Executive summary

THE BIG MONEY IS STILL OUT THERE, IT'S JUST THAT THE PEOPLE HOLDING IT ARE NOW MORE AWARE OF THE RISKS

UNTIL THE BEGINNING or even the middle of this year, targeting the mass-affluent market was all the rage.

The term "mass affluent" is defined in a variety of different ways. Datamonitor says it is those who have liquid assets of between £30,000 and £200,000. Commerzbank Securities puts the range at between €30,000 and €250,000/500,000 in liquid assets. PricewaterhouseCoopers says there are 3m people in the UK alone with £50,000 in liquid wealth and a further 1.5m with about £100,000. Globally, says the Boston Consulting Group, there are 34m households with net-investment assets of more than $250,000.

"OBSERVERS ARGUE THAT NO ONE YET HAS FOUND A MASS-AFFLUENT OFFERING THAT IS SUFFICIENTLY DIFFERENTIATED FROM RETAIL BANKING TO JUSTIFY THE PREMIUM"

SLOW DOWN

Although stock market and economic downturns mean the market is growing less rapidly than it was, growth is still predicted. Datamonitor believes there will be 20m mass-affluent individuals by 2004 in Europe. The UK and Spain are likely to see the most significant growth.

Bank launches – and those of other financial ventures for the mass affluent – have slowed, been cancelled or scaled back since the beginning of the year, with observers arguing that no one yet has found a mass-affluent offering that is sufficiently differentiated from retail banking to justify the premium. The elusive dream of fatter provider margins than in the retail market has so far proved to be just that – a dream. Of the three case studies in this report, two of the three banks, Deutsche Bank 24 and Merrill Lynch HSBC have announced redundancies.

AGGREGATED INFORMATION

Mass-affluent investors have been categorised in three classes: the self-directed, the validators or comfort seekers, and the delegators. Online brokers cater well for the 25 per cent who are believed to be self-directed, but there is a feeling that, overall, few strong advisory facilities are open to the mass affluent. Research suggests that mass-affluent customers – in addition to advice – want an integrated multi-channel offering, targeted customer segmentation, open architecture and an aggregation service.

Account aggregation has already been widely adopted in the US and Australia, but the UK and the rest of Europe have been slower to follow suit. Aggregation should provide a platform for a deeper relationship between client and provider and create new opportunities for cross selling. Providers, however, seem to have doubts about how to achieve a payback on their investment, as well as showing discomfort that aggregation is unregulated in the UK. The technicalities of capturing client data also mean that for the moment, aggregated information could soon prove obsolete at times when the markets are most volatile.

ENTRY TO THE CLUB

There are now approximately 7.2m members of the millionaires' club – those who have $1m in liquid assets. Though fortunes were made and lost in a short time during stock market turmoil and the bursting of the dot.com bubble, 180,000 new individuals made it into these privileged ranks in 2000. Growth of 8 per cent a year is foreseen between 2000 and 2005.

During the second half of 2000, the broad decline of equity holdings globally convinced high net worth individuals to reduce their equity holdings and begin moving into fixed-income and cash deposits.

The private banking industry is widely believed to have coasted pretty much happily along during the years of bullish markets. It is now time to '"get fit" in the words of one consultant who believes that several functions need to be reengineered. Pressure on pricing may be felt by European players who widely charge much higher fees than their US counterparts.

Private banks are, however, introducing innovations, often in the shape of hedge funds as a way of counterbalancing current problems in the equity market. The profile of the high net worth investor (HNWI) may also be changing. One expert believes that in future HNWIs will be more risk-aware than risk-averse, that they will move from being performance-aware to demanding performance, will be more likely to earn an income that inherit wealth and will be more demanding of service, remote channels, transparent pricing and information.