

# UAE has one of world's densest millionaire populations: BCG - Oil-rich GCC features prominently on the global wealth map

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The UAE, along with Gulf peers Qatar and Kuwait, has one of the densest millionaire populations in the world, a new report revealed yesterday.

According to Boston Consulting Group's (BCG) eleventh annual Global Wealth report, "[t]hree of the six densest millionaire populations [in 2010] were in the Middle East – in Qatar, Kuwait, and the United Arab Emirates."

Propelled by growth in nearly every region, global wealth has soared more than \$20 trillion from the where it stood during the depths of the financial crisis, according to the report, which revealed that global wealth appreciated by 8 per cent, or \$9 trillion, in 2010, to reach a record of \$121.8 trillion.

This year's report also published, for the first time, figures on the countries with the highest number of ultra-high-net-worth (UHNW) households, defined as those with more than \$100 million in assets under management.

While the US had the largest number of these super-wealthy households (2,692), Saudi Arabia had the highest concentration of UHNW households, measured per 100,000 households, at 18, followed by Switzerland (10), Hong Kong (9), Kuwait (8), and Austria (8).

China experienced the fastest growth in the number of super-wealthy households, which jumped by more than 30 per cent to 393.

## Among the other key findings:

- North America had the largest absolute gain of any regional wealth market in assets under management (AuM), at \$3.6 trillion, and the second-highest growth rate, at 10.2 per cent. Its \$38.2 trillion in AuM made it the world's richest region, with nearly one-third of global wealth.

- In Europe, wealth grew at a below-average rate of 4.8 per cent, but the region still had a gain of \$1.7 trillion in AuM.

- Wealth grew fastest in Asia-Pacific (excluding Japan), at a 17.1 per cent rate. In the Middle East and Africa, growth was somewhat above the global average, at 8.6 percent. In Latin America, wealth grew by 8.2 per cent. Together, these three regions accounted for 24.4 percent of global wealth in 2010, up from 20.9 per cent in 2008.

- Wealth declined by 0.2 per cent in the Japanese market to \$16.8 trillion. As recently as 2008, Japan accounted for more than half of all the wealth in Asia-Pacific. In 2010, it accounted for about 44 per cent.

In terms of individual countries, the nations showing the largest absolute gains in wealth were the United States, China, the United Kingdom, and India.

The strong performance of the financial markets accounted for the lion's share (59 per cent) of the growth in AuM. Its impact was amplified by the ongoing reallocation of wealth. From year-end 2008 through 2010, the share of wealth held in equities increased from 29 to 35 percent. "During the crisis, cash was king," said Monish Kumar, a BCG senior partner and a coauthor of the report. "Since then, clients have been steering their assets back into riskier investments." North America continued to have the highest proportion of wealth held in equities—44 per cent, up from 41 per cent in 2009.

"The wealth management industry has overcome tremendous adversity over the past several years, and the sustained recovery of global wealth bodes well for its future," added Kumar, who is the global leader of asset and wealth management at BCG. "But the positive signs should not be misread as a return to normal. A number of disruptive forces, including increased regulatory oversight and changes in client behavior, are rewriting the rules of the game—both literally and figuratively."

### **Millionaire Households Grow in Number and Wealth**

Millionaire households represented just 0.9 per cent of all households but owned 39 per cent of global wealth, up from 37 per cent in 2009. The number of millionaire households increased by 12.2 per cent in 2010 to about 12.5 million.

- The United States had by far the most millionaire households (5.2 million), followed by Japan, China, the United Kingdom, and Germany.

- Singapore continued to have the highest concentration of millionaire households, with 15.5 percent of all households having at least \$1 million in AuM. Switzerland had the highest concentration of millionaire households in Europe and the second-highest overall, at 9.9 percent.

- Three of the six densest millionaire populations were in the Middle East—in Qatar, Kuwait, and the United Arab Emirates.

- The proportion of wealth owned by millionaire households increased the most in Asia-Pacific, at 2.9 percentage points, followed by North America, at 1.3 percentage points.

- The country with the fastest-growing number of millionaire households was Singapore, with 170,000—up nearly a third from 2009.

This year, for the first time, BCG published figures on the countries with the highest number of "ultra-high-net-worth" (UHNW) households, defined as those with more than \$100 million in AuM. The United States had the largest number of these super-wealthy households (2,692), while Saudi Arabia had the highest concentration of UHNW households, measured per 100,000 households, at 18, followed by Switzerland (10), Hong Kong (9), Kuwait (8), and Austria (8). China experienced the fastest growth in the number of super-wealthy households, which jumped by more than 30 percent to 393.

### **Pressures Continue to Mount for Offshore Private Banks**

The amount of offshore wealth – defined as assets booked in a country where the investor has no legal residence or tax domicile – increased to \$7.8 trillion in 2010, up from \$7.5 trillion in 2009. At the same time,

however, the percentage of wealth held offshore slipped to 6.4 percent, down from 6.6 percent in 2009. The decline was the result of strong asset growth in countries where offshore wealth is less prominent, such as China, as well as stricter regulations in Europe and North America, which prompted clients to move their wealth back onshore.

“Offshore private banking remains a tumultuous part of the business,” said Anna Zakrzewski, a BCG principal and a coauthor of the report. “The relative importance of offshore centers is changing rapidly. Some are benefiting from continued asset growth, while others are suffering large asset outflows, with wealth being repatriated to onshore banks, transferred to other offshore centers, redirected into nonfinancial investments, or simply spent at a faster rate.”

For most clients, however, the core value proposition of offshore banking remains, Zakrzewski said. “Offshore wealth managers offer a sense of stability and security that these clients cannot find in their home countries. Other clients value the expertise or access to certain investments provided by offshore private banks. To continue to grow, offshore wealth managers will need to adapt to the changes imposed by the push for greater transparency while accentuating their strengths in areas that remain extremely relevant to clients around the world.”

### **Mixed Results for Wealth Managers**

To gauge the performance of wealth managers (both private banks and wealth management units of large universal-banking groups), BCG gathered benchmarking data from 120 wealth-management institutions worldwide.

The survey revealed wide variations in margins, cost ratios, and AuM growth across and within regions. On the whole, the industry experienced mixed results. The average pretax profit margin of wealth managers increased by 4 basis points to 23 basis points in 2010. In most regions, however, revenue margins remained lower than they were before the crisis (and in some places continued to decline), while cost-to-income ratios remained higher (and in some places continued to rise).

“In some markets, changes in regulations and client behavior have had a profound impact on wealth managers,” said Peter Damisch, a BCG partner and a coauthor of the report. “Especially in parts of Europe, clients are becoming more price sensitive, demanding more price transparency, and still avoiding higher-margin products.”

He continued, “For most wealth managers, pricing remains a vastly underutilized tool for improving revenue margins. At many wealth-management institutions, pricing strategies are more arbitrary than deliberate and are often decoupled from the services provided to specific client segments. Wealth managers simply cannot afford to overlook the importance of pricing and the need to adapt their pricing strategies and practices to the new realities of wealth management. Smarter pricing models and a more contained approach to discounting will become increasingly critical.”

### **Outlook**

Tjun Tang, another BCG partner who worked on the report, said that the firm expects global wealth to grow at a compound annual rate of 5.9 percent from year-end 2010 through 2015—to about \$162 trillion—driven by the performance of the capital markets and the growth of GDP in countries around the world. Wealth will grow fastest in emerging markets. In India and China, for example, it is expected to increase at a compound annual rate of 18 percent and 14 percent, respectively. As a result, the Asia-Pacific region’s share of global wealth (ex Japan) is projected to rise from 18 percent in 2010 to 23 percent in 2015.

In Japan, the amount of wealth is expected to decrease slightly in 2011 and then grow slowly for several years. The impact of the recent disaster on private wealth is still unclear, but it could put further stress on the growth of AuM in Japan.

“As much as the sustained recovery of global wealth reaffirms wealth management’s place as a relatively stable and attractive part of the financial services world,” Tang said, “it also masks important and lasting changes to the dynamics of this industry. Perhaps more than ever, a wealth manager’s adaptability—its

capacity to anticipate and respond to a combination of regulatory, client-driven, and competitive changes—will determine how well it prospers from the continued growth of wealth.”