asset allocation.

The portion of funds and wealth management products also remained stable, but investors have shifted to less volatile cash and bond funds. They are also interested in wealth management products with low risks but high liquidity.

Insurance, bonds and alternative investments still account for a small share of HNWIs' assets, with little change even amid financial turbulence. In China, insurance offers low returns when compared with other financial instruments. Historically, bonds have not been considered a major investment tool and there are limited channels for individuals to invest in bonds on their own. So bonds, like insurance, saw no significant increase in investment. In mature financial markets like Europe or the United States, HNWIs invest an average of 10 percent to 20 percent of their assets in alternative investments like commodity investment tools, private equity and art collections. China, however, has a different market environment and only those with sophisticated financial knowledge and experience invest in these channels. Alternative investments represent a very small portion of Chinese HNWIs' investable assets, with no recent change.

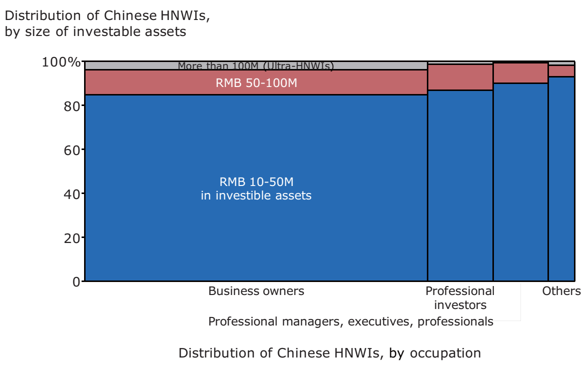
Figure 13: Investment trends for Chinese HNWIs in 2009



Note: *Alternative investments include commodity investment tools (e.g., energy, gold), art collections, private equity, etc.

Source: CMB/Bain HNWIs Survey

Figure 14: Chinese HNWI segments by occupation and size of investable assets



Source: CMB/Bain HNWIs Survey

Half of China's HNWIs saw their investment assets shrink in 2008. Of this group, 70 percent experienced losses of up to 30 percent. Some HNWIs - 20 percent - maintained their portfolio value and 30 percent enjoyed an increase by taking advantage of market opportunities. From our in-depth interviews, we found that China's newly wealthy individuals are typically entrepreneurs with first-hand experience with fast-changing market fluctuations and access to economic information. As a result, they have a relatively sound understanding of market trends. That is common among business owners and professional investors, many of whom withdrew from the stock market at its peak in 2007.

In 2009, most investors are maintaining a wait-and-see attitude. Based on our interviews, investors prefer investment products with low risk, high liquidity and fixed returns. Once other high-return capital markets show signs of recovery, we expect HNWIs to seize the opportunity and quickly adjust their investments. Stocks will attract more interest in 2009, although only 25 percent of investors surveyed plan to increase their stock investments based on market shifts. Bank wealth management products with good liquidity that generate higher returns than cash and deposits will become more popular with investors. And as investors shift from bottom fishing for stocks to financial products, HNWIs' share of cash and deposit is expected to decline. (See figure 13.)

Occupation and investable assets are key factors for segmentation

China's wealthy fall into four broad groups when segmented by occupation and assets. Established business owners and first-generation entrepreneurs who started their companies from scratch make up the overwhelming majority of China's HNWI population. Professional investors who successfully invested in capital markets are the second-largest group, followed by professional managers, executives and professionals who have amassed wealth over the past two to three decades. The remaining HNWIs are full-time housewives, retirees, entertainment personalities or sports stars. The majority of Chinese HNWIs have investable assets of RMB 50 million (USD $7 million, €6 million) or less. Individuals with more than RMB 100 million (USD $15 million, €11 million) in assets are still rare and are usually entrepreneurs. (See figure 14.)

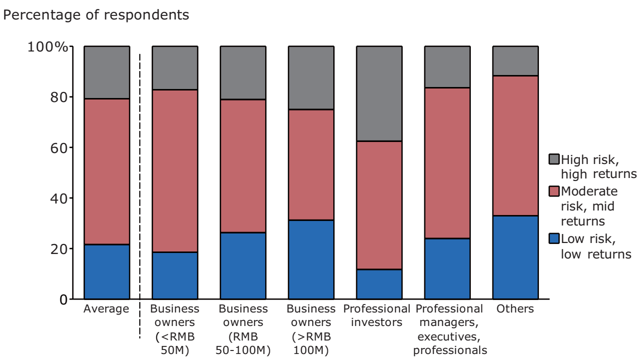
Our statistical analysis of the Chinese HNWI population (see Appendix) found that occupation and value of individual investable assets (referred to as "assets") have the strongest correlation with Chinese HNWIs' investment behavior. Using this approach, we conducted a more detailed segmentation of HNWIs to arrive at six groups:

- Business owners in the lowest asset band, with assets of less than RMB 50 million (USD $7 million, €6 million)
- Business owners in the middle asset band, with assets between RMB 50 million and 100 million (USD $7-15 million, €6-11 million)
- Business owners in the highest asset band, with assets greater than RMB 100 million (USD $15 million, €11 million)
- Professional investors
- Professional managers (including executives and professionals)
- Others (primarily full-time housewives, retirees, entertainment personalities or sports stars)

Individuals with assets of more than RMB 50 million (USD $7 million, €6 million) but who are not business owners account for only a small portion of all HNWIs and did not merit separate segmentation.

China's first generation of wealthy individuals share certain characteristics: they are predominantly male and younger than 50 years old. The assets of business owners increase with age as their enterprises grow. Most business owners in the highest asset band are male - 95 percent - and are over 40 years of age.

Figure 15: Risk preference across segments



Source: CMB/Bain HNWIs Survey

Education is another way to view the HNWI population. Among the three business owner segments, we found that those in the middle asset band have the lowest level of education. Those in the highest asset band are slightly more educated. And those in the lowest asset band are the most educated. Professional managers and professional investors hold more master's degrees than other HNWI segments and they also have the highest female/male ratio - three to seven. Professional managers are typically 30 to 49 years old, while professional investors do not fall into one age group. The sixth group of HNWIs is composed mainly of housewives, aged 30 to 49.

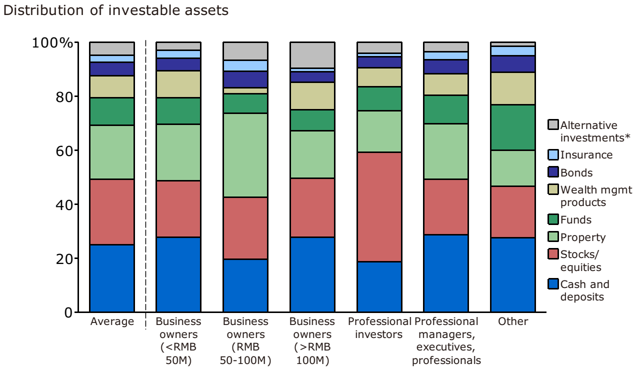
Our analysis revealed that the risk preference of China's wealthy is relatively uniform. Generally they opt for investments with moderate risk. The risk preferences among the three groups of business owners shift as their assets increase.

Business owners in the lowest asset band tend to prefer investments with moderate risk. But as their assets increase, they split into high- and low-risk investors. Entrepreneurs typically handle high risk well, especially when they are backed by successful businesses. Some of them hire a team to manage their stocks.

Business owners in the middle and highest asset bands tend to be more cautious, opting for low-risk investments. Such behavior is related to the fact that some enterprise owners with higher asset values tend to focus more on their core businesses and strive for stability and value preservation of their personal assets.

Professional investors are the most high-risk investors and seek high returns. They become HNWIs due to their success in the capital markets. Because they are confident, with a sophisticated knowledge of the market, they are comfortable investing in private equity products. Professional managers tend to take moderate risks, with a risk preference falling somewhere between business owners and professional investors. They are more educated, have a stronger sense of asset allocation, and like to conduct research before investing. In the last category, composed mostly of full-time housewives and retirees, the majority of HNWIs are not seeking wealth creation but rather an improved quality of life. As a result, they are more conservative investors. (See figure 15.)

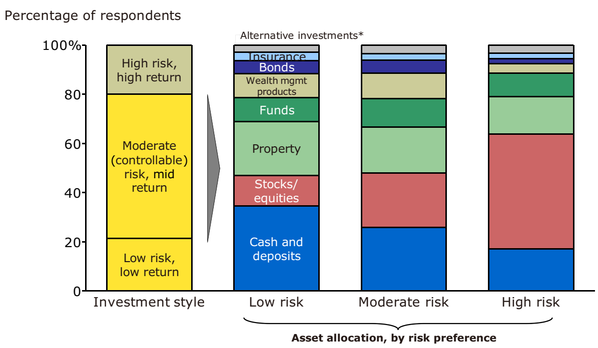
Figure 16：Asset allocation across segments



Note: *Alternative investments include commodity investment tools (e.g., energy, gold), art collections, private equity, etc.

Source: CMB/Bain HNWIs Survey

Figure 17：Asset allocation across segments varies with risk preference



Note: *Alternative investments include commodity investment tools (e.g., energy, gold), art collections, private equity, etc.

Source: CMB/Bain HNWIs Survey

The global financial crisis impacted each category differently. Generally, business owners, especially those in the middle and highest asset bands, took little action. Because they have sufficient cash and are focused on long-term investments spanning several business cycles, they did not panic. Professional managers started investing more conservatively, even becoming suspicious of wealth management services. There was little change in the risk preference of professional investors since most of them have experienced volatility and they have a higher risk tolerance.

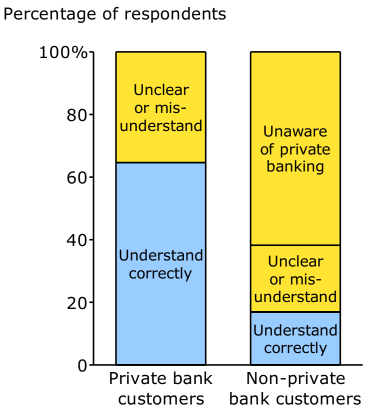
Since risk preference for each category is different, asset allocation also varies greatly. Business owners in the middle asset band have more real estate investments than other HNWI groups. Because they have limited time and there are a limited number of investment channels, real estate is an important vehicle for wealth accumulation. Business owners in the middle and highest asset band have the most alternative investments. They often gain access to specialized investment channels, like private equity, via their friends and business partners. As their assets increase, business owners' attitudes towards investment risk become more polarized. Business owners in the middle asset band have a higher proportion of investment in low-risk real estate and high-risk alternative investments, compared to business owners in the lowest asset band. Business owners in the highest asset band increase their investments in low-risk cash and deposits and higher risk alternative investments at approximately the same rate.

Since professional investors seek high risk and high- return investments, they have more stock investments than any other HNWI segment and the lowest portion of cash and deposits. Professional managers typically have well-balanced asset allocation, reflecting their asset allocation knowledge, investing almost equally in real estate investment and stocks. Currently, they are holding more cash, consistent with their emphasis on sound investments. For other HNWIs, a more conservative approach means that they have more investments in cash and deposits, funds and wealth management products, which are designed to keep their money safe. (See figure 16.)

Risk preference also has a high correlation with investors' asset allocation. The more investors opt for high risk and high return, the higher the portion of stocks and equity products in their portfolios. In sharp contrast, investors with a low risk preference have a large holding of cash, bank deposits and real estate. As investment vehicles with high liquidity and the lowest risk, deposits are the safest choice for conservative investors. Real estate investments also decrease as an investor's risk preference increases. Chinese HNWIs view real estate as medium to long-term investments having less volatility than stocks. (See figure 17.)

Figure 18: Private banking awareness among Chinese HNWIs

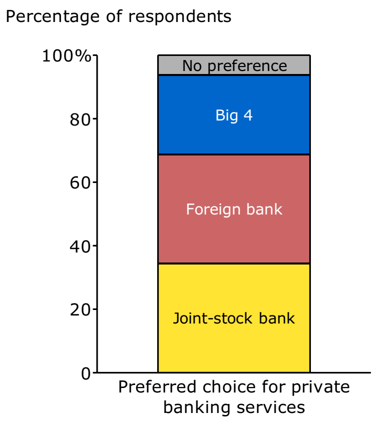
Chinese HNWIs have low awareness of private banking; there is significant misunderstanding of the service offering



Source: CMB/Bain HNWIs Survey

Figure 19: Private banks preferred by Chinese HNWIs

Chinese HNWIs have equal preference for foreign banks and joint-stock banks



Source: CMB/Bain HNWIs Survey

Our research also indicates that the occupation and risk preferences of HNWIs vary by region. For example, in the central and western regions where mining has recently developed, business owners dominate the wealthy population. Investors in this region tend to select high-risk, high-return products. In northern, southern and eastern China, there are more HNWI professional managers. Northern investors are more prudent and conservative. It is important to note that these differences in risk preferences only refer to Chinese HNWIs, not the entire Chinese population.

Low awareness of private banking; cautious attitude toward foreign banks as a result of the financial crisis

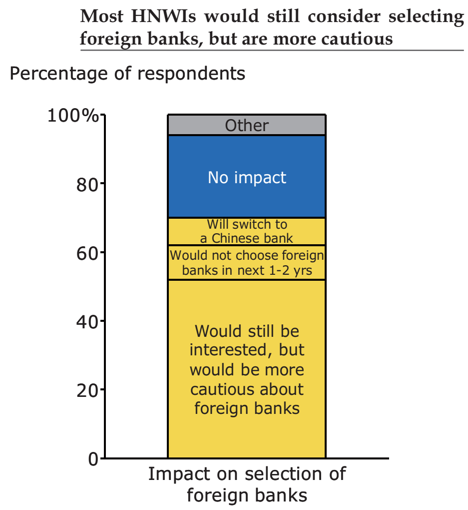
Private banking services for wealthy individuals were not launched in the Chinese marketplace until 2007. Most Chinese HNWIs are still unfamiliar with private banking services. More than 80 percent of the non-private banking customers surveyed either had no idea that private banking existed or were confused and misunderstood what private banking entailed. Some customers simply regarded private banking as an upgrade to traditional financial services or thought that private banking focused on individual financing and investments. Even existing private banking customers failed to fully understand the concept of private banking services. Some of those interviewed were transitioned from traditional customers to private banking customers simply because of a personal relationship with a RM or to gain access to some value-added services offered by private banks. Their lack of understanding often results from the fact that busy relationship managers fail to give new customers a comprehensive explanation of the private banking concept. (See figure 18.)

In the battle to attract private banking customers, joint-stock banks and foreign-owned banks appear to be the most popular among Chinese HNWIs. (See figure 19.)

The three types of banks offer different private banking advantages:

- Joint-stock banks: Their services are innovative, flexible and aggressive and they provide high-quality service. Customers regard joint-stock banks as more reliable than foreign banks and more advanced than the "Big Four" state-owned banks.
- Foreign-owned banks: They have a long history of private banking experience and offer world-class and professional service. They are better positioned to conduct international transactions and continue to have strongreputations, even in the wake of the global financial crisis.

Figure 20: Attitude toward foreign banks after the financial crisis



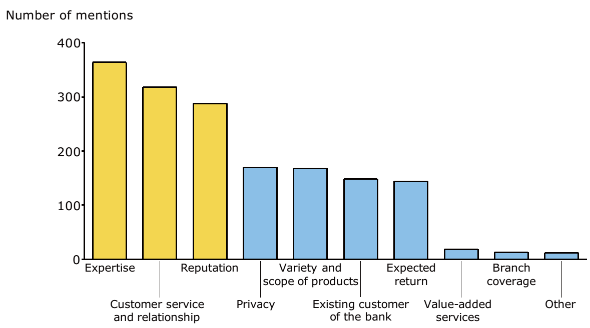
Source: CMB/Bain HNWIs Survey

- "Big Four" state-owned banks: Many investors view the four state-owned banks as more reliable because they benefit from favorable government policies. Their financial security, sufficient back-office resources and large branch networks throughout China make them attractive.

Our survey found that investors' preferences are not always consistent with their private banking choices. We found that quite a few HNWIs selected private banking services that differed from their stated preference. Some customers were unable to move to another private bank service due to costly money transfers and the bank's limited support operations; others said they were considering making the switch.

The financial crisis has affected the competitive landscape of private banking. We found that 70 percent of China's HNWIs now are more cautious when dealing with foreign-owned banks. Some foreign bank customers have shifted or plan to shift their assets to Chinese banks. Others say that, for at least two years, they will not use a foreign bank's private banking services. The current economic situation provides an opportunity for customers to reevaluate the pros and cons of both Chinese and foreign-owned banks. Chinese banks may have an opportunity to increase their private banking market share; however, this opportunity may not last for long. Only a small fraction of customers hold a decisively negative view of foreign banks. Many wealthy customers are taking a wait-and-see attitude toward the economy and will still consider foreign banks in the longer term. When the economy recovers, foreign banks may be well-positioned to grow their customer base. (See figure 20.)

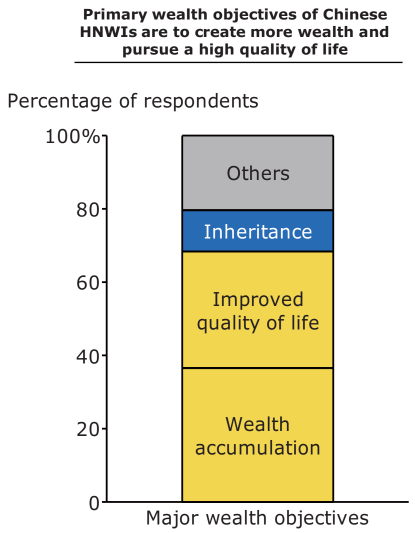
Figure 21: Major criteria when selecting a private bank



Source: CMB/Bain HNWIs Survey

One of the major concerns for China's developing private banking sector is how to attract HNWIs. According to our HNWIs survey, the three most important criteria when selecting a private banking service are: expertise, customer service and relationship, and reputation. At present, many HNWIs prefer to manage their own wealth because they question the expertise of private banking professionals. Hence, private banks will succeed in attracting more customers if they can demonstrate they are more knowledgeable. Chinese customers also care about service, and they seek to build a friendly and high-trust personal relationship with their RMs, one that extends far beyond simply financing transactions. The bank brand should convey a powerful image of trust and reassurance to private banking customers. (See figure 21.)

Figure 22: Wealth objectives of Chinese HNWIs



Source: CMB/Bain HNWIs Survey

Most Chinese HNWIs manage their own wealth, with the primary goal of wealth accumulation.

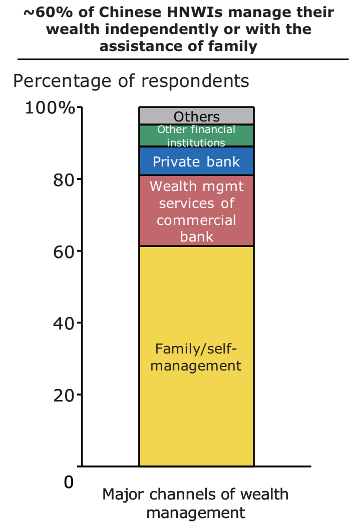
To clarify their objectives, private banks must first understand HNWIs' investment behaviors and attitudes. Chinese HNWIs exhibit characteristics of the newly wealthy. Based on our interviews, we found that "continuous wealth accumulation" is the most common wealth goal (almost 40 percent). The majority of China's first generation of HNWIs are also at the peak of their careers - 70 percent to 80 percent are younger than 50 - and they value the sense of achievement derived from wealth creation. Older HNWIs are more focused on economic security after years of hard work or after witnessing the hardships experienced by their parents. (See figure 22.)

The second wealth management objective is "to seek an improved quality of life" (more than 30 percent). As long as HNWIs have freedom, in terms of money and time, they want to pursue both material affluence and a better quality of life, including improved health and wellness. China's wealthy want to use their wealth to pursue hobbies and personal interests, such as photography, traveling and collecting art. Many of them emphasized the importance of developing a healthier lifestyle after sacrificing their health to build careers when they were younger. Once they have amassed a certain level of wealth, HNWIs want to enjoy a slower paced lifestyle.

Since there is no inheritance tax in China, the first-generation rich are still too young to think about matters like bequeathing their wealth to descendants. Only about 10 percent of HNWIs surveyed reported thinking about inheritance issues. By contrast, in developed countries like Europe, the United States and Japan, wealth inheritance is the primary objective of wealth management. In these countries, inheritance is the main source of wealth for an increasing number of HNWIs. For example, in Europe, inheritance is one of the two major sources of wealth; in the United States and Japan, there is a significant increase in second-generation HNWIs. In addition, the high inheritance tax rate in these countries (40 percent to 50 percent) motivates HNWIs to develop inheritance plans early on. The rich in China are still influenced by the tradition that one should pass down wealth from generation to generation. The financial crisis led many HNWIs to the realization that their wealth is not necessarily secure. Accordingly, they have started considering options to set aside secured amounts for their children.

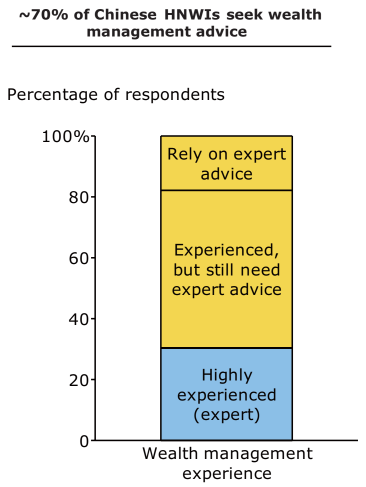
Some of China's HNWIs are redefining their wealth objectives. In recent years, charity has attracted increasing interest from some wealthy individuals, especially after the Wenchuan earthquake. Most of these individuals come from big cities, served in either the army or government, settled in the countryside, or have overseas experiences.

Figure 23: Major wealth management channels for Chinese HNWIs



Source: CMB/Bain HNWIs Survey

Figure 24：Personal wealth management experience and demand for professional advice



Source: CMB/Bain HNWIs Survey

They support a range of causes, from helping students from their hometowns complete college to opening nursing homes. The majority of them want to make donations to those in need through established organizations. Another trend is adopting a more environmentally-friendly lifestyle. These wealthy individuals, typically highly-educated with overseas experience, have lost interest in luxury and want to live a simpler, "greener" life by, for example, taking subways and enjoying walks in the park.

Those in China with first-generation wealth are characterized not only by distinct wealth objectives but also by their approaches to wealth management. About 60 percent of Chinese HNWIs manage their own wealth or rely on help from their families. Roughly 20 percent use major wealth management services provided by commercial banks. Despite the rapid development of private banking in the past two years, private banking customers total only 8 percent. (See figure 23.)

The reason most Chinese HNWIs prefer to manage their own investments is linked to how they accumulate wealth. As successful entrepreneurs, they constantly monitor the economy and have become confident investors. Those who are professional investors in China have survived ups and downs in the capital markets and have gained extensive investing experience. And private banks in China still lack experienced relationship managers that are trusted by their clients.

Private banks need to build seasoned teams with the professionalism and skills needed to win over wealthy investors.

There are several other reasons why HNWIs self-manage their wealth:

- Investment returns are sometimes higher than business or job income, motivating them to become knowledgeable investors
- Some business owners encounter bottlenecks in their business and turn to investing instead
- Some HNWIs have access to specific investment channels (e.g., real estate or private equity) and some entrepreneurs may hire their own team to oversee stock investments because they are uncomfortable having a third party manage their wealth

Among HNWIs who manage their own wealth, an overwhelming majority - about 70 percent - acknowledge that they need some professional investment advice. Research on investment products often takes time and energy. Most HNWIs who self-manage their wealth also have their own businesses. They often lack the time required to learn about the variety of investment products available so they are interested in obtaining professional wealth management advice from trustworthy experts who can help guide their investment decisions. They also believe that institutions that specialize in wealth management have access to the most up-to-date investment information and better investment opportunities. In their opinion, the best way to make investment decisions is to gather information from various sources, listen to a range of opinions and finally select an investment based on their own best judgment. Currently, their demand for expert wealth management advice is not being fully met by the market. (See figure 24.)

Figure 25: Amount of offshore investment and changes in investment amounts

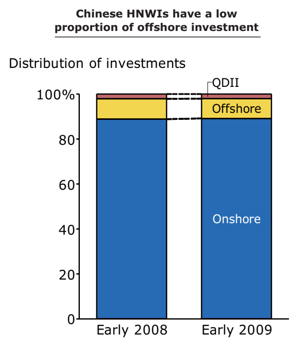
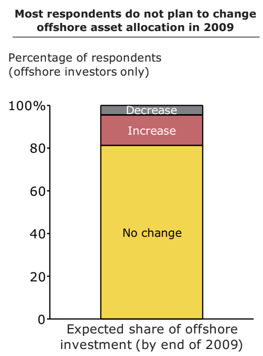


Figure 26: Changing trends in 2009 offshore investment



Source: CMB/Bain HNWIs Survey

Figure 27: Relationship between offshore investments and asset size

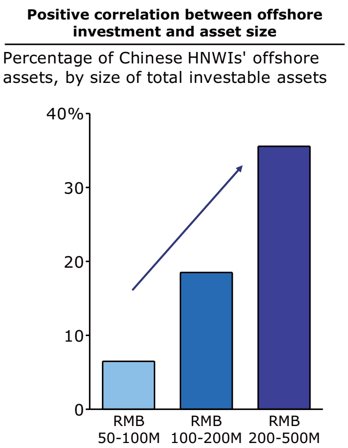
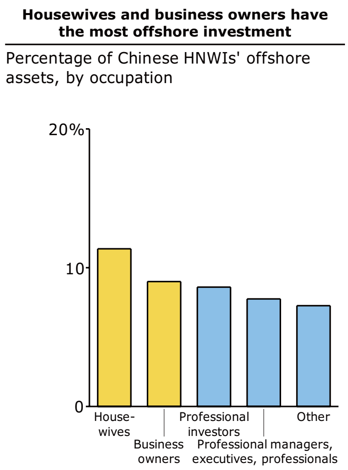


Figure 28: Relationship between offshore investment and occupation



Source: CMB/Bain HNWIs Survey

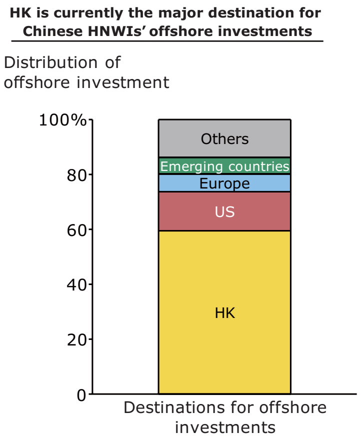
Offshore investments account for only a small share of Chinese HNWIs' assets. Although Chinese HNWIs are shocked by the global financial crisis, there is no planned change in their share of offshore investments.

Offshore markets have gradually opened up for Chinese investors and investment options increase each year. Nevertheless, offshore investments for Chinese HNWIs still account for only about 10 percent of their total asset allocation, much lower than that in Western countries. In the United States, offshore business accounts for 20 percent of the total; the portion is even higher in Europe, where it is 30 percent. Since offshore accounts are the most profitable, they have been one of the most important businesses for private banks in the United States and Europe.

Despite the financial meltdown in markets around the world, Chinese HNWIs have not altered their offshore investing. Research shows that nearly 80 percent of investors with offshore assets have no plans to change their offshore investments; about 15 percent even expressed a willingness to invest more to take advantage of record market lows. We believe the reason for this stability stems from the ultimate purpose for their offshore capital, especially for HNWIs who own assets in the West. Their offshore investments are primarily used to finance immigration, send their children to study abroad or avoid domestic regulations. Since offshore investments are not their primary focus, they are just a small portion of their total assets. Even if they suffer losses, the impact is limited and will not prompt them to withdraw funds. Most offshore accounts used for investing are concentrated in the Hong Kong market. Instead of withdrawing funds, investors are waiting for a new round of investment opportunities. Even if HNWIs want to withdraw funds, they would face obstacles in doing so, since foreign exchange regulations restrict the flow of offshore capital. (See figures 25 and 26.)

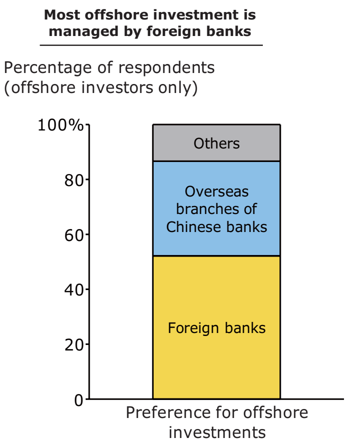
We also find that the amount of offshore investing is related to total assets and a HNWI's occupation. Wealthy individuals with a higher share of offshore investments are usually business owners who have offshore businesses and are in the highest asset band. The more assets, the higher the portion of offshore investments. When we segment offshore investing by occupation, full-time housewives and entrepreneurs have the highest portion of offshore assets. Housewives use these assets to fund immigration, children's education and investment opportunities. Business owners typically have offshore investment accounts for their offshore business. (See figures 27 and 28.)

Figure 29: Destination of Chinese HNWIs' offshore investments



Source: CMB/Bain HNWIs Survey

Figure 30: Selection of offshore investment managers



Source: CMB/Bain HNWIs Survey

At present, Hong Kong is the major destination for Chinese HNWIs' offshore investments. Unlike other offshore markets, more than half of the capital in Hong Kong is used for investing in local assets like Hong Kong stocks, property and insurance. There are three reasons that Hong Kong is the favorite offshore market for China's HNWIs. First, they are more familiar with Hong Kong's economic conditions and culture. That is especially true for first-generation HNWIs - the lack of a language barrier eases the investment process. Second, Hong Kong serves as a gateway for mainland capital flowing into foreign markets, enabling quick and convenient transactions between China and markets abroad. Third, many mainland enterprises have business dealings with Hong Kong and often park capital in Hong Kong. Because of this close relationship, many HNWIs say they want help from a trusted bank that can provide asset management services in Hong Kong. (See figure 29.)

More than half of Chinese HNWIs say they would choose a foreign bank to oversee their offshore investing. The overseas branches of domestic banks are in a difficult competitive position to attract offshore capital. Foreign banks have a huge advantage because of their familiarity with local markets, products and regulatory systems. In addition, since capital in offshore markets other than Hong Kong mainly finances immigration and studying abroad, the users of funds (investors or their family members) are overseas and find foreign banks' extensive offshore outlets much more convenient.

However, domestic banks do have some advantages in the competition for offshore investments. Chinese banks are more familiar with HNWIs' needs and HNWIs, in turn, are more familiar with domestic bank brands and business processes. The current financial turbulence gives Chinese banks another advantage in winning over management of offshore assets: unlike foreign banks, they are backed by the Chinese government. (See figure 30.)

Chapter 3: Implications for the Development of Private Banking in China

- There is enormous potential in China's wealth market; development of private banking is imperative
- Changes in customers' investment attitudes as a result of the financial crisis provide a new opportunity for the development of private banking in China
- Foreign private banks will struggle to capitalize on their advantages in the short term; Chinese private banks face a two-year window of opportunity to actively capture and consolidate market share
- Major opportunities for the development of offshore Chinese private banking may emerge in approximately five years
- Private banks should start offering differentiated services to customer segments and emphasize high-trust relationships with target customers

China's wealth market represents a significant opportunity; development of private banking is imperative

Enormous potential in China's wealth market

As discussed in the first chapter, China's reforms have spurred rapid economic growth over the past two decades, creating China's first generation of HNWIs. The nation's GDP has grown at double-digit rates for five successive years, and despite the global financial crisis, by the end of 2008 China had over 300,000 HNWIs with almost RMB 30 million (USD $4.4 million, €3.3 million) in investable assets per capita. We expect that the number of HNWIs will continue to grow, reaching 320,000 in 2009. This huge market potential has encouraged both domestic and foreign banks to enter China's private banking market. In just the past two years, nearly 20 Chinese and foreign banks have launched private banking businesses in China. Considering the market size - 300,000 HNWIs and approximately RMB 9 trillion (USD $1.4 trillion, €1.0 trillion) in assets, the penetration rate remains low with limited private banking services. The global financial crisis has made HNWIs more aware of both market risks and the importance of asset allocation. Wealthy individuals now appear more willing to accept investment advice and consider private banking services.

Customer needs have not been satisfied

According our interviews with Chinese HNWIs, about 70 percent acknowledge the need for professional advice. Although most HNWIs are quite confident investors, they recognize that they have limited time and energy to dedicate to thoroughly investigating every investment product available. Professional advice can help HNWIs to effectively utilize the time they spend on wealth management, enabling them to remain focused on their core business. However, the concept of private banking has gained limited popularity in China. To capture HNWIs, private banks must raise awareness for their services. Our survey of non-private banking customers found that only 20 percent of respondents have an accurate understanding of the private banking concept and value proposition. As a result, private banking in China is in the early stages, with low penetration among HNWIs.

Competition promotes development

Since the launch of the first private banking department at Bank of China in 2007, domestic and foreign banks have been entering the market at a rapid pace, intensifying competition. The enormous potential of private banking in China is well recognized by the market players. Domestic and foreign banks form two distinct groups. Chinese banks with a large customer base are using defensive tactics, shifting premium customers from retail to private banking to ensure better service and prevent customer defections. If they do not establish measures to retain top talent, domestic banks may see their premium customer resources, built up over several years, lured away by competitors who want to jump start their private banking businesses. At the same time, high-profile foreign banks are entering the premium customer market. With their recently-acquired RMB business licenses, foreign banks that have weak retail banking units in China are using aggressive tactics to win over targeted premium customers from domestic banks. These include aggressive acquisition tactics, such as collecting contact information and cold-calling HNWIs directly. In the near future, as competition escalates between domestic and foreign banks, we expect an increased use of such tactics. The competition, in turn, will help accelerate customer education about private banking services and promote the healthy development of the market sector.

Regulatory support

Meanwhile, the surge in private banking is spurring development of regulatory policies. The China Banking Regulatory Commission (CBRC) introduced the concept of private banking in 2005. But there was no clear definition of private banking services until 2007 when the CBRC stated its intention to define business services offered by private banks. In an August 2007 interview, the head of Investor Education and Wealth Management Regulation at the Supervisory Cooperation Department for Banking Innovation, CBRC, said, "Currently we have no specific regulations on private banking. Private banking has a long history abroad, but it is in its infancy in China. As the regulator, CBRC holds high hopes of establishing regulations in the early stages to support development." In March 2008, CBRC finally issued the first pilot license to ICBC. As regulations evolve in the future, they should reflect government encouragement and support, which are essential to cultivating the private banking industry and marketplace in China.

Difficulties are unavoidable during early market development. Questions have been raised about whether financial institutions should provide onshore private banking services at this stage. However, we believe that there are tremendous opportunities now for private banking to make breakthroughs in China, in terms of the huge market potential, customer demand, market exploration and regulatory support. Immediate development is imperative.

New opportunities for the development of private banking in China

The 2008 US sub-prime crisis and the subsequent global financial turbulence have had a huge impact on domestic HNWIs' views about risk and investment management. The root cause of this financial crisis is a lack of effective risk management, which was magnified by the global chain reaction and resulted in the systematic failure of institutions. The grave consequences of this financial crisis have affected numerous enterprises and financial institutions, causing a steep drop in output and a dramatic plunge in the world's capital markets.

For investors, this financial crisis served as an expensive lesson. Chinese investors, especially HNWIs, have realized the importance of risk management. As a result, their previous "high risk, high return" risk preference is shifting toward a moderate or even a conservative approach, which emphasizes controlling risks while pursuing returns. This shift indicates that they are more willing to accept the concept of "wealth preservation and appreciation" promoted by private banks. They are also warming up to the idea of diversifying risk with "reasonable asset allocation," instead of a single-minded focus on products and returns.

Chinese HNWIs have changed their perception of wealth management services offered by banks. When the stock market was delivering returns of 50 percent or higher and banks offered guaranteed returns of only about 10 percent, wealthy individuals tended to view banks simply as custodians of their money. However, after suffering huge losses in the stock market while banks continued to deliver steady returns, they began to understand that banks provide certain advantages, including specialized investment services.

The global financial crisis created enormous potential demand for private banking services by HNWIs. They are more likely to view banks' resources and professional analytical capabilities as reliable sources of information. They are also more open to suggestions from investment advisers. To reduce risk and avoid asset losses, wealthy investors are moving from equity investments to high liquidity fixed income financial and short-term products developed by banks.

To recruit these potential customers, private banks need to improve the skills of relationship managers and investment advisers to ensure that wealth management services project a more professional and dependable image. At the same time, private banks should more aggressively pursue the HNWI market. To win over wealthy customers, banks must differentiate themselves by emphasizing their strengths. These include providing customized advice to alert HNWIs about potential investment risks. They must also emphasize the important role that private banks play in asset allocation, wealth preservation and growth. Additionally, private banks should demonstrate their ability to provide information, advice, and access to fixed income and high liquidity products. Private banks can exploit these strengths, as well as their extensive understanding of Chinese HNWIs' investment experiences, to capture the domestic wealth management market.

Chinese private banks face a two-year window of opportunity to actively capture and consolidate market share

Interviews with Chinese HNWIs and relationship managers indicate the following top three criteria for choosing private banking services: expertise, customer service and relationship, and reputation.

Based on these criteria, their evaluations of domestic and foreign banks vary. HNWIs said that foreign banks cannot match their domestic counterparts in customer relationships due to cultural and communication barriers. Many respondents described having long-term relationships with domestic banks and deep personal connections with their RMs and office heads. On the other hand, the professional and courteous style of foreign banks leaves premium customers feeling distanced from their RMs. Thus, domestic banks have significant advantages in customized services and strong customer relationships.

Furthermore, Chinese banks enjoy preferential regulatory policies that allow them to offer a wider product mix with fewer limitations. Their nationwide networks offer a clear advantage over foreign banks, covering more cities and customers and providing greater convenience for inter-regional transactions. The 2008 financial crisis underscored the fact that domestic banks have a stronger position and were less affected than their foreign counterparts. For example, surveyed HNWIs believe that there is only a slim possibility that domestic banks will go bankrupt, while their confidence in foreign banks is shaken by frequent reports of Chapter 11 filings. In fact, 70 percent of HNWIs interviewed had a cautious attitude toward foreign banks. For their part, RMs confirmed this view of the advantages of Chinese banks over foreign ones, in terms of regulation and policy support.

Of course, foreign banks have their own advantages. The interviews also demonstrated that approximately half of the HNWIs favor foreign banks. They cited foreign banks' advantages in expertise, brand name, internal cross-business unit cooperation and offshore investments. Overall, foreign banks, especially those that are "household names", have more established track records, more sophisticated products, more professional advisors and greater industry prestige. These are important attributes for HNWIs. They suggest that foreign banks can offer more customized products with a better risk-return ratio. In addition, due to corporate cultural differences, foreign banks can offer one-stop services that make transactions easier for customers through more advanced internal coordination and cross-platform resource integration. For example, when a company owned by a HNWI customer wants capital funding options such as an IPO or private equity, the RM at a foreign bank can contact its investment banking unit to help the customer make a decision. Such cooperation creates more cross-selling business opportunities for both units while also enhancing customer loyalty. And when it comes to offshore investments, foreign banks have a clear advantage over their Chinese competitors.

The table below compares the pros and cons of domestic and foreign private banks in key high-value areas cited by HNWIs. Foreign banks' strengths include expertise, reputation for private banking and offshore investing. But regulations and the financial crisis currently limit their competitive advantages. In contrast, Chinese banks now have an opportunity to fully exploit their strengths in customer relationships, the domestic marketplace, preferential regulatory policies and extensive branch networks. But in the long run, domestic banks will face fierce competition from foreign banks, which will aggressively pursue the tremendous - and rapidly developing - opportunity for private banking in China.

Table 1: Comparison between domestic and foreign private banks

Competitive comparison (I)

Customer preferences	Domestic banks	Foreign banks	Reasons (based on responses from HNWIs and RMs)
I Expertise	Relative disadvantage	Relative advantage	Foreign banks boast teams of strong and prestigious investment advisors; RMs are also more professional than Chinese counterparts
II Customer service level, customer relationship	Relative advantage	No clear advantage / disadvantage	Domestic banks emphasize personal relationships with customized services; customers have a sense of distance with foreign banks whose RMs deliver more professional and standardized services
III Reputation	No clear advantage / disadvantage	Relative advantage	Foreign banks enjoy high brand awareness in private banking with a long track record in global markets
IV Products			
- Onshore market	Relative advantage	Relative disadvantage	Foreign banks' product design advantage is limited by regulations, especially in RMB business
- Offshore market	Relative disadvantage	Relative advantage	Domestic banks have less offshore market experience and fewer product varieties in comparison with foreign counterparts
- Investment timeframe	No clear advantage / disadvantage	Relative disadvantage	Foreign banks' long-term "value investment" products are less favored by Chinese HNWIs who want high liquidity along with high return
- Custody/ proxy sale	No clear advantage / disadvantage	Relative disadvantage	Though all banks are forbidden from introducing mixed operation (banking, security and insurance) products, foreign banks have stricter restrictions on proxy sale of capital market products Domestic banks benefit as they are the only channel providing third-party custody services preferred by Chinese customers

Competitive comparison (II)

Other factors	Domestic banks	Foreign banks	Reasons (based on responses from HNWIs and RMs)
I Regulation	No clear advantage / disadvantage	Relative disadvantage	CBRC has not promulgated regulations concerning private banking but is expected to place more limitations on foreign banks
II Resource integration capability	Relative disadvantage	Relative advantage	It is more difficult for domestic banks to cooperate among different departments than it is for their foreign counterparts, due to corporate culture and structure
III Network coverage	Relative advantage	Relative disadvantage	Foreign banks have limited network coverage
IV Brand value affected by the financial crisis	Relative advantage	Relative disadvantage	Financial crisis has shaken Chinese HNWIs' confidence in foreign banks: 70% tend to be more cautious

Source: CMB/Bain HNWIs Survey

Major offshore business development opportunities may emerge in the next five years

The HNWI interviews also reveal that offshore investments are a very small portion of their total investable assets. While Chinese HNWIs experienced losses during the financial crisis, there is no clear sign that they have pulled back on these offshore investments or changed their asset allocation. Foreign banks have a clear advantage in offshore investments. As a result, domestic banks have paid less attention to this business segment.

There are numerous reasons why Hong Kong is the major destination for HNWIs' offshore business. First, Hong Kong is the only place where RMB business can be conducted outside mainland China. Since 1997, mainlanders have increasingly visited or invested in Hong Kong, resulting in a surge in RMB transactions. Second, as an international financial center, Hong Kong has attracted major financial institutions and boasts a mature capital market, as well as a foreign currency market with high liquidity. Overall, Hong Kong serves as a unique platform for offshore business - a duty-free harbor, an international financial center and a vibrant Chinese metropolis. Hong Kong should be the first market choice for domestic banks about to launch offshore ventures. With fewer cultural differences and similar regulatory systems, domestic banks can learn from their established practices in the mainland private banking market to establish their market position in Hong Kong. In the meantime, the strong customer base accumulated in the mainland can also increase their chances of winning in Hong Kong.

Although first-generation HNWIs in China make few offshore investments, offshore business is expected to boom over the next 5 to 10 years as the next generation of HNWIs increasingly choose to live outside the country. Because Chinese HNWIs living abroad are expected to maintain close ties with China, domestic banks will have a chance to grow their offshore business market share—but only if they can provide competitive financial services.

Private banks should develop differentiated services for HNWI segments and high-trust relationships with target customers

Due to strict government regulations, private banks offer similar products and services. However, our study indicates that different HNWI customers have different needs, opening the door for private banks to develop differentiated services for high-value segments.

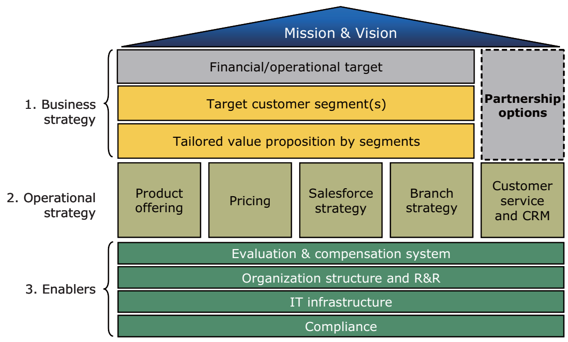
Based on interview responses, it is clear that investment preferences vary substantially by segment. As explained in the second chapter, entrepreneurs favor moderate risk and return, while professional investors pursue higher risk and higher returns through investment vehicles like private equity. Similarly, different customer segments have different financing and value-added service needs. Owners of small and mid-sized businesses, professional managers and professional investors have the greatest need for financing services, but the two latter segments prefer to utilize private channels. Business owners of all sizes want private banks to provide value-added services like tax planning; other HNWI segments have less interest in such services but seek services that assist in planning for children's education, health care and investment opportunities. Private banks should tailor such services to HNWI segments.

When segmenting services, private banks need to consider each customer segment's overall value. After looking at the current market size and future potential, banks should examine each group's total investable assets and customer base. To avoid future losses, banks must take into account customer development costs and necessary investments in fixed assets. From a profitability perspective, banks should then look at each group's asset volatility and future profit potential. Costs must be adjusted based on the investment preferences of HNWI groups and the amount of profits they will contribute to the bank. At the end of this exercise, banks should be able to prioritize HNWI segments and target groups based on their own abilities and competitive advantages. Doing so should improve their market position and enable them to pursue a leadership position in the future.

At present, private banks provide similar - and limited - products and services. They include wealth management services, mutual funds, insurance, securities, futures and trusts. There are few products for trust planning, a gap in servicing HNWIs' needs. Innovative products like derivatives are also rare. Many product mixes are only simple combinations of single products. Some offerings are ill-suited to the Chinese market - like foreign currency products introduced from abroad which do not adequately meet domestic customers' needs.

To differentiate themselves as competition intensifies, banks need to develop a broader range of innovative products and services, tailored to wealthy customers' specific needs. In the fast-growing private banking marketplace, we expect that market leaders will be those who successfully expand their base and win over high-value HNWIs with differentiated products.

Figure 31: Private banking strategy framework



Source: Bain Experience Center

This rapid growth of the newly wealthy in China underscores the huge potential for the private banking industry, presenting a strong lure for both domestic and foreign banks that are considering entering China's private-banking market. However, to successfully differentiate themselves, financial institutions must develop comprehensive business and operational strategies as well as effective support systems that put them on track to win and sustain market leadership.

A bank's strategy for private banking will depend on its mission and vision and the goal of the private-banking business itself; the bank's strategic position will mainly determine its implementation strategy. Initially, the most critical goal might be acquiring new customers and retaining existing ones to build the institution's reputation and gain market share. At present, most domestic banks are transferring premium retail customers to their private-banking units to ensure better service and prevent defections. But in the long run, as businesses expand and the market matures, a single private-banking unit will be unable to service all customer segments and business needs. So the bank should identify its target from the start. Based on the experience of private banking abroad, universal banks have two potential objectives: The bank could aspire to become a global top 10 private bank, based on assets under management (AUM), by providing a wide breadth of services to many customer segments; or it could focus on providing highly customized wealth management services to a narrow segment, such as global billionaires. A small financial adviser might develop customized and comprehensive services for wealthy individuals in their local markets. Meanwhile, domestic banks, in the early stages of developing private banking strategies, should start by asking: What is our goal? How far ahead can we see?

After establishing a clear mission and vision, the next step is developing a business strategy that supports the company's objectives. The business strategy should include such elements as organizational structure, information technology infrastructure and systems for assessing employee performance and compensation. To develop a business strategy, the bank should set financial and operational targets like revenue, market share, net profit, return rate, AUM and the total number of customers.

Next, the company needs to determine its targeted customer segment or segments and define a differentiated value proposition for each profitable segment. For example, a world-renowned private bank focused on entrepreneurs with assets of more than US $10 million provides one-on-one specialized services and frequent investment forums and lectures on family inheritance needs.

One small Dutch private bank segments HNWIs into eight categories, including doctors, pharmacists, professionals, sports stars, executives, immigrants and so on. Then, based on its own capabilities and the characteristics of each segment, the bank designates four groups (doctors, pharmacists, professionals and sports stars) as its target segments and designs specific value-added services for them. It provides doctors with career-long financial advice and advises them about how to buy liability insurance; and it advises sports stars about investment opportunities that change as they change clubs, along with sponsorship and career planning.

Customer segmentation can be based on several key factors - occupation, personal income, wealth management needs, risk preference and tolerance, and major industries and sectors. Based on a private bank's goals, resources and capabilities, it should use customer segmentation as the basis for providing tailored offerings, attracting customers and then focusing on its most valuable customers.

In addition, private banks can achieve a "win-win" by partnering with other financial institutions. Such partnerships provide private banks with access to more HNWIs through their partners' channels, while also enabling joint efforts in product development. Through close cooperation with fund managers, trust companies, insurers and investment institutions, private banks can give customers products tailored to their individual needs.

After finalizing the business strategy, banks should then develop an operation roadmap, detailing how they will effectively serve HNWIs. This operational strategy should cover five areas: product offerings, pricing, sales force, branch strategies and customer relationship management (CRM.)

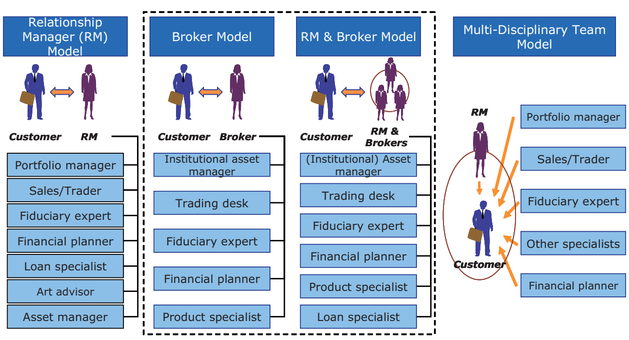
Product offering

Product customization should help differentiate a bank from its competitors. Investment service products need to take into consideration customers' varied needs for investment management, financing and value-added services. Banks can expand their product lines three ways: independent development, joint development and open-shelf purchases. But existing regulations often restrict innovative new product lines. In these situations, complementary value-added services can make up for limited offerings and enhance customer loyalty. For instance, business owners may need advice about personal and corporate tax administration, initial public offerings (IPOs) and fundraising; their spouses, on the other hand, may value advice about life-style enhancements like art collections.

As they develop investment services, private banks should think outside the box, designing innovative products that meet Chinese customers' specific needs. The major goal for Chinese HNWIs' wealth management is to create more wealth. Private banks should take full advantage of their business units' resources to explore investment opportunities like trusts for high-net-worth customers. This approach provides wealth creation opportunities for private-banking customers, while also meeting the financing requirements of business customers. And both private and business units benefit from the resulting profits, which can be substantial.

Private banks that offer investment products for China's newly wealthy can fill another void: their services provide HNWIs with a highly valued networking vehicle, giving them a way to meet each other and exchange information. As long as private banks can think outside the framework of traditional financial products and tailor valuable products and services to local customer needs, they will gain an edge as competition intensifies.

Figure 32: Sales model



Note: Due to regulations and other factors, the Broker Model and the RM and Broker Model currently do not exist in China's private-banking sector

Source: Bain Experience Center

Pricing

When pricing products and services, private banks must consider customer maintenance and bank profitability. Currently, there are three pricing models:

- By transaction - the bank receives a fee for every transaction in a customer's account
- By account - a customer is charged based on account size and services received and pays no additional transaction fees
- By performance - a customer is charged based on how well the investments perform

The second and third models include transaction fees as a portion of the total charge, with the fees varying among banks and different branches within the same bank.

Compared with European and U.S. financial institutions, Asian private banks charge higher transaction fees, as a percentage of total fees. The reason: Asian customers tend to manage their own accounts. Since customer retention has replaced bank profitability as the top priority, domestic banks charge no fees to their customers, hoping to help them retain customers. It is unclear whether this policy is sustainable - will banks be able to persuade their customers to accept another pricing model if they decide to end this no-fee policy?

Clients recognize the value of private-banking products and services and they are willing to pay for them, but how much? Is it feasible to adopt a pricing policy that varies within customer segments or even sub-groups based on assets? Although domestic banks charge no fees to their mainland customers, could they use a different pricing policy in Hong Kong or for overseas private banking branches? A successful pricing policy requires careful consideration of each question.

Sales force strategy

A sales model for domestic private banks is still in the development stage. The mature, differentiated sales model used by foreign banks can serve as an organizational framework, but not all aspects are applicable since the structure is based on foreign financial markets and regulations. Private foreign banks use one of four classic sales models:

- Relationship Management Model - Relationship managers (RM) look after the overall relationship between customers and the bank. RMs direct customer requests - such as portfolio management, transactions and planning - to a back-office support system. An expert team there develops a response, which is communicated to customers via the RM. Under this model, an RM serves specific customers, while the expert team serves a group of customers.
- Broker Model - Investment brokers are the primary point of contact and conduct transactions on behalf of customers. They query a team of investment experts for suggestions and then communicate the advice to their customers. In a mature market, when customers are only interested in equity investment, brokers can perform the transaction for their customers. There is no RM in this model. Brokers work with a specific customer, while the expert team serves a group of customers.
- RM and Broker Model - A relationship manager and a broker both work with an individual customer. The RM is in charge of the overall relationship, while the broker assists with transactions. The expert team has limited contact with customers and serves a group of customers.
- Multi-Disciplinary Team Model - All members of the team contact and serve customers. The RMs take care of the overall relationship management, and the expert team offers professional investment advice. In this model, the expert team takes the lead, with both the RM representatives and the expert team serving individual customers.

There is no Broker Model or RM and Broker Model in China yet because of regulatory restrictions. However, both models are excellent examples for home banks with private-banking businesses in Hong Kong and overseas.

Private banks should adopt a sales structure that is aligned with their targeted customers, capacity and resources. Based on the success of one high-profile global private bank, the Team Service Model is best suited for HNWIs with US $10 million in assets. The population of those with investable assets exceeding US $10 million is limited, and they have significantly different individual needs, thus leading to more specialization and efficiency at that level. And thanks to the higher value of their AUM, private banking has more promising returns, which in turn supports marketing to improve loyalty.

Branch strategy

Branch structure should be designed according to target-customer group distribution. In cities with a heavy concentration of target customers, an operation center or a branch should report directly to the head office. In cities where customers are more scattered, banks can develop institutions with management functions by region and consolidate the customer resources within each region (a practice among some foreign banks in the China market). In instances when the number of cities with extensive target customers steadily increases, the regional center can serve as a secondary administrative department to manage and coordinate the private-banking business among different city branches.

To create a successful branch strategy, banks must ensure that the branch office structure supports wealthy individuals' unique needs and provides comprehensive offerings, including product design and value-added services.

Customer Relationship Management

Customer Relationship Management (CRM) involves a series of steps. It can include customer segmentation and acquisition, customer value proposition determination, expanding the scale of managed assets, and enhancing customer loyalty. Every aspect of CRM should cater to the special needs and characteristics of HNWIs. To develop a thoughtful CRM plan, a bank must answer several key questions:

- What is the best way to segment customers?
- How can it use customer databases from other departments to recruit new customers?
- What is the most effective strategy for winning away customers from competitors?
- What is the best process for working with a design team to create timely products tailored to customer needs?
- How can it increase total wealth under management and enhance customer loyalty by building close relationships with customers?
- How can it establish an early warning system that helps retain customers by anticipating their needs?

In order to have a smooth operating system, private banks need to design effective organizational and back-office support systems. That includes an ability to assess employee performance and determine compensation, clear organizational functions, an IT infrastructure and a well-structured management system. Each of these systems is critical to success. To ensure that employees are highly motivated, the institution must have a clearly stated process for assessing employee performance and determining compensation. Effective teamwork depends on a well-defined organizational structure. A dependable IT infrastructure is essential for security and efficiency, and a highly structured management organization not only ensures that employees understand their responsibilities but also helps reduce risk.

As for private banking, organizational structure presents the biggest difference across banks. Generally speaking, there are three models for organizing private banking:

- Private banking belongs to retail banking. It makes the most of the customer and product resources accumulated by retail banking, but it has no clearly defined profit targets, which may undermine motivation;
- Private banking sits in parallel to retail banking, both of which are under consumer financing. This structure has higher requirements for departmental Key Performance Indicator (KPI) systems, but may create obstacles with cross-business-unit resource sharing and seamless cooperation;
- Private banking functions as an independent private banking unit, typically with a sound reputation in the sector and a healthy brand.

As domestic private banks in China select an operating model, they must determine which structure will help them achieve profitability while also motivating employees. A universal bank that offers both banking and brokerage services might gradually move toward restructuring. For instance, as a private bank develops its wealth market, services for those customers could become secondary to the retail banking operation. Once the private-banking business matures, it could break away from the retail bank, a move that would offer more rewards and motivation for employees. The bottom line: at every step of a bank's growth, it must have effective organizational and back-office support systems in place to achieve its goals.

In conclusion, banks must have a clear strategic objective and highly developed business and operational strategies when entering the private-banking marketplace.

For China's domestic banks, those strategies and support systems will vary depending on whether the goal is gaining market share or profitability. Based on the institution's industry experience and capacity, it must determine the best way to segment and target HNWIs. Other critical decisions include whether to jointly develop products with partners or purchase them, and how to formulate pricing and branch office strategies, and create marketing and CRM models that meet customers' needs. Finally, domestic banks must have an effective organizational structure and back-office support systems that are aligned with its business goals.

Foreign banks have different challenges. They must successfully adapt their strategies to China's distinct culture, marketplace and regulatory system. And they must recognize that Chinese customers have different attitudes about investments. Investment products that are popular elsewhere or sophisticated financial offerings may not be well received by Chinese customers. As a result, foreign banks must figure out how to satisfy wealthy customers' needs with a limited range of products and services. Also important: recognizing the value that the Chinese place on personal relationships and developing close relationships with customers. Only by modifying their strategies will foreign banks win over China's newly wealthy and achieve their business goals there.

Appendix: Research Methodology

The 2009 China Private Wealth Study primarily focuses on the domestic HNWI market, and includes analysis on the number of HNWIs, the size and segmentation of the HNWI group, and HNWIs' different investment behaviors.

We used Bain & Company's HNWI Income-Wealth Distribution Model to estimate the overall HNWI market in China, as well as the distribution of HNWIs and their investable by province. The Distribution Model serves as the cornerstone of this study and introduces a top-down methodology to estimate the number of HNWIs and the market value of their investable assets. This allows us to avoid the possible under-sampling errors that occur when employing a bottom-up methodology. It ensures that our results are more reliable, comprehensive and predictable.

The model first estimates the overall value of investable assets held by residents, by province. Individual investable assets include: cash and deposits, tradable stocks, untradeable stocks of listed companies, mutual funds, bonds, bank financial products, insurance (life insurance), real estate investments, offshore assets and others such as futures and gold. Investable assets exclude the following items: stocks of unlisted companies, real estate used for primary residences, durable consumer goods and art collections. All data represent the year-end market value. Data sources include: the People's Bank of China, National Bureau of Statistics, National Development and Reform Commission, China Insurance Regulatory Commission, China Banking Regulatory Commission, Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The major output from this model is the calculation of the HNWI Wealth and Income Lorenz Curve, using a statistical methodology. Based on data from the United Nations, tax authorities and central banks of different countries, we calculated the HNWI Lorenz Curves for more than 10 developed and developing countries in Asia, Europe and the United States. We discovered a high correlation between the curve and a country's Gini Coefficient, GDP, population and other macroeconomic indexes. By applying this mathematical correlation to China, and by comparing the United Kingdom, United States, Japan and South Korea's HNWI Lorenz Curves with CMB clients' asset distribution data, we derived the overall domestic HNWI Lorenz Curve and respective curves by province.

Finally, we used the HNWI Lorenz Curve to allocate the investable assets owned by HNWIs by province and calculated the number of HNWIs by asset level - both at the national and provincial levels - and then calculated the value of investable assets owned by each.

We executed a thorough survey of 30 major cities in 17 provinces. In order to achieve the best representation, we surveyed all of the major economic regions: the Yangtze River Delta, Pearl River Delta, North China, Northeast China, Middle China and Western China. Via face-to-face interviews and questionnaires, we collected 700 valid samples. Our interviewees include industry experts as well as RMs from CMB and other Chinese and foreign banks and their clients or potential clients. All clients interviewed meet our criteria for HNWIs.

Through cluster analysis, we categorized domestic HNWIs by different characteristics, among which occupation and size of investable assets are the two most relevant indicators. We then created a more in-depth analysis by dividing HNWIs into 6 sub-groups.

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