Dr. René Fischer, Mark de Jonge, Damien Ko, Olaf Toepfer

Study

Wealth Management in New Realities

From defense to offense: how to realign business models for opportunities resulting from structural change

Roland Berger
Strategy Consultants

If you want to build a ship, don‘t drum up people to collect wood and don‘t assign them tasks and work, but rather teach them to long for the vast and endless sea.

Antoine de Saint-Exupéry

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Contents

Executive summary

When we first launched our Global Wealth Management study, we were convinced that the added value for our clients lay in our **sophisticated perspective on strategic issues**. The study combines insights on private banking and wealth management with experience drawn from many projects in this area. Rather than surveying people working in the industry and identifying trends that most of our readers will already be well aware of, we address common myths and areas of strategic innovation. Our answers to key strategic issues in private banking and wealth management are ambitious, providing readers with stimulating food for thought.

In this latest Global Wealth Management study we remain true to our initial ambition. Once again we focus on the key issues in the industry, applying a strategic perspective and an entrepreneurial mindset. We aim to surprise, challenge and inspire you – and in so doing prepare you for the new realities of the industry.

The new realities

So what has really changed today? We believe that the wealth management industry and the context in which it operates face four fundamental challenges: volatility, uncertainty, complexity and ambiguity. **Volatility** affects capital markets and business attractiveness with respect to clients, regions and offerings. **Uncertainty** plagues key aspects of the structural changes taking place in the industry and the distribution of power on a macroeconomic level and in the industry, impacting both clients and institutional stakeholders. **Complexity** is driven by regulatory change, new internal structures at major players and changes in the value chain. **Ambiguity** affects the industry's fundamental assumptions about its business. Current business models are facing risks on a scale unseen in the past. The first three challenges – volatility, uncertainty and complexity – are what you would expect in this industry. But ambiguity shakes the very foundations of the wealth management business.

Markets: Opportunities exceed expectations

Despite general economic uncertainties – the sovereign debt crisis in Europe, the fiscal cliff in the US, lower growth rates in BRIC countries – **global bankable assets grew** to EUR 29.0 trillion in 2012, up 7.8% on the previous year. However, there were major differences between regions: Asia-Pacific is firmly in the fast lane, for example, while more mature markets show lower growth rates. But even these markets did better than the expected zero growth rate.

Structural changes in the wealth management have prompted the regulatory authorities to take action. They have been supported by increasing pressure from society and politics. Players increasingly find themselves in a defensive position, with their margins under more pressure than ever (on average we observed a 20 bps reduction of top-line margin since 2008). Reasons are less client activity, less complex products and the strategic focus on the (U)HNWI segment generating lower margins. Most see the structural changes as a threat. Despite this, efforts by the industry to tackle the challenges have so far failed to have the hoped-for effect.

We take a **strategic view** of these changes driven by new regulation. Wealth managers should **not just see them as a requirement but as an opportunity.** For example, simply adapting the advisory process to new regulations is not sufficient. Aligning the process is an opportunity to increase the client understanding depending on the client profile and thereby making the value propositions more client-centric. Focusing on specific regions and client segments has also become more important. Wealth managers must align this focus with their value proposition and business model.

Organizational intelligence is the ability to adapt to fundamental changes in context. We know from history that organizations with this ability outperform those without it. As structures change, wealth managers need to review their business models and international financial centers should check their competitive positioning.

Market consolidation has long been a topic of debate in the industry. Four years ago, we said that we did not expect to see significant global industry consolidation but rather remarkable **shifts between markets and players.** Today, the market remains highly fragmented. In many respects it is far from mature. Factors that were expected to drive market consolidation are in fact doing the opposite, eroding the competitive landscape as in Switzerland. Non-compliant assets and other issues relating to the new regulations are increasing the complexity of deals, with the result that fewer assets are integrated than acquired. Closer cooperation between players offers opportunities. From a strategic viewpoint, team and intangible asset transfers provide an interesting opportunity for inorganic growth by private banks, especially where there is a good cultural fit.

In the long run however, we would like to take a different view on market consolidation which is structured along the value chain. We expect a certain **consolidation of mid-office and back-office activities** across providers triggered through increased pressure on costs (a good example is Avaloq group taking over wealth management back-office operations of Deutsche Bank Switzerland). On the **front office we do not expect a significant consolidation** as clients will continue to ask for different value propositions, e.g. the small local private bank and the global bank with multiple booking centers.

At the same time, we expect to see consolidation in Asia – in hub markets, regional feeder markets and emerging markets, too. Medium-sized players have not been able to create a sustainable business model in these markets. New regional players in wealth management will leverage their position to develop services for wealthy clients.

Overall, we see the global market as being in a transition phase. The wealth management industry has not yet seen a fundamental transformation toward client-centric business models. At the same time, commoditization is taking place in some segments of the value chain, especially relating to investment offerings. In general, established players do not focus enough on the opportunities that result from structural change.

Clients: Build client relationships based on trust

Players face three key questions:
> How can they ensure **client understanding** – their ability to predict client behavior, from acquisition to retention?
> How can they adapt to **increasingly heterogeneous customer behavior and the growing complexity of customer needs?**
> How should they respond to increasing **client heterogeneity** without introducing excessive complexity into their business models?

Several megatrends (e.g. changing demographics, scarce resources) are influencing clients' needs and decision-making behavior. Changes are occurring in two dimensions: First, the client relationship with the wealth managers. Here, the **next generation of wealth** is becoming increasingly important. The **gap between client groups** with and without an affinity to wealth management is expanding. There is a growing trend toward **wealth diversification** across providers as client loyalty fades. Demand is also rising for **comprehensive** (financial and non-financial) **advice** that offers real **added value.**

Second, clients' needs are changing with respect to wealth solutions. The focus on absolute returns is eroding as clients shift their attention to R^3 or **"real real returns"** (i.e. returns after inflation and taxes resulting from an investment in tangible assets, it is not about an absolute performance anymore). Demand for **additional services** such as entrepreneurship banking and services relating to heritage is growing. **Flexibility** is gaining in importance as clients' family and life situations become more and more unpredictable. Demand is appearing for comprehensive coverage of needs with a **transparent product portfolio.**

In our experience, clients choose a wealth manager on the basis of two factors: their **affinity** with the company's brand, employees and perceived value proposition, and their **trust** in the company, based on how they rate the skills and character of the individuals that they interact with.

Above all, wealth managers **need to know how their clients perceive them.** Wealth managers that lack a sophisticated brand positioning and a finely tuned value proposition will soon find themselves at a disadvantage.

Offering: Untapped potential in value extraction and efficiency

Almost all players in the industry today claim to be client-centric. In reality, however, they continue to serve their clients in the same way they have done for a decade at least, basing their services on a **product-centric paradigm.** Banks often do not offer a truly open architecture platform and measure success in terms of revenues and return on assets (RoA). The only exception of the product-centric value proposition are a few niche players.

To become truly client-centric, the industry must create a **client experience** that gives clients real added value. The **advisory process** is the fundamental part of any client-centric service proposition – we expect it to become a **key differentiator in the industry.** The most important success factor here is to provide tailored advice depending on the client's needs (relationship vs. solution) and to offer a consistent experience. Now is the moment to introduce changes here in order to capture future growth and profitability.

Wealth managers must examine their offering and bring it into line with the new regulations. **Streamlining the offering and defining a sourcing strategy in accordance with the production model** is the key to providing complexity-reducing solutions for clients. Collaboration with suppliers must be reviewed to increase flow and reduce risks. This is also an efficiency lever for wealth managers aiming to reduce costs for the client in the end.

Strategic pricing is a key lever for income growth. Wealth managers should align it with their modular product offering in order to actively manage profitability. Pricing strategies can contribute significantly to sustainable top-line growth if the approach taken builds on the added value as perceived by the client. Another important success factor is managing pricing at the client level, allowing relationship managers to be entrepreneurial in the way they deliver revenue targets.

Players must decide on a consistent business model

Players are currently failing to foster their competitive strengths with regard to their value proposition and offering. A more radical approach is needed. They must understand their clients' preferences and needs – and their implications for the offering – and then shape their business model accordingly. There is no silver bullet here – a one-size-fits-all solution for all players. Instead, players must understand the playing field and **select one of the few consistent business models that are evolving.**

A simple way for wealth managers to structure their business model is to look at three core dimensions: **clients** (effective feeder models), **footprint** (local vs. global) and **offering** (pure vs. integrated). They need to understand their target market and the strategic options open to them. They must also define the right level of integration between asset management and wealth management. The right answer will differ for each player, depending on the strategic market positioning, target market and client segment.

Wealth managers must choose a distinctive position, then focus on the specific core competencies that they require. They must be relevant and trustworthy. Instead of searching for new businesses to compensate for older, less attractive ones, they need to take a **deductive strategic approach** starting with a comprehensive client understanding.

CEO agenda: Surprisingly, it's not all about strategy

Addressing the challenges should not start with a strategy project and a portfolio of strategic initiatives. Neither will simply responding to the regulatory changes be sufficient. What is needed is a fundamental redesign of the business model – and that includes its implications for operations, resources, intra- and inter-organizational collaboration and structural organization.

A fundamental redesign of this nature is not achievable in the short term, however. Trying to tackle all the challenges at once typically leads to **out-of-control investment and ever-increasing complexity.** Rather than attempting to steer the developments through targets, a project portfolio and controlling, top managers need to **lead their organizations through the transformation.**

Of course, transformation also requires straightforward analysis, monitoring and risk mitigation. The process should begin with a proper self-assessment by wealth managers in their target markets. Three steps are required: Redefine the wealth management strategy, activate the client book and then gradually industrialize the production model.

The first focus of the CEO agenda is to **redefine the wealth management strategy** in order to spur organic and inorganic growth. This should be a step-by-step approach based on the unique strengths and position of the bank. Changes in the business model should be addressed sequentially over many years. A strong **focus on target markets** is required due to regulatory requirements and limitations on cross-border business. Prioritizing markets can be based on criteria such as the value proposition, cultural fit, leverage of the business model, regulatory requirements and so on.

The second step is **activating the client book.** Transformational change must pay off in the short term, too. Banks can build up front-office momentum by concentrating on specific markets and client segments using a task force approach. In parallel, they can develop the organization by improving the quality of their advice and implementing **best-practice approaches,** for example. Early successes will generate significant P&L effects – as borne out by our experience in many client projects. Other key levers for realizing top-line improvements are introducing strategic pricing with target revenues for different client groups, and carrying out further tactical initiatives.

The third and final step is to **industrialize the production model.** Players should consider developing their own effective approach to **sustainable efficiency improvement** and stringent **cost management** through both strategic and operational levers. Wealth managers can reduce complexity by **systematically streamlining processes** in a front-to-back-office approach. They can learn from other industries with regard to coverage and structure of the value chain, modular platforms as well as effective supplier and cooperation management.

Tackling the new realities of the wealth management industry is not about fixing the current way we do business as wealth managers. There is no silver bullet for mastering the strategic challenges. However, there is a limited set of strategic options – and many opportunities arising from structural change. The new realities of the industry call for leadership. To echo the words of Antione de Saint-Exupéry: If you want to build a ship, don't assign people different tasks – teach them to long for the sea.

Yours sincerely,

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Introduction

The aim of this study

The wealth management market has witnessed a long phase of growth. All the stakeholders in the industry have benefited. Clients have had a strong focus on asset growth and players have generated strong profits through product-centric business models. The leverage of the system has increased and pro-cyclical accounting and regulation have driven growth in capital markets.

At the same time, complexity, volatility and uncertainty grew in the period since 2000. The US subprime crisis in 2007 affected the industry on a global basis, prompting a fundamental crisis of client trust. Further shocks also had a significant impact on the wealth management market, such as the bankruptcy of Lehman Brothers, the sovereign debt crises in Europe and the fiscal cliff issues in the United States.

Regulatory developments, changing client needs and decreasing top-line margins are just a few of the resulting challenges currently shaping the wealth management industry. Increasing pressure from society, politics and regulation has two major effects on the business: The efficacy of offshore banking has decreased substantially, and compliance risks have increased to the point that earning a positive risk-adjusted return on invested capital is virtually impossible.

This study provides an extensive update on the key developments shaping the wealth management industry. It presents key hypotheses and insights on **how to align the business model in order to succeed given the new realities.** In particular, the study aims to:
> Develop a comprehensive wealth management framework summarizing key observations and insights
> Derive implications for wealth managers and in doing so define the CEO agenda
> Debunk prevailing industry myths

Scope and approach

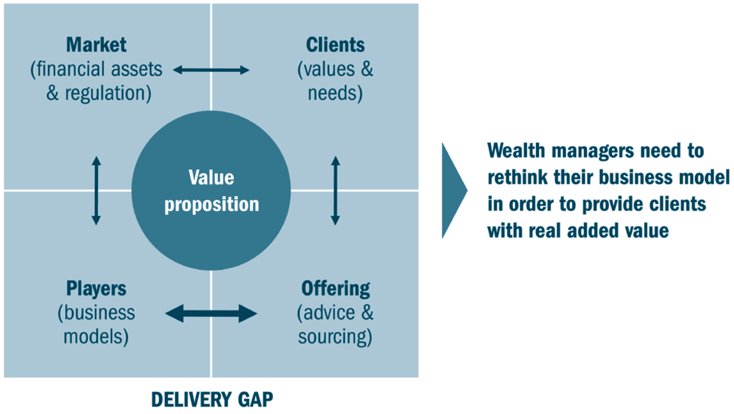
Our study has a global scope, examining all major countries from a wealth management perspective. In this way, it fully reflects the dimensions of the wealth management market and its dynamics. We also focus in more detail on specific regions that are particularly attractive for the industry.

The study is based on numerous discussions and workshops with our clients. Specifically, we spoke to more than 40 **executive leaders and international experts** in the wealth management industry and 30 internal experts from Roland Berger Strategy Consultants. We have also drawn on the experiences and insights gained in various programs and **projects carried out by Roland Berger Strategy Consultants.**

In a departure from our regular format, we include in the study a number of **"deep dives" written by senior experts from well-known wealth managers.** Each of them covers a specific key topic driving the industry at the moment. The aim of these deep dives is to broaden the perspective on relevant topics and share strategic insights from different institutions. Throughout the study, we use the term "wealth managers" to refer to institutions engaged in investment advisory incorporating financial planning and specialist financial services. Wealth managers of this type do not offer basic banking services. They predominantly serve customers with more than EUR 0.5 million in liquid assets, and their core clientele generally has EUR 5-20 million.

Structure of the study

Figure 1: Framework of the study



Source: Roland Berger Strategy Consultants

The study looks at four main areas: market, clients, offering and players. Based on these four areas, we derive a clear value proposition. The study concludes with a summary of our key recommendations for wealth managers in the form of a CEO agenda.

Market: We begin our analysis with an overview of the development of the global wealth management pool. We estimate the size of markets based on statistical data, market figures and company information. Attractive regions are described in more detail. We also provide an overview of regulatory challenges and summarize our thoughts on market consolidation in the private banking industry.

Clients: Various megatrends are shaping clients' behavior and needs. We analyze in detail the impact of those megatrends on client behavior. The shift in client needs is examined along two dimensions: the client relationship with the wealth managers, and client needs with respect to wealth solutions. We present our hypotheses on how client needs are shifting along those two dimensions.

Offering: As wealth managers increase client understanding, they need to tailor their selling proposition to specific client needs. They should align the advisory process to the different client types, while at the same time ensuring a consistent relationship experience. Reducing complexity and modularizing the offering are further levers to improve the selling proposition. In this section, we also summarize our insights into strategic pricing and define an efficient sourcing strategy.

Players: We cluster business models along the attributes "footprint" and "offering". For each of the clusters, we then describe key success factors. Additionally, we evaluate the right level of integration between asset management and wealth management. In summary, we examine how wealth managers can bring their business models into line with the new realities.

CEO agenda: Based on our detailed analysis of the wealth management industry, we identify potential areas for change. The basis is a well-defined private banking strategy, activation of the client book and increased efficiency through industrialization.

Market: The overall market is stabilizing but different regions show different developments and market mechanisms

Introduction

For many years, wealth management was predominantly a matter of mature countries providing wealth advisory to their rich citizens. Developing countries played a less important role, their overall volume of wealth remaining small. This trend has now reached a turning point, the result of globalization and strong GDP growth in developing countries combined with financial destabilization and sluggish growth in mature economies. The parameters of the wealth market have changed, as wealth distribution and the relative importance of different markets have shifted.

In this chapter we describe the market and the changing factors influencing the private banking industry. We start by discussing the **potential of the market,** followed by a description of the characteristics of the market, taking into account both trends and **regulatory constraints.** We then focus on the regional aspect, examining two particularly interesting growth markets: Eastern Europe and the Asia-Pacific region. In each case, we explore current developments aligning them with the future outlook and trends.

The key findings of this chapter are as follows:

> Asia will outperform Europe and North America, but not to the extent expected – Eastern European countries will maintain their growth in wealth in the upcoming years, for example.

> Due to increased regulatory requirements in mature countries, offshore banking will diminish in importance. Nevertheless, it will remain attractive for clients in countries with unstable political or economic systems to diversify their booking locations.

> Asia will continue to be the place for wealth managers. However, it is important to distinguish between different types of regional markets – emerging markets, hubs, feeder markets etc. Banks operating in Asia will need a strong balance sheet due to the high leverage requirements of their Asian clients. Furthermore, competition will grow strongly driven by large local players, with displacement effects on small players.

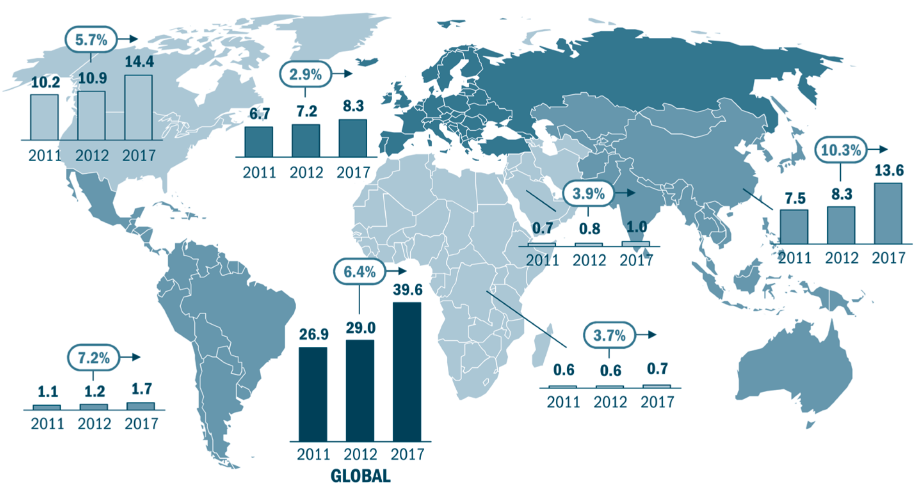
For the sake of clarity, we should define some key terms. By a **country's wealth** we mean the wealth of its individuals and households, taking into account GDP per capita, the Lorenz curve and the savings rate. We base our predictions on official GDP forecasts, population development and assumptions about financial market performance. We also refer to **bankable assets by domicile** as the assets that can be actually accessed by wealth managers. This excludes pension and real estate assets. Moreover, not all liquid assets are available for investment as a portion of them will remain in low-interest bank accounts.

Global wealth development today and tomorrow

Global bankable assets grew to EUR 29.0 trillion in 2012. This represents an increase of 7.8%, following the decline of 2.5% in 2011 triggered by the global financial crisis. This increase in wealth occurred in an environment in which interest rates were close to zero in mature markets and equity markets experienced relatively high volatility. The current economic situation in major mature nations is marked by high levels of uncertainty and the burden of global regulatory changes.

Myth #1: You need to play in all growth regions and wealth management segments to ensure lasting profitable growth

Figure 2: Development of the global wealth pool by region, 2011-2017
[EUR trillion; % CAGR]



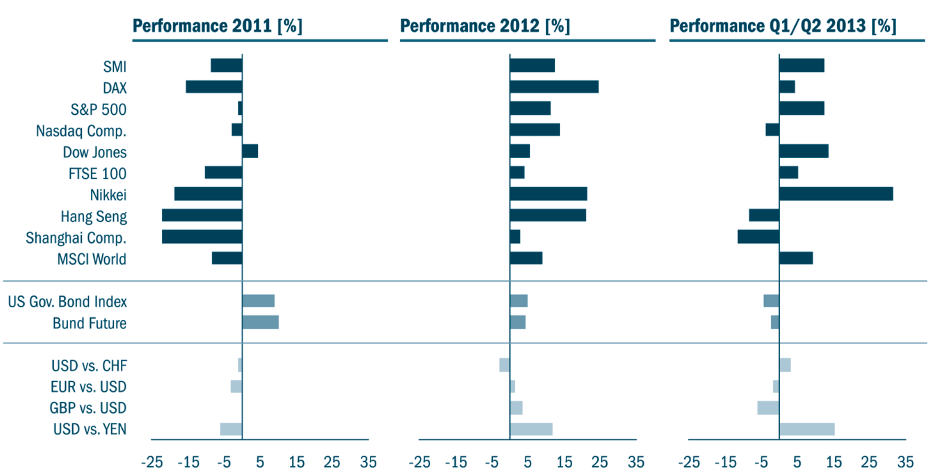
Source: Roland Berger Wealth Management Model

The bankable assets of BRIC states grew by 11.8% within the last year, compared with just 7.5% in Western Europe and 6.8% in North America between 2011 and 2012.

The MSCI World index recovered after the turbulence of the financial crisis, rising by 9.9% in 2012. North American equity markets outgrew the global average and further boosted recovery in the wealth market. **Bond markets** also rose in recent years, mainly fuelled by monetary policy and declining national bank base rates in Europe and North America. This climate of **low interest rates** generated challenges in terms of performance issues and lack of investment opportunities.

Looking into the future, global bankable assets are expected to increase on average by 6.4% annually over the next five years, to a level of more than EUR 39.6 trillion. The differences in growth rate between mature markets and developing markets will continue – indeed, they may even become more pronounced in the near future. The number of households in the lower high net worth individual (HNWI) and affluent segments is expected to rise the most, reaching over 70 million. This will mainly be driven by growth in developing markets.

Figure 3: Performance of different asset classes in 2011, 2012 and Q1/Q2 2013



Source: Thomson Reuters; Roland Berger Strategy Consultants

Overall, we expect to see financial markets in developing countries continue to grow while mature markets recover and stabilize. Markets should enter a calmer phase after the global unrest and volatility induced by the financial crisis and its aftermath. Interest rates are expected to remain low in mature countries at least until 2015, while the opposite trend affects developing countries.

The picture presented by the wealth management market will differ greatly depending on market maturity. In recent years, for example, mature markets such as Western Europe, North America and Japan grew at a moderate rate, whereas Asia-Pacific and Latin America flourished just as in previous years. Wealth also grew in Africa and the Middle East, but was strongly affected by regional political instability. Overall, the evolution of bankable assets was **mainly driven by developing regions – specifically the BRIC states** (Brazil, Russia, India and China).

Western Europe
Western Europe has suffered the most since 2009. Countries such as Greece and Cyprus have teetered on the edge of bankruptcy. Other European economies have experienced the threat of financial instability. The European debt crisis has spread across Europe and the world. Rating agencies have downgraded various European states, adding to the uncertainty and volatility of financial markets.

Bankable assets in Europe have grown to EUR 7.2 trillion in 2012, showing the least growth of all the regions examined. Slow economic recovery is expected, due to lax political decisions and disagreement over where exactly Europe is headed. The volume of wealth in Europe is therefore expected to increase only slightly, at a rate of 2.9% per annum. This will give a total volume of EUR 8.3 trillion in 2017.

Nevertheless, growth opportunities remain. For example, banks have yet to actively enter the core **affluent segment.** Those private banks that have done so lack a specific value proposition. The affluent segment has an estimated market volume of EUR 2.1 trillion in bankable assets, offering untapped growth potential. In terms of size, Germany represents the largest wealth pool in Western Europe (EUR 0.4 trillion), followed by France and the UK. In Germany alone, over one million households qualify as affluent, with most holding the majority of their wealth in bank accounts.

As the wealth market is saturated and shows only limited potential for growth, we predict that Europe as a whole will experience a phase of **low to moderate growth** in the coming few years. At the same time, Eastern European countries will increasingly contribute to the volume of wealth in Europe, shifting the focus of wealth management from West to East. In terms of the European crisis of confidence, we believe that it will be possible to rebuild trust and stability in the markets. This, in combination with efforts to expand into the affluent segment, will drive the European wealth market.

Eastern Europe

Eastern Europe has been growing strongly in recent years and should continue to show promising growth. The region is highly varied. It is worth examining the **different characteristics of its various markets** in detail. We start by identifying the main country clusters and the characteristics of these clusters.

Certain countries offer great potential for wealth managers due to the size of their wealth market and its stage of development. We consider Poland, the Czech Republic and Slovakia to be the most interesting cluster. These three countries are characterized by a relatively **mature wealth market.** They are experiencing moderate growth and they benefit from close ties with the rest of the European Union. The total wealth pool of the cluster was EUR 103 billion in 2012 and is expected to grow by a moderate CAGR of 4.0% to over EUR 120 billion in 2017.

Poland, the Czech Republic and Slovakia have stable political systems. Wealth is allocated in a balanced manner to affluent and HNWIs, many of whom have an **entrepreneurial background.** Furthermore, clients are **inward-looking** and have a strong focus on their own country. Unlike other Eastern European countries, they have limited incentives to book offshore.

In terms of the offering, clients in this cluster have a higher expectation as regards product performance and service. Prerequisite is to offer local language skills and local knowledge.

Figure 4: Wealth market clusters in Eastern Europe

CLUSTERS		INSIGHTS
Cluster 1 – Onshore preference	**Poland** **Czech Republic** **Slovakia**	> Cluster 1 comprises fairly **mature markets** that are attractive due to their high level of stability and sizeable volume – still **experiencing moderate growth** > **Less affinity to offshore** – these markets should be addressed via a local presence or from geographically close regions
Cluster 2 – Offshore preference	**Russia**	> **Largest** and **most attractive single market** – combines high current volume with a solid growth outlook > Relatively **risky environment** that favors **offshore** solutions – clients want to place part of their wealth in secure, stable environments
	Ukraine	> Sizeable market with a **strong growth outlook**, particularly in the UHNWI segment > **Strong concentration of wealth** and **political risk** favors **offshore** solutions

Source: Roland Berger Strategy Consultants

Looking further east within Europe we find a different mentality in terms of client behavior, and different market characteristics. The second promising country cluster in Eastern Europe is Russia and Ukraine. Here, the wealth market is less mature but home to a strong – and growing – wealth pool. The wealth market was worth EUR 245 billion in bankable assets in 2012 and is projected to reach EUR 375 billion in 2017, representing a strong CAGR of 8.9% for the period.

Despite this strong growth, providing wealth management services to these countries involves great uncertainty for foreign players, mainly due to regulatory and other general changes. The cluster is marked by less trust in the political system, and in order to mitigate local risks, many players take an **offshore** approach, accessing clients via intermediaries.

Myth #2: There will be no more offshore banking

Nevertheless, opportunities are attractive due to the increasing number of HNWIs and UHNWIs in this cluster. The volume of wealth makes it a desirable target for institutions offering wealth management services. Clients focus on simple, secure, liquid, short-term products that deliver predictable outcomes. As a result there is less need for trading or structured products, except in the case of UHNWIs. Furthermore, the political system means that clients strongly favor offshore banking, with Switzerland and the UK as the preferred offshore hubs.

As is clear from the above comments, the contrast between Western and Eastern Europe is striking. Crucially, banks must adapt their business models, client offering and value proposition to their target markets in order to achieve lasting success.

North America

North America's economy is improving although state debts remain at a critical level and the US government is under increasing pressure to find solutions. Bankable assets have been increasing by an average of 1.9% since 2010, supported by the strong performance of equity markets in the US. The S&P 500 performed strongly, with a CAGR of 12.2% since 2010.

At the beginning of 2013, fiscal policy measures worth around USD 600 billion – the fiscal cliff – became effective. These measures are expected to slow down the North American economy. Due to the potential tax burden on clients within this region, the wealth market is temporarily limited in the services it can provide. This effect is expected to impact the development of the wealth market if all the planned measures are implemented as scheduled.

At the same time, North America is gradually recovering, with macroeconomic data starting to look more promising and forecasts indicating further economic growth. This would strengthen the wealth management market and soften the impact of the fiscal cliff.

We believe that the US economy will find the path back to growth. Governmental and national bank initiatives will positively impact bankable assets, especially the upper HNWI and UHNWI segments. We therefore expect the North American wealth market to grow faster than other mature markets, reaching EUR 14.4 trillion in 2017 – a CAGR of 5.7%.

Asia-Pacific
The growth engines of the Asia-Pacific region – China and India – continue to grow at above mature market levels and fuel bankable assets in Southeast Asia. More mature markets such as Australia further promote overall growth in the Asian region.

The three main Asian stock indices Hang Seng, Nikkei and Shanghai Composite have shown the weakest performance along major stock indices worldwide since 2010, in spite of a recent recovery. Despite this, the wealth of the region has grown significantly, with a CAGR of 3.3% since 2010, to over EUR 8.0 trillion. Overall the market is expected to continue outpacing the rest of the world (average annual growth rate: 6.4%), reaching EUR 13.6 trillion in 2017 – a CAGR of 10.3% for the period. It will depend on China and India to what extent the financial hubs in Singapore, Hong Kong and Malaysia will be able to make the best use of their geographical locations.

To gain a clearer overall picture, it is worth looking closely at the market mechanics and structures of Asian markets. Overall, despite tremendous growth, margins remain comparatively low. This is because advisory is more popular than discretionary business. Asian clients tend to **actively manage** their wealth and want to be **involved in investment decisions.**

Asian clients also expect **high leverage** for their financing business. Private banks need to be more risk-tolerant and have a strong balance sheet, otherwise they will miss out on potential clients and business. Some Swiss private banks have been very aggressive in this area. However, they are now reducing their financing activities due to the lack of risk appetite and increasing capital requirements. At the same time, Asian clients are becoming more demanding and expect relationship managers to have strong local knowledge.

We divide the Asian wealth market into four clusters: emerging onshore markets (China and India), established onshore markets (Japan, South Korea and Taiwan), feeder markets (Indonesia, Malaysia, Thailand and the Philippines) and Asian hubs or offshore centers (Singapore and Hong Kong).

The **emerging onshore** markets – China and India – are seeing remarkable growth rates, feeding the countries' capital stock. Forecast growth rates of bankable assets are 12.1%, the markets reaching a volume of EUR 8.6 trillion by 2017.

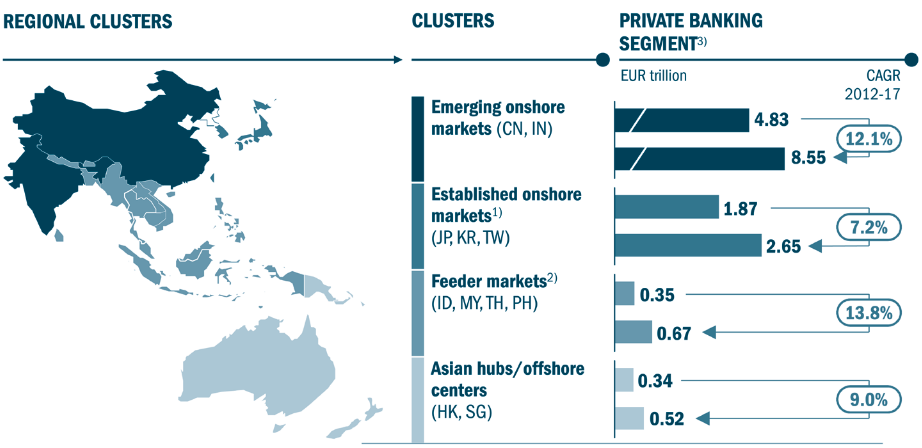
China and India are expected to outperform the other Asian countries, establishing strong domestic competitors in private banking. Within the emerging onshore markets, due to regulatory requirements, the banking system is divided into banking and securities. Swiss wealth managers, with their integrated business models, cannot offer their full service portfolio but have to adapt to local requirements, which remain very strict in China and India. Big local banks are also creating their own private banking divisions, leading to a battle for talent. Competition in the market will increase significantly within the next five years, with small foreign players potentially being crowded out of the wealth management market.

The **established onshore** markets – Japan, South Korea and Taiwan – represent the largest share of private banking revenues. However, the market is difficult to serve for foreign players as the traditional private banking business model needs to be tailored to local regulatory requirements. Nevertheless, it is an attractive cluster, as many clients, especially in South Korea and Taiwan, are increasingly showing interest in private wealth management services. Wealth is regionally bound: Most private wealth clients are inward-looking and prefer onshore banking. This is especially true for Japan, where margins in private banking are very low due to the large amounts that the Japanese hold in cash and deposits.

The **feeder markets** – Indonesia, Malaysia, Thailand and the Philippines – are enjoying the **strongest growth rates** in Asia, with a forecast CAGR of 13.8% for the period to 2017. These markets offer great potential for new clients. The markets are highly diverse, but all are forecast to grow strongly. Malaysia is developing rapidly and, as a result of past strategic actions, is set to become the biggest offshore and onshore hub of Islamic banking in Asia. Indonesia is also a strong growth case. Here, wealth is highly concentrated in wealthy entrepreneurial families and the political elite. Our research shows that wealthy families are increasingly building up their own private banks and family offices and will provide their banking services and local knowledge to others in the future. The result will be increased competition.

The **Asian hubs** or **offshore centers** – Singapore and Hong Kong – attract many banks and investors. This puts downward pressure on margins in the private banking business. As an offshore hub, Hong Kong profits from its proximity to China, both from a client perspective and from the perspective of global political power. Wealthy individuals from mainland China continue to use Hong Kong as a means to diversify their onshore and offshore money, with investments in real estate and IPOs (initial public offerings) being the preferred options. Singapore, on the other hand, profits from its independence and financial prowess. Both hubs will grow in importance as Asian hubs or offshore centers: Wealth is expected to show a CAGR of 9.0% up to 2017, mainly driven by growth in offshore money.

Figure 5: Wealth market clusters in Asia-Pacific



1) Widely differing markets, but all highly developed and requiring onshore approach; Japan often considered separately
2) Markets with developed cross-border business
3) Households with more than EUR 0.5 million bankable assets

Source: Thomson Reuters; Roland Berger Strategy Consultants

The Asian wealth market is characterized by many different on- and offshore clusters. However, the majority of those markets are too small in size to justify a dedicated business model. The challenge for international wealth managers is to adapt their business model in a way that it can be operated effectively and efficiently in those markets. They must make sure that their value proposition is in line with developing trends and communicate it effectively. Local knowledge, language skills, customized service and the product offering are key success factors. A strong balance sheet and network are also desirable. The market will remain attractive in the coming years, but increasingly wealth managers will have to deal with local competitors, pressure on margins and the burden of regulation.

Middle East and Africa
The Middle East currently represents EUR 0.8 trillion in bankable assets and will grow to EUR 1.0 trillion in 2017, a CAGR of 3.9%. The region has seen a shift from wealth funded purely by gas and oil to globally invested wealth. Upper segments hold a high proportion of their wealth offshore – for instance in Malaysia, the biggest offshore Islamic banking hub in Asia. However, this may change in the medium term as Middle Eastern banks improve their offering.

We believe that banks conforming most closely to the ethical standards of the region will do best. This means hiring a workforce with strong ties to the Islamic world and adapting certain business processes to reflect the local culture.

Africa is expected to experience positive growth, despite the major changes taking place in the North East of the continent. South Africa continues to be a growth driver and Northwest Africa remains steady: Approximately three-quarters of the wealthiest families in Africa reside in these two regions. Central Africa (Congo, Angola, Nigeria), mainly governed by totalitarian regimes, contributes to the continent's wealth through its valuable raw materials. Although political disruption may worsen the wealth situation temporarily, improvements will be seen in the long term. We believe that the market size for bankable assets, taking into account future foreign investment and possible progress with regard to the situation in Tunisia and Libya, will grow to EUR 0.7 trillion in 2017, a CAGR of 3.7%.

In North Africa, the politically heated atmosphere may cool down in the coming years and create a solid basis for future growth of wealth. Oil and gas may bring wealth to a broader segment of society in Libya, for example. Similar developments are possible in other countries in the region.

Given the differing market mechanics, private banks need to **focus on the most appropriate regions.** Certain criteria must be met for banks to achieve lasting success in new markets. Crucially, banks must ensure a good cultural fit and the correct value proposition for clients – factors that are often neglected at present. In addition they must consider clients' perceptions of risk, which often have deep historical roots, and their willingness to accept a certain level of uncertainty. Other factors include demographic change and political developments.

Deep Dive: Regulatory changes in the wealth management sector

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Since the financial crisis the financial sector has been hit by a veritable tsunami of new laws and regulations across the globe. There have been significant developments, especially in the areas of tax enforcement and investor protection, with the wealth management sector being particularly impacted. Not only do these developments have a direct effect on institutions' value chains, but also on the location advantages of entire jurisdictions. The following sections highlight major developments in these areas and outline some of their potential impacts on the wealth management sector.

FATCA

On 18 March 2010, the USA signed the Foreign Account Tax Compliance Act ("FATCA") into law, and issued the final regulations on 17 January 2013. FATCA aims at enhancing and enforcing the offshore tax compliance of US citizens worldwide. Under its provisions, foreign financial institutions ("FFIs") are requested to enter into an agreement with the IRS. The term financial institution is defined very broadly to encompass banks, brokers, custodians, investment funds, insurance companies and asset managers. By signing the agreement, the FFI commits to identify US financial accounts (i.e. accounts owned directly or indirectly by US persons - indirectly meaning that a US person is a substantial shareholder or beneficiary of an entity, trust or other legal arrangement) and regularly report on them to the IRS. Such a report is to list the identities of these US persons and, based on a phased-in approach, all the income streams and sales proceeds incurred on their assets. In cases where an account holder cannot be identified properly ("recalcitrant account holder"), the FFI is required to levy 30% withholding tax on the account holder's US source income (essentially interest and dividends) and sales proceeds emanating from the sale of US assets and pass those funds on to the IRS. If the financial institution opts not to sign the agreement, it will become a so-called "non-participating FFI". All other participating FFIs and US withholding agents will be required to levy 30% withholding tax on the non-participating FFI's US source payments and sales proceeds stemming from its own as well as from its clients' assets. Due to the substantial costs associated with setting up such withholding functionalities, there is an imminent risk that financial institutions might consider ceasing to do business with non-participating FFIs.

As compliance with FATCA may cause a conflict with local laws, various jurisdictions have approached the USA to conclude Intergovernmental Agreements ("IGA"). Such agreements may allow a certain relief, e.g. on the general withholding requirement regarding recalcitrant account holders. However, by no means do these IGAs relieve the financial institution of its obligation to perform client due diligence and to report on its US clients. The IRS is currently said to be negotiating such agreements with more than 60 countries, with a sizeable number expected to be signed by the end of this year.

The registration process for FFIs and their group companies has been announced to start by mid-August 2013 at the latest, and the IRS plans to publish a first list of participating financial institutions by December 2013. The number of financial institutions seeking registration with the IRS is believed to run in the hundreds of thousands.

Further developments aiming at enhanced tax transparency (OECD/EU/G20/FATF)
The globalization of the financial markets has rendered international cooperation in tax matters, including the exchange of information, a critical factor in the enforcement of countries' tax laws. Therefore, the OECD member states and other financial centers have agreed to apply art. 26 of the OECD Model Tax Convention as the minimum standard for bilateral information exchange in tax matters upon request (since mid-2012, this standard has also included group requests). More than half of the approximately 8,600 double taxation treaties in force worldwide contain such a clause on information exchange.

The vast majority of Member States in the EU follow the system of automatic information exchange within the scope of the EU Savings Directive. Luxembourg and Austria, which had reserved the right to operate an alternative withholding system, have recently officially stated their intention to move to a reporting-only system. The automatic exchange of information is being promoted as standard not only within the EU, but also on an international level. The G20 welcome the "progress made towards automatic exchange of information which is expected to be the standard" and urge all jurisdictions "to move towards exchanging information automatically with their treaty partners, as appropriate".

The Financial Action Task Force published the revised FATF
Recommendations in 2012 included that its members implement measures preventing the abuse of legal persons/structures (e.g. in connection with bearer shares and nominee shareholders) and designate serious tax crimes as predicate offences for money laundering. This brings literally all sorts of tax fraud within the realm of authorities that investigate money laundering whose methods can be generally far more pervasive and intrusive than those adopted by the authorities investigating ordinary tax offences.

In addition, several countries, one of which is Switzerland, which is planning to require financial intermediaries to assess their clients' tax compliance, are taking further measures to prevent the abuse of their financial markets as tax shelters.

MiFID II
The revised Markets in Financial Instruments Directive (MiFID II) will continue to be the cornerstone of European financial market regulation. Its final text is expected to be published in Q4 2013 and to enter into force on Member State level in Q4 2015. MiFID II aims at strengthening the financial system and raising the level of investor protection by introducing tougher organizational requirements for investment firms, enhancing code of conduct obligations towards clients and expanding regulation and transparency across all types of trading venue and asset class.

MIFID II will also contain a harmonized third-country-firm access regime, which currently foresees that such firms would have to open a branch if they intended to actively serve clients in an EEA Member State. This will severely impact the current cross-border service models into Europe of many third-country firms. The enhanced code of conduct rules will have a particular impact on wealth managers. Measures foreseen include increased disclosure and reporting standards with regard to costs and charges for services and products, as well as the requirement to provide clients with ex-post evidence of investment suitability and best execution. It is proposed that firms providing portfolio management services or so-called independent investment advice should no longer be able to accept and retain inducements from third-party-product providers. There will also be tougher requirements on the handling of conflicts of interest and employee remuneration, the latter of which may no longer be primarily based on sales targets. These rules will drive up operational complexity and costs for wealth managers while limiting revenues from product distribution and further accelerating the trend towards consolidation amongst market participants.

Summary

The above-mentioned current international developments will lead to a certain alignment of regulations and therefore may give firms with an international set-up the possibility of streamlining certain processes across jurisdictions. However, this effect is limited as international standards and EU directives leave the Member States some discretion with regard to their implementation into national law. At the same time, the new requirements will likely result in an increase in compliance and operational costs while limiting revenues from some traditional pillars of prosperity in the wealth management sector.

The change of paradigm in terms of tax compliance taking place in several jurisdictions will not only affect the eligibility of client assets but as well directly impact services and products (e.g. the need to consider tax efficiency of products with regard to the client's domicile, the need to furnish more narrative tax reporting and generally, an increased focus on after-tax returns rather than on pure financial performance). Clients also need to be aware that the numerous initiatives will drastically increase tax transparency, and more granular information on individual clients or groups of clients will be subject to more liberal exchange between tax authorities in future. This applies to both direct clients and indirect clients using opaque structures, corporate vehicles or legal arrangements.

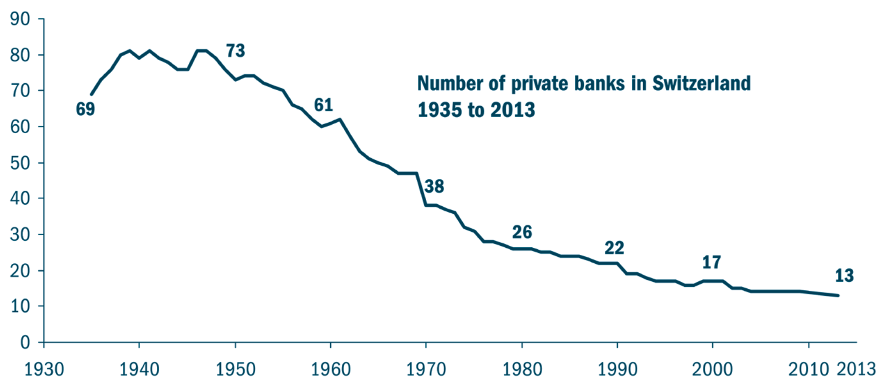
Financial institutions will be required to analyze their value chains and adopt a clear strategic positioning with regard to their product and service offerings (incl. pricing), revenue channels, target clients and counterparties. Especially given the current environment of low investment returns, financial institutions will need a clear value proposition to gain their clients' acceptance of the increase in service fees that is likely to be necessary. Excellence of service delivery, quality and breadth of product-range, not to mention the ability to offer (and price) new and innovative services, will be key to being a successful player in this new environment.

Market consolidation

Myth #3: Growth only through M&A

Over the last three years, the private banking industry has been characterized by slow but constant market consolidation (e.g. the recent takeover of Sarasin by Bank J. Safra or Julius Baer acquiring the international wealth management business of BofA/Merill Lynch). Several remarkable deals took place, but these too were in line with the long-term average for M&A deals in the market.

Figure 6: Consolidation in the Swiss private banking industry

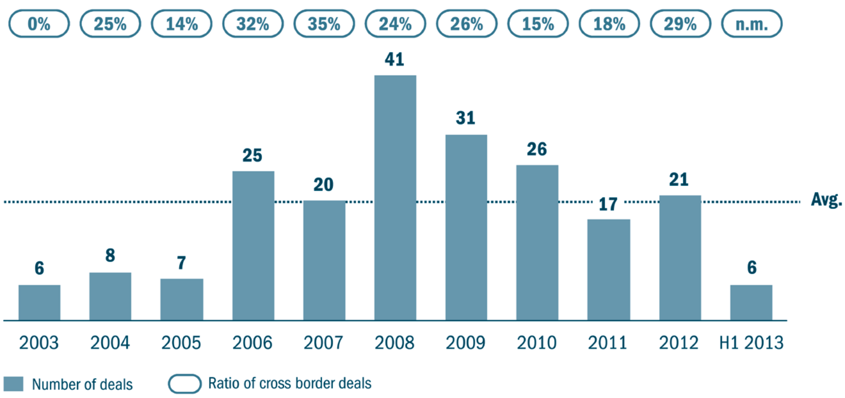


Source: SNB; Roland Berger Strategy Consultants

Recent transactions have mainly been triggered by the sell side. The most common motives have been financial distress, state aid directives and legal conflicts. It is often thought that structural changes such as these should lead to increased market consolidation. However, the **contrary is true.** What in fact happened is that the number of deals remained relatively stable over the past years. Even more surprising is that this is the case although the industry is still very fragmented – a sign that this is not a mature industry.

The question arises of how buyers and sellers will react to the current M&A environment. Will vendors sell at historically low multiples and lose their alleged source of cheap funding and steady cash flows? Or will buyers take the risk of acquiring undeclared assets and the risk that these might vanish over time – as a result of tax constraints or client uncertainty prompted by the change of ownership?

Figure 7: Number of deals in the private banking industry in Europe



Source: SNB; Roland Berger Strategy Consultants

Targets remain in the market, but most are of limited interest – either the volume of their AuM (assets under management) is too small, or their AuM carry a high risk of uncertainty. We currently see more buyers than sellers on the market, with some prominent names remaining on the buy side.

Legacy issues drive the complexity of deals, which leads to high costs and great uncertainty. As a result, **innovative forms** of takeover are growing in importance (e.g. the transfer of books with a revenue kick-back over 3 years). For example, to reduce uncertainty and complexity for the buy side, teams are changing banks or client accounts being transferred. Team transfers are particularly common where there is a good cultural fit. Strategic partnerships are also gaining in popularity in the current market environment.

In light of the above, **we do not expect to see an elevated deal flow** – although potential buyers will continue to seek appropriate takeover candidates. We base this assumption on the general downward trend in the multiplier level, making sell-offs rather unattractive. It is also clear that private banking divisions continue to provide an important source of earnings and cheap funding for their parent companies.

In the long run however, we would like to take a different view on market consolidation which is structured along the value chain. We expect a certain **consolidation of mid-office and back-office activities** across providers triggered through increased pressure on costs.

On the **front office we do not expect a significant consolidation** as clients will continue to ask for different value propositions, e.g. the small local private bank and the global bank with multiple booking centers.

Furthermore, we do not expect to see a strong displacement effect. Small private banks are still well positioned to compete with international banks, provided that they align their business models with client needs. Small banks are likely to distinguish themselves from their competitors by means of their value proposition – a phenomenon that we already see taking place.

Revisiting myths about the market

Myth #1: You need to play in all growth regions and wealth management segments to ensure lasting profitable growth

Wealth management markets – even those within the same geographical regions – are highly diverse. Market entrants must understand and analyze regional clusters with similar market structures and mechanics to be successful in leveraging their business model. Private banks need to offer a suitable value proposition and an appropriate business model for different clusters in specific regions.

Myth #2: There will be no more offshore banking

Demand for non-tax-compliant offshore banking is slowly drying up. At first glance, the barriers to offshore activities appear to have grown higher. But the need for offshore banking remains even in a tax-compliant world, due to the high service level offered by financial hubs, political instability in the home country and clients asking to diversify across locations.

Myth #3: Growth only through M&A

Despite low multiples, the environment for M&A activities remains challenging due to a lack of suitable targets in the private banking landscape and ongoing regulatory obstacles. The complexity of integrating business reduces the attractiveness of targets, as do legacy issues. Innovative transfers and partnerships continue to grow in importance and will allow for growth without the complexity and uncertainty associated with M&A transactions.

What has changed so far?

> **Mature wealth markets** are back on a growth path, driven by the fiscal policy of reserve banks and the development of financial markets. In Western Europe the affluent segment is an interesting segment for future growth as players currently lack targeted value propositions for these clients.

> Growth of bankable assets is mainly driven by **developing countries** and the BRIC states (Brazil, Russia, India, China). We identify four different clusters: emerging onshore markets, established onshore markets, feeder markets, and Asian hubs or offshore centers. Each cluster requires its own value proposition and business model.

> Structural changes in the market, accompanied by increasing pressure from stakeholders, are triggering **regulatory action.** Key areas of change are FATCA, the OECD/EU/FATF and MiFID II.

> We are not seeing increased **market consolidation,** despite the fact that the wealth management market is not a mature industry and one might expect that structural changes should lead to greater consolidation.

What lies around the corner?

> Players will continue to **expand into growth regions** such as Asia. However, they need a proper understanding of the market mechanics and potential macroeconomic, social and cultural **risks,** followed up with appropriate action.

> Given the differing market mechanics, private banks need to **focus on selected regions** and not follow a one-business-model-fits-all approach.

> **Regulation** should be seen not as a requirement but as an **opportunity.** Aligning pricing, advisory processes and so on is a challenge that needs to be tackled from a strategic point of view, putting the client back at the heart of all activities.

> Market structures are changing, hence private banks need to understand their own positioning and value profile properly in order to benefit from the current uncertainty in the competitive landscape. Integrating teams with a similar value profile is a promising approach that opens up new opportunities.

Clients: Needs and preferences are becoming more diverse

Introduction

For the wealth manager to function with minimum interference and maximum stability, knowing the client base is key. At the same time, clients need to understand what their wealth manager is doing and they need to buy in to the investment thesis. If this happens, they are more likely to be patient during periods of higher volatility.

The problem is that there is **no such thing as a typical client.** Clients differ in terms of their demand and expectations, and hence their preferences regarding wealth management services.

We identify **seven megatrends** that are shaping client behavior and needs. These megatrends are bringing about changes along two dimensions: first, the client relationship with the wealth managers; and second, client needs with respect to wealth solutions. We believe that these drivers will bring about a clear shift over the next five to ten years.

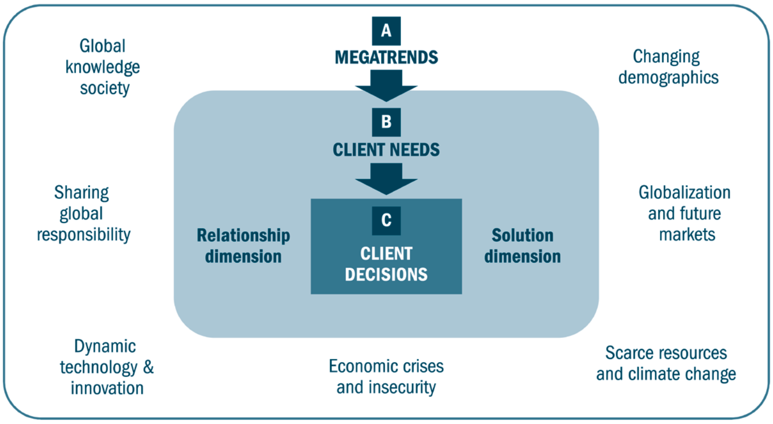
A shift in clients' needs will also result in changes in clients' decision-making behavior. This change will affect all types of clients, one way or another. We expect to see **even further diversification of client profiles** in the future.

The changes in client needs are **not limited to a specific wealth band** either. Thus, we are seeing growing client expectations regarding risk, product breadth and interaction methods in the private wealth management sector, particularly the affluent and HNWI bands.

Key drivers of changes in client needs

Seven megatrends – global macroeconomic and socio-demographic trends – are shaping client behavior and needs. These megatrends will bring about a shift in client needs within the next five to ten years. They will also have an impact on clients' future decision-making behavior with regard to wealth management services.

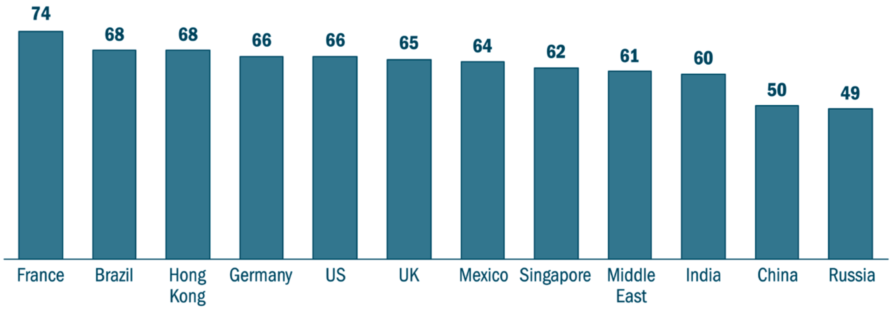
Figure 8: From megatrends to client decisions



Source: Trend Compendium 2030; Roland Berger Strategy Consultants

Megatrend 1: Changing demographics. The world's **population is growing steadily** and urbanization is increasing. According to the United Nations, the global population is expected to reach around eight billion people in 2050. Of these, approximately five billion will be under the age of 59. Older generations currently own a significant share of private banking assets and will continue to do so. However, the emergence of "Entrepreneur 2.0" and the **growing base of younger clients** will pose challenges to the wealth management industry. Wealthy clients are on average younger in emerging markets than in developed countries. Strong GDP growth in emerging markets will result in strong growth of wealth in these markets and therefore an increasing share of young, wealthy clients worldwide. These clients have different needs and expectations than older clients. Banks will have to cater to these needs in the long term.

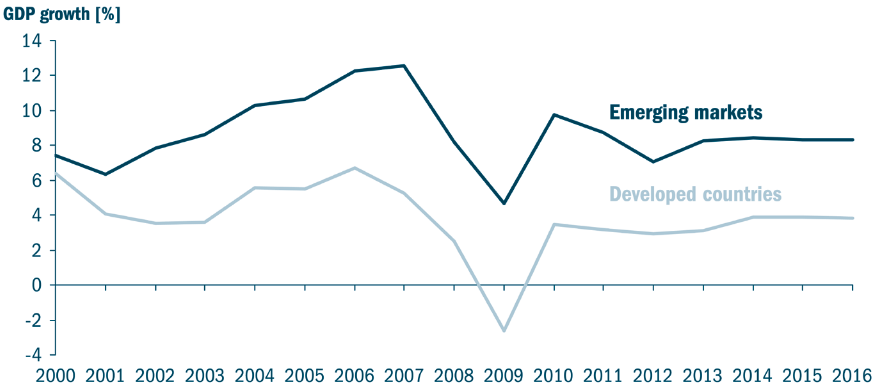
Figure 9: Average age of UHNWIs by country



Source: Forbes 2011, "Mapping UHNWI Around the Globe"

Megatrend 2: Globalization and future markets. Emerging market economies will be the dominant drivers of world growth. They will give rise to a considerable amount of new investment opportunities, playing a key role for wealthy clients in the future. **GDP growth in emerging markets will be significantly stronger than in developed markets.**

Figure 10: GDP growth in emerging markets vs. developed countries, 2000-2016 (forecast)



Source: Economist Intelligence Unit

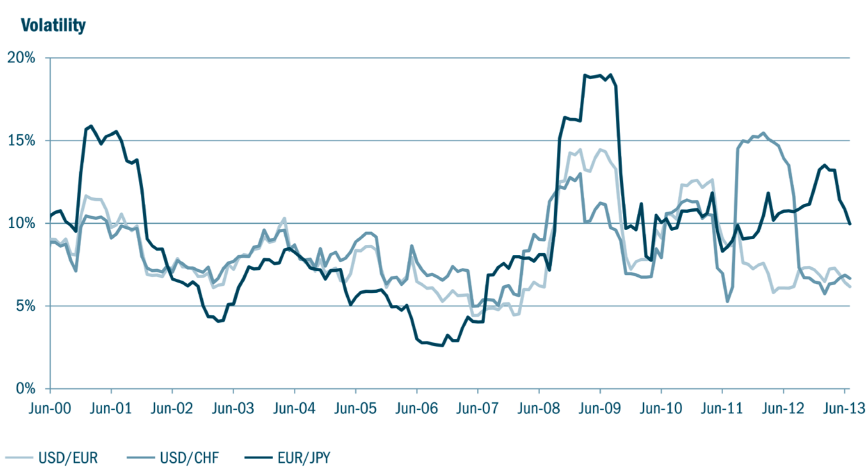
We estimate that bankable assets for the wealth management segment in emerging markets (including South America, the Asia-Pacific region, Africa and the Middle East) rose by approximately 4% per annum from 2010 until 2012. They are expected to rise by a further 9% per annum until 2017, creating a total of EUR 17 trillion in bankable assets in those regions in 2017. We identify **Malaysia** as high-volume "super-country" that may expand at above-average rates in the future, alongside the BRIC states and the Next 11. We expect the bankable assets of these super-countries to grow by approximately 10% annually. This will further underline the importance of emerging markets and their significance for wealth management in the future.

Megatrend 3: Scarce resources and climate change. Global awareness is growing for environmental issues – increasing emissions, global warming, ecosystems at risk – and issues such as the exploitation of workforces, especially in developing countries. Wealth managers must rethink their product offering and how they deal with clients for whom these issues are important.

According to Roland Berger research, green finance assets are very popular with HNWIs. Thus, in 2012, a quarter of HNWIs' portfolios consisted of more than 50% **green finance assets.** Clearly, more and more HNWIs are focusing on sustainable investment – a trend that will grow in the future.

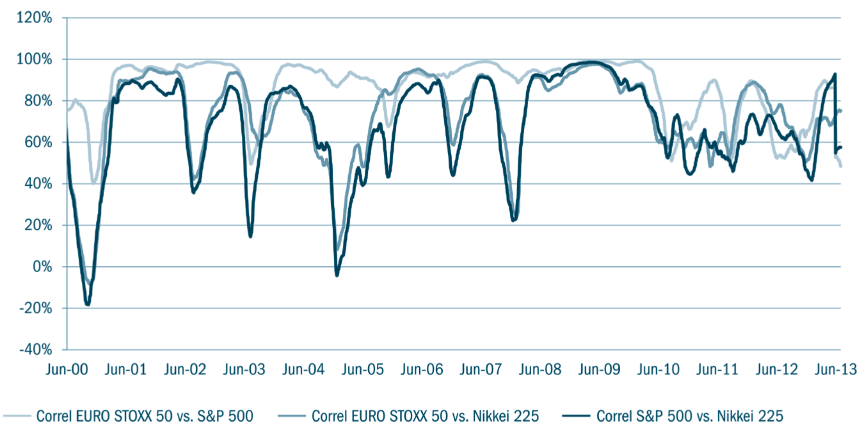
Megatrend 4: Economic crises and insecurity. Client uncertainty and confusion has increased as a result of the **economic crisis.** Mistrust in the financial markets and their representatives is widespread. Economic uncertainty can be viewed as the reason for much of today's **stock-market volatility.** This volatility creates a desire for safety and increased client interest in conservative products. As the effects of the financial crisis continue, so will their impact on investors' choices – the fear that deposit guarantees in Europe may be lost being a good example of this. Daily foreign currency exchange rate volatility, which is an indicator of general market volatility, increased significantly in the aftermath of the financial crisis in 2008. At the same time, Asian, European and US markets measured on the basis of stock indices have become more closely correlated over time. As a result, portfolio diversification has become more difficult for investors and uncertainty about appropriate portfolio strategies persists.

Figure 11: Foreign exchange rate volatility



Source: Bloomberg; Roland Berger Strategy Consultants

Figure 12: Market correlation



Source: Bloomberg; Roland Berger Strategy Consultants

Megatrend 5: Dynamic technology and innovation. Technological advance and innovation improve access to information. Increased networking and global connectedness mean that clients are better informed about different products and offerings. According to the International Telecommunication Union (ITU), mobile phone subscriptions tripled between 2005 and 2012, reaching a total of around 6.4 billion. Statista, the German online statistics site, states that worldwide sales of smartphones have quadrupled since 2007. **More and more people are getting connected and are sharing information on the go.** This goes hand-in-hand with increasing expectations regarding information and support, anywhere and anytime.

Megatrend 6: Sharing global responsibility. There is an increasing shift toward global cooperation, and NGOs are growing stronger. Globally operating companies are increasingly required to be socially responsible, but social acceptance of business activities cannot be achieved without communicating with clients openly and honestly. Businesses can benefit considerably from an NGO's know-how, especially in the fields of transparency, sustainable management and innovation exchange.

Megatrend 7: Global knowledge society. The growing global knowledge society is forcing many companies to rethink how they organize knowledge. For example, the importance of online knowledge networks on the Internet has increased significantly in recent years. This will also have an effect on clients as they can gain knowledge more easily and therefore will increasingly be able to challenge their wealth managers. Thus, skilled employees will have to be added to talent pools in the future.

These seven megatrends will ultimately be reflected in a shift in the needs of private wealth management clients. Ultimately, it is clients' needs that determine what they expect from their wealth managers: their abstract needs translate into concrete demands regarding private wealth management services.

The changes in client needs are occurring along two dimensions:

> The **relationship dimension** – the interpersonal relationship between agent and client as expressed in contacts with the relationship manager, communication, trust etc.

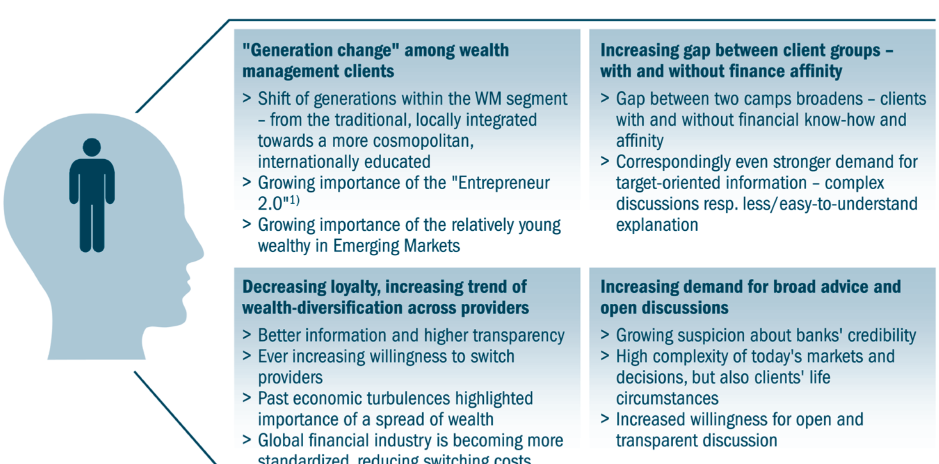
> The **solution dimension** – issues relating to solutions for the client's financial issues such as products, advice, product performance etc.

For clients to follow their wealth manager's advice, their needs must be met along both dimensions. Below, we discuss the two dimensions in more detail and suggest how we think the shift in client needs will impact the practice of private wealth management in the future.

The relationship dimension

The loyalty of clients towards their banks and their relationship manager will be one of the major challenges of the years to come. In the past we have seen that only long-term, stable relationships survive periods of crisis and bring success for the wealth manager. We expect this to be the case in the future, too. Our reasoning is based on the following four assumptions:

Figure 13: Changing client needs – The relationship dimension



1) "New type" of entrepreneur – More agile, internet-driven and dynamic than a traditional businessman; uses the internet not only for information but for two-way communication

Source: Roland Berger Strategy Consultants

1. Clients will become younger as assets shift from older to younger generations and become paperless

Changing demographics and technological innovation means that private wealth managers will be dealing much more often with **entrepreneurs 2.0** in the future. These are a new type of entrepreneur, much more agile, Internet-driven and dynamic than the traditional business person. They use the Internet, digital media and digital communication such as video conferences not only for one-way information but for bilateral communication. Wealth managers will need to adapt their offering and advisory accordingly, taking into account the different requirements of these fast-growing client segments. The required **digital innovation** will become a **must have** and a tool in order to increase efficiency of the relationship manager.

Myth #4: Digital innovation (online portals, mobile apps, social media) is the key future success factor of wealth management

Flexibility and the ability to deliver individual solutions will be a key challenge for wealth management in the coming years. Moreover, for entrepreneurs and younger wealthy clients, the relationship with their wealth manager will remain very important. Despite their familiarity with the Internet and digital media, this client group will rely heavily on their wealth manager's skills. Contrary to popular wisdom this young generation might actually lean more towards traditional "gray-hair" wealth managers than a young peer.

The relatively young, wealthy generation in emerging markets will gain increasing importance in the global wealth management landscape. Their needs are driven by local circumstances combined with the demand for international investments. Wealth managers have to increase their offering along the relationship dimension to fully meet the demands of their changing client base. For Western Wealth managers it will be crucial to be present on the relevant local channels and networks in Asian and South American markets where facebook has not become the dominant social network.

2. The gap between client groups with financial skills and those without will expand

As mentioned above, knowledge is becoming more and more easily available. At the same time, information overflow is increasingly likely for individuals. The gap between clients with financial skills – including experience in financial management, basic financial affinity and general financial expertise – and those without such skills is likely to grow in the coming years.

Myth #5: As their financial skills increase, clients become more critical

These factors will not only influence the amount of advice the wealth manager gives, but also determine the entire investment strategy. Successful wealth managers know their clients, are better at working out what they really want and so are able to boost overall customer satisfaction.

Understanding customers – their individual level of knowledge and their financial affinity – will be even more important for building a successful long-term relationship in the future.

3. Clients will further diversify their wealth across providers and loyalty will wane

The cost of communication has dropped dramatically and clients are becoming better connected and informed. Naturally, this will lead to greater transparency regarding the offering. Furthermore, turbulence in the global economy in recent years has highlighted the importance of spreading one's wealth not only across different segments and industries but across different managers. Thus, there is a need to fulfill a broader range of investment targets.

The global financial industry is becoming more standardized and connected, greatly reducing switching costs and lowering the level of anxiety experienced by clients. Clients are more and more looking for expertise; purely relationship-based investments are on the wane. As a result of these various factors, wealthy clients increasingly tend to have a broad, diversified portfolio held across different providers.

4. Wealth managers will see increasing demand for broad advice (both financial and non-financial) and open discussions

The traditional private banking client shows no signs of disappearing. These clients are usually characterized by an aversion to financial terms and a lack of interest in investment decisions. They require the advice of a wealth manager who understands their needs and manages their investments on their behalf.

However, for many clients the suspicion remains that banks offer only those products that generate profit for them. This creates a challenge for wealth management. Clients increasingly value credibility, and trust is becoming a key argument for choosing a wealth manager.

It will therefore be essential for wealth managers to provide broad, transparent advice on financial products in the future. Demand for non-financial advice will also grow, as clients' banking decisions are increasingly connected to their personal life situation. Clients are increasingly expecting wealth managers to act as a partner in an open discussion about financial products and about their personal circumstances.

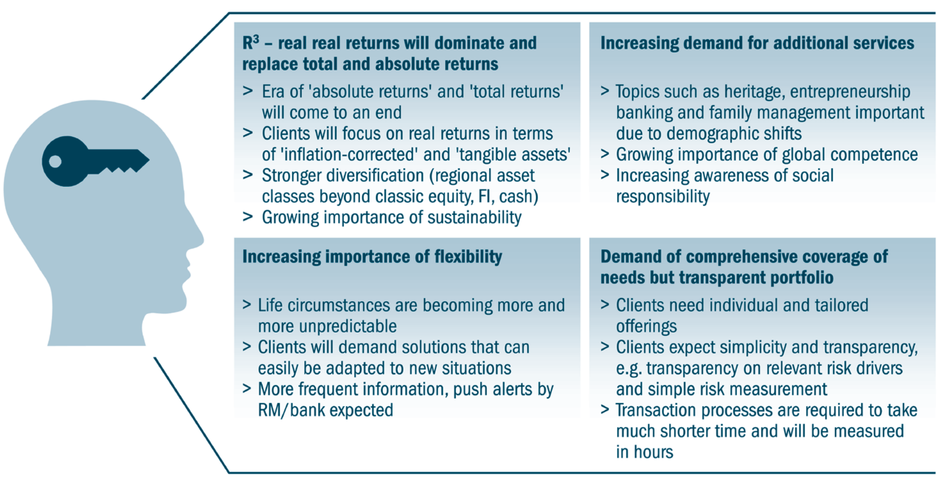
These four assumptions will shape the shift in individual client behavior and influence wealth managers' future relationships with clients. Successful relationship managers do not need to master all these dimensions – rather they must understand what kind of relationship tomorrow's wealthy people expect.

The solution dimension

The megatrends discussed further above will ultimately cause a shift in client needs with regard to solutions. The world is becoming more complex, and clients are increasingly asking for simple and transparent financial products tailored to their needs. Banks, on the other hands, are responsible for providing clients with diversified products offering foreseeable returns and effective micro- and macro-risk management.

Clients expect products that are understandable and at the same time adapted to their life situation. This includes financial advice as well as additional services. Our reasoning with regard to the solution dimension is based on four assumptions:

Figure 14: Changing client needs – The solution dimension



Source: Roland Berger Strategy Consultants

1. The era of absolute and total returns will end – In the future, clients will focus on R³: real real returns

Based on a Roland Berger survey of more than 35 experts from leading wealth management banks and institutions worldwide, we identify a new trend toward what we call R^3 or "real real returns". R^3 means providing a real return after inflation and tax, and in addition being "safe" in terms of real assets – in light of discussions about the future of the euro, for example.

Myth #6: Value for money is becoming more important

R^3 therefore means:
> "Real" in the sense of "after inflation and taxes", plus
> "Real" in the sense of "resulting from an investment in tangible assets"

Providing not just nominal but real returns after taxes and inflation is becoming key to future investment opportunities. Furthermore, as the danger of global inflation increases due to quantitative easing by leading national banks, clients are progressively searching for real investments in real assets.

Private placements investments, investments in tangible assets and in small and medium-sized enterprises (SMEs) are becoming more and more common. Such investments were rare in the past as they are generally larger than typical equity investments and are usually handled outside common portfolio investments. Banks need to adapt their price strategy accordingly.

Clients are also placing increasing importance on investments complying with basic ideas about sustainability and to some extent environmental friendliness. Furthermore, we observe a stronger diversification within individuals' portfolios.

2. Clients will increasingly demand additional services

On issues such as inheritance, entrepreneurship banking and family offices – areas that require specific expertise – clients will increasingly need their bank or wealth managers to act as a sparring partner and advisor. In addition, wealth managers will be required to distribute individuals' money not only across different regions but also across different asset classes. Growth in emerging markets and pressure on established "safe havens" will further drive this trend. Although we believe that most clients will keep their home country as a base, assets will increasingly be spread out internationally. Again, this calls for specific competencies on matters such as taxation. Smaller and regional private banks will find meeting these demands particularly challenging.

3. Clients will require more and more flexibility

Clients are aware of the fact that their life circumstances are becoming more and more unpredictable. Globalization has brought a high degree of freedom but also uncertainty. Therefore, clients will demand a product offering with high flexibility that can be adapted to their changing situation.

Banks and wealth managers are facing the same issues of unpredictability. Not only must they provide the required flexibility to their clients, they also need to enhance their investment and portfolio management processes with regard to reaction times. Investment processes that in the past needed five days to complete will be too long – reaction times will be measured in hours in the future.

4. Clients will demand comprehensive coverage of their needs and a transparent product portfolio

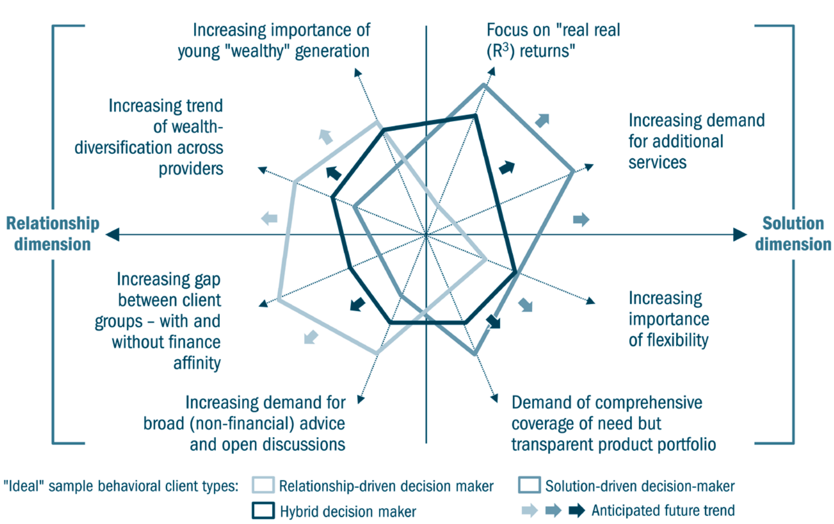
Clients' need for stability and distrust of off-the-shelf advice is changing their perception of transparency about performance, risk and costs. In the future, they will expect to understand their wealth manager's product portfolio. Assuming that their level of financial knowledge remains the same, more transparent products will be needed. Clients will also require individual solutions, and will want to see how their portfolio is interlinked with the global economy. Wealth managers will have to draw on advanced scenario planning and presentation tools to show clients the potential impact of events in the global economy – the collapse of the eurozone, say – on their individual portfolio.

These four assumptions will shape the shift in client needs with regard to solutions. Ultimately, it will lead to a further widening of the gap between client needs and non-tailored bank products. Wealth managers need to be aware of the fact that, in the future, their clients will expect not just wealth preservation but products that provide real returns tailored to their individual needs.

Impact of the shift in client needs on decision-making behavior

This shift in client needs along the relationship and solution dimensions will also translate into a shift in client decision-making behavior with regard to wealth management services. To illustrate this, we distinguish three idealized client-behavior types: relationship-driven clients, who mainly consider aspects of the relationship in their decisions; solution-driven clients, who mainly focus on solutions/competence; and hybrid clients, who take a balanced approach to decisions.

Figure 15: Impact of the shift in client needs on decision-making behavior



Source: Roland Berger Strategy Consultants

1. Relationship-driven clients

Relationship-driven clients rely on trust-based relationships with their banks. They demand loyalty, trust and credibility. They value personal interaction with their advisors and multi-channel integration. Multi-generational coverage may also be an important decision factor for them. A high level of flexibility and R^3 (real real returns) or additional services may be less important for these clients. Instead, they look for target-oriented information and **comprehensive advice,** plus **open discussions** with their relationship managers.

In the future, we believe that relationship-driven clients will place even more emphasis on the importance of good relationships. In times of "generation change", multi-generational coverage may become even more important for them. The gap in knowledge between clients is increasing, and wealth managers must take this into account when dealing with relationship-driven clients, offering them full coverage. In light of the various crises that have occurred, these clients may be even more hesitant to trust providers than in the past. For wealth managers, re-establishing loyalty is therefore a must. This can be achieved by investing time in discussions with these clients and providing them with non-financial advice.

2. Solution-driven clients

Solution-driven clients are not as strongly focused on their relationship with their wealth managers. Instead, they require a **wide product range** and proprietary information, supplied through various channels, so that they can remain flexible and make **autonomous decisions.** They want their wealth managers to offer expertise in specific areas such as international wealth management, real estate assets and taxation. They are looking for alpha generation from their investments. Their focus is on products, flexibility and additional services.

In the future, solution-driven clients will show even greater product affinity. R^3 is a concept that will fit into their way of thinking. New topics such as the international rollout of assets will strengthen their focus on **additional services.** Depending on their lifestyle, flexibility of investments may be a crucial factor for them. They may have had bad experiences in the past with off-the-shelf advice, or during the crises. In the future, they will focus even more strongly on having a comprehensive, transparent product portfolio.

3. Hybrid clients

Hybrid clients focus on both solutions and relationships. They require a sparring partner, comprehensive information and various additional services. They may also be interested in flexible ways to interact with their wealth manager – in other words, multi-channel banking.

In the future, hybrid clients will become more extreme in their needs. This will affect both aspects of their focus: the relationship dimensions and the solution dimension. These three client types are idealized, of course. But they help us identify patterns of client behavior with regard to decision-making. Ideally, wealth managers should translate these patterns into different approaches to their clients – in other words, use them as the basis for a segmentation strategy.

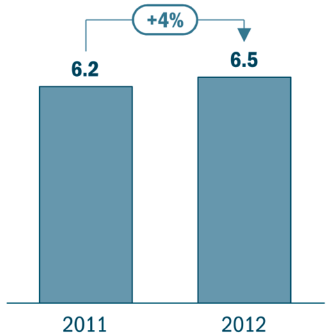
In reality, most banks still segment their customers by wealth band into affluent, HNWI and UHNWI, and family office clients. As we have seen, however, wealth is not the only criterion determining clients' decision-making behavior. Consequently, **players focusing purely on wealth bands are not able to offer their customers a value proposition that matches clients' type of decision-making behavior.** In the affluent segment, for example, concentrating purely on the assets under management and positioning the offering "somewhere between retail banking and wealth management" will not answer affluent customers' needs and so cannot tap this segment's full potential.

Break-out: The affluent segment

We believe that the affluent segment offers major opportunities for the wealth management industry. With EUR 6.5 trillion in bankable assets worldwide, the segment has sizeable potential: assuming just a 100 base-point margin, roughly EUR 650 billion.

Figure 16: The affluent segment

BANKABLE ASSETS OF AFFLUENT CLIENTS WORLDWIDE [EUR trillion]

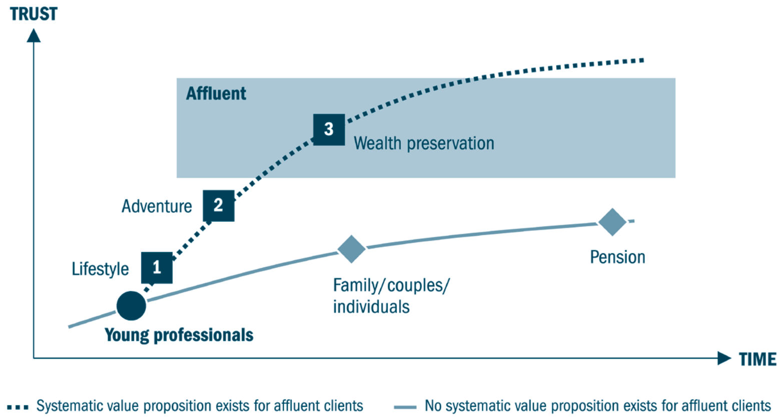


Source: Roland Berger Wealth Management Model

However, most wealth managers still believe affluent banking to be something akin to either "upscale retail" or "wealth management for the mass market." As a result, they fail to provide a solid value proposition for affluent clients. Typical products and services include priority services for everyday banking, dedicated client advisors, special online services, dedicated centers across the globe and family services. Yet the segment's core demand is mainly driven by lifecycle events and the related capital flows. Few of the "special affluent offerings" provide a solution for this.

To tap the potential offered by affluent clients, wealth managers devise a value proposition that truly fits affluent clients' needs. The basis for this is understanding exactly what these needs are.

Figure 17: Client development in the affluent segment



Source: Roland Berger Strategy Consultants

The lifecycle of typical affluent clients consists of three different phases, each with its own needs: lifestyle, adventure and wealth preservation. Wealth managers can build a systematic value proposition on this basis and approach clients with specific services during key events in their lifecycle.

The first phase is during education and at the beginning of their careers. At this stage, affluent clients are focused on managing their lifestyles. They need flexibility to adapt to new situations and the necessary liquidity to establish a certain lifestyle. Products covering their basic financial needs will include payment services and savings accounts. For wealth managers, this is the time to establish basic trust.

Soon, however, the "lifestyle" phase ends and affluent clients want to participate in the capital markets game with riskier investments. Now their banks can offer them specific equities or fashionable commodity investments, say. Providing adequate solutions during this "adventure" phase is the key to consolidating the relationship. In the final "wealth preservation" phase, clients entrust their bank with preserving the assets that they have previously built up with their help. They are also interested in growing their wealth. In this stage, banks can systematically approach them to discuss asset allocation and risk management solutions, for example.

Clients' needs, their ways of thinking and their decision-making behavior will become more diverse in the future. The result will be an ever larger variety of clients with an ever larger variety of needs. Banks already find it a challenge to effectively position themselves in the market and meet client expectations. As clients become more diverse in the future, serving their needs will become even more challenging.

Wealth managers need to understand their clients in order to meet their individual demands and maintain a strong market position. Four questions can help them gain a clearer picture of their client base:
> Who is my client today?
> Why is my client with me today?
> How will my client's needs change in the future?
> How can I adapt my offering to meet these future needs?

Deep Dive: Changing client needs

HAUCK & AUFHÄUSER
PRIVATBANKIERS

Stephan Rupprecht, Partner
Sikandar Salam, Head of Product and Sales Management

Since its foundation in 1796, Hauck & Aufhäuser has stood for independence, entrepreneurial responsibility and personal client proximity. Shaped by its roots in trade and its entrepreneurial ownership structure, the bank enjoys an outstanding reputation especially among its prosperous, entrepreneurial-minded clients. From the very beginning, its business policy and model have been based on traditional banking and commercial virtues. With this foundation and the resulting commitment to entrepreneurship, Hauck & Aufhäuser acts continuously and with a long-term perspective – which is particularly important in light of the dynamic changes in client expectations and the need for individual support. Here, the bank's focus will be on topics such as preserving capital across generations, risk management and multi-asset strategies.

The wealth management market will continue to show attractive growth in the future, in some regions and markets more than others. However, new client needs and regulatory requirements with regard to client advice will make it necessary for business models to become more focused. Moreover, wealth will increasingly be spread between the various asset classes as well as to illiquid segments. Medium-sized regional providers in particular will need to constantly develop and refine their operations – as private banks have been doing for hundreds of years.

More than ever, clients will require a holistic, 360° approach when it comes to advice. Future generations of clients will be more strongly shaped by their globalized education, experience and global information network than in the past.

Yet they will continue to value the local roots and stability in relation to their advisor. This will lead to a new type of competition, between individual wealth managers rather than between cross-regional commercial and investment banks.

In this respect, providers with private bank structures would appear to have significant competitive advantages. The increasing diversity of customers' needs will be a challenge for the industry. The universal availability of information whenever and wherever you want it means that many customers are more knowledgeable about financial and capital markets than in the past. At the same time, the speed and unpredictability of macroeconomic and political change mean that they want more support and tend to prefer stable, real assets. Real investments in areas such as agriculture or family-run businesses will continue to grow in importance as a way to safeguard wealth across the generations.

In addition, families will continue to grow in importance as a wealth management segment, leading to more new intermediaries such as single and multi-family offices entering the market. Wealth managers face the opportunity – indeed the necessity – of establishing appropriate support models and fitting value propositions. As client structures become more diverse and the spectrum of clients widens, from institutional to less experienced private clients, more overlaps will arise between asset management, wealth management and investment banking.

New customer needs will also be reflected in the range of services offered by providers. Already, we are witnessing greater modularization of the value chain. In the future, we will also see more innovation centers and networks with family offices or specific providers, to provide concrete solutions that deliver value. Providing round-the-clock availability through the use of different media will also make new, cost-efficient solutions necessary. Overall, changing customer expectations and the macroeconomic and technological situation will lead to an ongoing process of transformation by providers. At the same time, the quality of the client and investment advisors will continue to represent a key pillar in client trust and the client relationship.

Success in the industry will no longer be seen simply in terms of asset growth. Gross earnings, profit contribution and above all the quality of client advice will be key components of competitive success. Quality aspects in particular will lead to specialization by some providers. As a result, the pricing model could become a differentiating factor, especially in niche markets relying heavily on advisory services. Providers with long experience of transformation – like private banks – are well equipped to survive this latest change as they have done in the past.

Revisiting myths about clients

Myth #4: Digital innovation (online portals, mobile apps, social media) is the key future success factor of private wealth management

We believe that digital innovation is a must have, not something that sets you apart from the competition. Today, relationship managers are the main channel to clients, and form a bottleneck in the flow of business. But wealth management is not scalable – it is not possible to increase the volume of business simply by increasing the number of relationship managers. Instead, providers need extra channels such as online portals to bypass the bottleneck. These extra channels may represent a key value add.

Myth #5: As their financial skills increase, clients become more critical

Clients are diverse: Some have more financial skills and affinity, some less. This is not likely to change in the future. The key is not to overwhelm the client with information in order to build trust, but to provide a relationship and solutions that meet client needs in terms of information, advice and offering.

Myth #6: Value for money is becoming more important

Clients look at various factors when making decisions. Value for money is just one of these factors. The relationship with the wealth manager is also important, and will become even more so in the future. Ultimately, wealth managers need to respond to individual client attitudes and needs. Value for money is not enough in itself.

What has changed so far?

> The world has become more complex and volatile across economies, demographics and socio-demographics.

> Classical segmentation approaches such as wealth bands are not sufficient to increase client understanding as they do not provide insights on client behavior and decision making.

> Clients' needs have become much more diverse.

> Client relationships are characterized by a decreasing loyalty and an increasing trend of wealth-diversification across multiple providers.

> The era of absolute and total returns will end – In the future, clients will focus on R^3: real real returns.

What lies around the corner?

> Seven global megatrends will bring about a shift in client needs, and will have a major impact within the next five to ten years.

> The seven megatrends are affecting both client segments (changing demographics, globalization and future markets, scarce resources and climate change, economic crises and insecurity) and clients' day-to-day lives (dynamic technology and innovation, sharing global responsibility, global knowledge society).

> The shift in clients' needs will have an impact on their future decision-making behavior with regard to wealth management services.

> Changes in client needs with respect to wealth management services will occur along two dimensions: the relationship dimension and the solution dimension.

> If wealth managers can meet client needs along the dimensions, clients will be happy to follow their advice. Providers that achieve this will be able to successfully ensure client satisfaction in the years to come.

Offering: Changing client needs and market developments make realigning the offering necessary

Introduction

Myth #7: Wealth managers have narrowed their product offering and are shifting toward a more client-centric approach

The last decade of continuous growth in wealth management saw a tremendous growth in the offering, too. Products focusing on asset protection using derivatives and other investment vehicles were created under various names. The product shelf was expanded with an array of alternative asset classes and structured products. Wealth managers focused on providing an **ever-growing product range** to their wealthy clients. But as products gained in sophistication they also gained in complexity. At the height of the financial crisis, complexity reached a level that made products difficult to understand even for the most savvy and well-educated advisors and clients.

Clients have also changed. Until recently, they typically delegated their financial decision-making to their wealth manager on the basis of trust. Several years of financial turmoil later, clients are **more and more reluctant to fully delegate financial decisions.** Clients' confidence in wealth managers' ability to invest their portfolios in line with their investment framework and risk situation has reached a new low. Many clients have been misadvised or found products in their portfolios that they – and in some cases their relationship manager, too – did not fully understand. Moreover, products have failed to deliver their inherent value proposition both during the financial crisis and the European debt crisis.

In this chapter we analyze the current offering in the wealth management market. We present our insights into client expectations and discuss the implications for both the advisory process and the future outlook for the offering. Before we move on to the offering, however, let us recap our findings with regard to clients:

The relationship dimension

> Clients will become younger as assets shift from older to younger generations and become paperless
> The gap between client groups with financial skills and those without will expand
> Clients will further diversify their wealth across providers and loyalty will wane
> Wealth managers will see increasing demand for broad advice (both financial and non-financial) and open discussions

The solution dimension

> The era of absolute and total returns will come to an end – in the future, clients will focus on R^3: real real returns
> Clients will increasingly demand additional services
> Clients will require more and more flexibility
> Clients will demand comprehensive coverage of their needs and a transparent product portfolio

Key trends in client expectations

What do clients expect from their wealth managers? Answering this question is crucial for defining a value-added service offering. Different client needs create different demands. In the last chapter, we saw what clients expect from their bank. Some of these aspects will play a more important role in revising the offering than others.

To recap, clients expect their banks to:
> Provide **simpler** and **more transparent products**

> Actively **preselect products** based on their needs, design individual solutions based on pre-defined modules, and provide additional products by topic (modular offering)

> Offer **flexible solutions** that can be adapted to changes in the clients' situation and circumstances

> Provide **specialist** knowledge and recommendations, get things done effectively, and present different choices

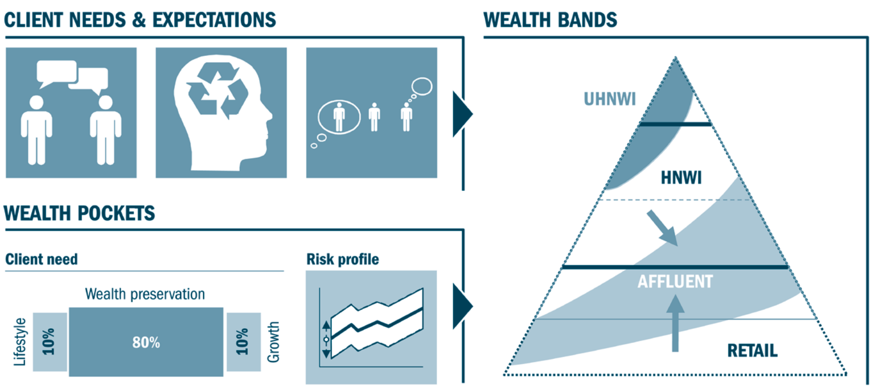
> Consider the **decision-making dimension** when putting together the right solution and provide guidance and advice in a fast-changing world

> Address **portfolio and risk management,** explaining the true risk-return profile for each wealth pocket

One question remains, however: Can all clients be served with the same services? Although clients have individual preferences, it is possible to identify client profiles that show similar patterns. Wealth managers need to segment clients into homogeneous groups and derive appropriate actions on this basis. Today, most wealth managers primarily apply an asset-based segmentation enriched with secondary attributes such as risk profile, profession or philanthropic orientation.

Myth #8: Clients have the same risk-bearing capacity throughout their portfolio

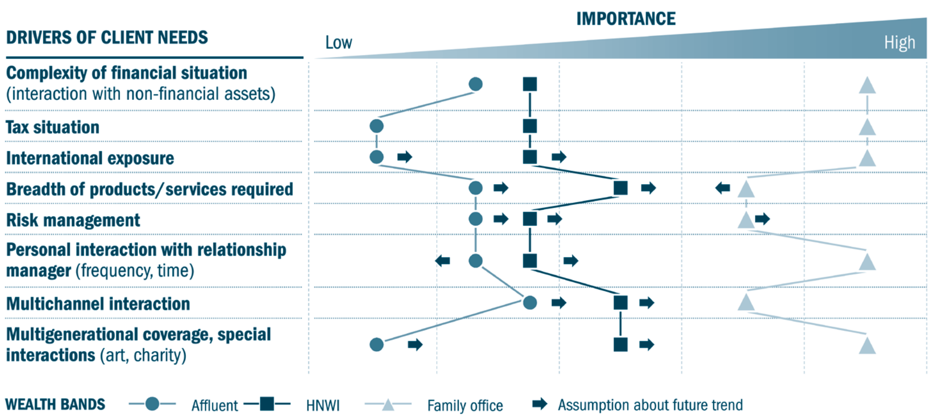
Figure 18: Client needs & expectations, wealth pockets and wealth bands



Source: Roland Berger Strategy Consultants

When realigning their offering, wealth managers should combine what they know about changing client needs and the implications of wealth pockets with their current wealth-based client segmentation. For example, the affluent and lower HNWI segments are beginning to show some needs more typical of the family office segment. Correctly assessing clients' profiles requires a standardized and well-designed advisory experience. This process serves as a key enabler for client understanding.

Figure 19: Drivers of client needs and their importance for different wealth bands



Source: Roland Berger Strategy Consultants

Traditional advisory models
Managing a client relationship throughout the lifecycle is a complex task. Constant attention must be paid to the client's financial situation, their needs, and how their wealth, family and business situations are interlinked.

Traditionally, two different advisory models are found in the industry. In the institutionalized advisory model, the bank and its perception dominates; this model is most common among large European wealth managers. By contrast, the relationship manager-driven advisory model puts the relationship manager at the fore, giving him or her a greater degree of freedom; this model is most common among smaller players.

Myth #9: Most wealth managers have adapted their advisory process to reflect current industry trends

Our experience shows that both approaches often involve a large degree of mechanical **box-ticking** based on know-your-customer (KYC) guidelines. Much relevant information is not used. To make things worse, new regulations such as MiFID, FATCA and cross-border rules place additional requirements on the advisory process. The result is that most realignment projects focus on legal requirements rather than increasing client understanding and the relationship experience.

A paradigm shift is occurring in the industry, toward a world in which non-compliant wealth is no longer tolerated. This has drastically changed the required skill set of relationship managers. It is no longer sufficient to be a trusted private banker: Relationship managers must increasingly be **subject matter experts** and a source of valuable recommendations. For this, they must understand their clients' risk profile, demands and needs.

Due to the shortfalls in the current advisory process, wealth managers often vary considerably in the advice they give clients with similar profiles. Yet the advisory process is fundamental to the future private banking model, which relies strongly on quality of service. The advisory process lies at the heart of a client-centric service proposition and will become a key differentiator in the industry. Providers who consistently exceed the client's expectations by delivering credible advice based on a trust-based relationship model will be best placed to profit from future opportunities.

Redesigning the advisory process
Providing consistent advice across multiple accounts is a key success factor for a consistent and credible wealth management experience. The advisory process should therefore set itself the following three goals:

> To ensure a **consistent relationship** and **wealth management experience** throughout the institution. A team-based approach must replace the traditional one-man show, bringing together strong minds with diverse skills and reducing dependency on a single point of contact.

> To **increase the level of advice** throughout the advisory process by means of a standardized approach. Relationship managers must be provided with an easy-to-use tool to increase client understanding, laying the foundation for a client-centric service model.

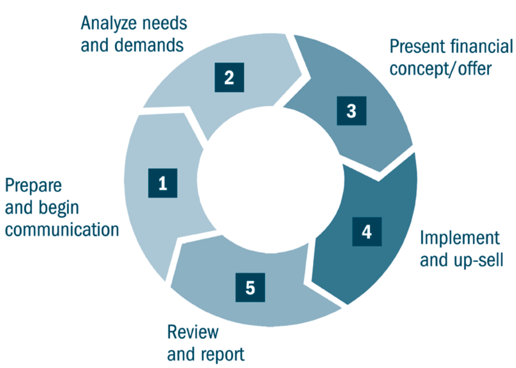
> To implement a **consistent external perception** of the bank's value proposition. This requires consistent external communication through branding and coordinated governance within the wealth management division.

A well-structured advisory process goes beyond simple box-ticking. To fully understand client needs and demands, providers must implement a comprehensive advisory process consisting of five distinct steps. Within this process, the first two steps have the greatest potential for making the offering distinctive.

Prepare and begin communication
Advisors must anticipate their clients' intrinsic preferences. Not all decision-making is rational, so advisors need to connect with their clients on a personal level. They should create an atmosphere in which clients are willing to talk about their personal decision drivers and values. Here, a simple profiling tool can be helpful. The Roland Berger Profiler investigates clients' personal preferences and draws up psychographic profiles. For example, "service affinity" and "preferred mode of interaction" will differ fundamentally for relationship-driven and solution-driven clients.

Analyze needs and demands
Understanding what clients want and identifying what they need is the second key step in the advisory process. Wealth managers that get this right will create true added value for their clients. Three questions are key: Firstly, **what does the client really need?** The biggest challenge here is that clients' expectations are often not in line with their financial capacity, or have consequences that they are not aware of. Secondly, **what are the client's underlying goals?** The relationship manager needs to differentiate here between fundamental and current goals – although most clients themselves will have difficulty separating the two. The relationship manager also needs to understand the client's decision criteria.

Alignment of the advisory process



Source: Roland Berger Strategy Consultants

Client understanding in wealth management

Source: Roland Berger Strategy Consultants

Thirdly, together with the client, the relationship manager needs to decide **what is possible and what is advisable.** This means understanding the client's capacity and willingness to take on risk for each wealth pocket and finding financial products that reflect this.

Present financial concept/offer

Once they have completed the first two steps, advisors will be fully aware of the client's preferences and can offer them relevant services, matching solutions to their portfolios. They can also align the offering, additional services and pricing to the client's specific value profile. This will allow them to reduce redundancies in the current offering.

Implement and up-sell

Advisors must apply the investment strategy in an ever-changing environment, all the time keeping sight of client preferences. Accordingly, implementation and up-selling are growing in importance. As complexity and volatility increase, clients are increasingly **seeking guidance.** Wealth managers also need to provide their clients with transparent wealth reporting. With increased regulation such as MiFID and FATCA, they will require risk filters as well as standard tools to enable them to adapt where necessary.

Review and report

Advisors should regularly explain their decisions to clients. They can use tools such as a wealth cockpit to show them how their portfolio is performing. Given the convergence of onshore and offshore business, **reporting capabilities** will play an increasingly important role in retaining existing assets and attracting new ones. Wealth statements are an opportunity for activating the client book and communicating with the client beyond traditional reporting. Reviews and reports should provide insights into strategic planning: for example, rather than focusing on past performance, they can include a forward-looking scenario analysis.

Deep dive: The role of the client relationship management in new realities

Deutsche Asset
& Wealth Management

Dr. Ingo Lange, Team Head Central Europe Key Clients

The private banking environment is increasingly dominated by complex financial markets and local as well as cross-border regulations that demand strong technical know-how in these areas. Additionally, **clients' needs and expectations** have **changed significantly** during the last years as the **world of onshore and offshore banking is converging.** Clients are much better informed about financial matters and critically question the value contribution of their banking partner. Therefore, wealth managers need to supplement their advisory and relationship expertise with up-to-date financial market and regulatory knowledge. The paradigm shift in the industry towards a more transparent and know-how driven world has considerably changed the required skill set of a client advisor.

Client advisors must increasingly be able to handle complexity and need to be a **source of valuable recommendations** to be a **trusted advisor.** The environmental circumstances within the industry require the client advisor to be able to develop a holistic client understanding, then orchestrate a team approach of different experts within the bank and finally reduce the perceived complexity of suggested solutions towards the client.

The main responsibility of a client advisor is to **grow and deepen the client relationship** through a comprehensive, proactive dialog and worthy advice. In a first step this is less about giving simple investment advice but rather about gaining a thorough picture concerning the client situation and needs which builds the foundation for future cooperation. Additionally the client advisor needs to structure and present an easy to understand solution for the client. This process will be more and more supported by new interactive technologies to illustrate developments and facts to clients and enhances the dialog and client experience.

Furthermore, to cope with the complexity, regulation and client demands the **client advisor becomes the orchestrator of a team approach,** especially in the UHNWI segment. Based on an enhanced client understanding the client advisor needs to coordinate the involvement of various specialists within the bank in order to serve the client properly. Despite a higher degree of specialization and separation of duties he needs to ensure a consistent relationship experience throughout the entire organization.

The team approach will replace the traditional "one-man show" in order to bring together strong minds with diverse skills and to reduce the dependency on a single point of contact. Consequently, client advisors can **concentrate on** sustaining the **relationship and trust** to their clients and actively develop the client base.

Products and add-on services

Aligning the offering with client needs

With structural changes in the wealth management market and changing client needs, wealth advisors must review both their offering and the production model they use in developing the offering. Clients are demanding less complex products and typically are holding a large share of cash and low-margin products. Changes in the regulatory environment, especially with regard to offshore banking, also make a review of current and future target markets necessary, which has further implications for the offering. In addition, wealth managers need to boost efficiency by optimizing the production model from a group perspective. This will involve reducing overlaps between wealth management, asset management and potentially investment banking.

To reduce complexity, increase quality and realign the offering with client needs, we suggest streamlining the product shelf in a four-step process:

> Understand client needs and market requirements
> Conduct a gap analysis and review the offering
> Optimize the production model for the offering
> Develop an effective controlling system

The first step – understanding client needs and market requirements – was addressed in the previous chapter. Below we discuss the second, third and fourth step in the process.

Conduct a gap analysis and review the offering

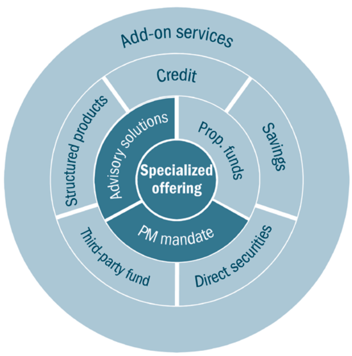
Wealth managers should analyze their current setup and realign their offering based on their new understanding of client needs and the specific regulatory requirements of each target market. In our experience, banks often have a broad offering with many overlaps. Frequently we find a large number of products and services on the shelf, some of them with low volumes. In fact, around 80-90% of revenues are typically generated by 20% of the products and services offered. Moreover, there is often a lack of guidance in certain product categories and the criteria for new products and product lifecycle management are not clearly defined.

Myth #10: Clients want to choose from a wide range of products

Going forward, banks need to create a specialized offering built around their core strengths as an integral part of their distinctive value proposition. They must translate these core strengths into flagship products. Figure 20 summarizes the key questions that banks must ask themselves, and the implications of these questions.

Figure 20: Core questions for creating a specialized offering

COMPONENTS OF THE OFFERING



CORE QUESTIONS FOR WEALTH MANAGERS	IMPLICATIONS
What is the core offering and hence the bank's **differentiation factor**?	The specialized offering must be aligned with the value proposition and the target client segment
What part of the offering is a **must-have** but does not have to be provided in-house?	The standard offering that is required by clients but has no value add should only be provided in-house if there are economies of scale
What **new offering** should the bank develop?	The bank can add special services such as reporting and risk management to back up the core offering
Which **add-on services** (including publications) are required?	Add-on services back up the core offering and serve particular client needs

Core offering of the bank | Review and streamlining required

Source: Roland Berger Strategy Consultants

Having defined the core offering, wealth managers now need to close the gap between this core offering and client expectations, regulatory requirements (including future developments) and specific regional or country factors. In practice, this can mean increasing the bank's lending capabilities in Asian markets, say, or restricting the product universe in certain countries due to regulatory requirements. Managing these specific market requirements and translating them into a modular product offering is a key success factor for banks. If done successfully, it will enhance the wealth manger's ability to manage market risk and also help decrease the ever-growing regulatory complexity for client advisors.

Optimize the production model for the offering

The number and variety of different banking products has increased tremendously over the past fifteen years. At the same time, product lifecycles have shortened significantly. The product range drives costs throughout the entire value chain. Lifecycle management, volatile demand and more differentiated customer requirements are key issues for wealth managers. In the automotive and consumer goods industries, by comparison, good complexity management reduces production and sourcing costs by roughly 2.5-3.5%. In the banking industry, redundant processes, multiple segmentation approaches and large product shelves with limited benefits for clients drive complexity. Streamlining such issues could deliver significant efficiency gains. Moreover, at an average banking institution, vertical integration still stands at well over 75%.

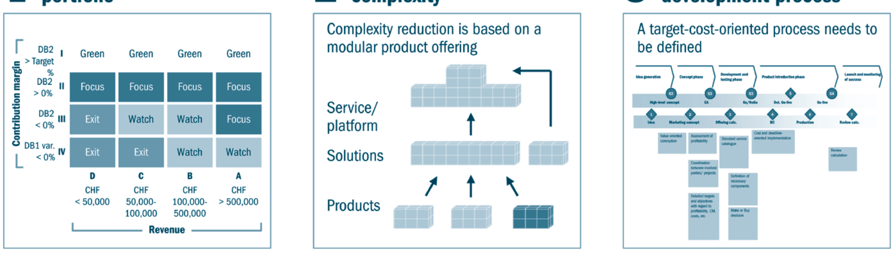
Reducing complexity and defining **adequate sourcing models,** combined with a **modularization of the offering,** is therefore a key priority for the financial services industry – especially in the light of increasing regulation. We propose three levers for reducing complexity: optimizing the portfolio, managing product complexity, and defining a target-cost-oriented product development process.

Figure 21: Three levers for reducing complexity

1 Optimize the portfolio

2 Manage product complexity

3 Define the product development process



1:
- > Assess the product portfolio on the basis of contribution margin and revenue
- > Evaluate scenarios for portfolio streamlining
- > Implement an "exit" list

2:
- > Optimize product costs for top revenue contributor(s)
- > Standardize products across the value chain based on a modular production model
- > Define adequate sourcing models

3:
- > Implement a central product development process and lifecycle management unit
- > Integrate the sourcing strategy and third-party vendor management

Source: Roland Berger Strategy Consultants

After streamlining the offering, wealth mangers need to define a sourcing strategy that is in line with the production model. A well-designed sourcing strategy will help private banks increase their implementation capacity, refine their offering and improve the quality of their advisory services. It will also help create a foundation for making the bank's cost base more variable and achieve significant cost savings.

Develop an effective controlling system

Wealth managers need to develop a mechanism for systematically monitoring client portfolios, steering revenues in line with strategy and aligning diverse incentive systems. Today, wealth managers often monitor their client portfolios by measuring the success of specific sales initiatives: Proactive assessment is the exception rather than the rule. What is needed is a more structured approach to controlling and monitoring.

Incentive systems must also be brought into line with the overall goal of sales management. At present, many incentive systems are still based on targets for assets under administration (AuA), net asset inflow (NAI) or assets under management (AuM). Coverage factor and revenue contributions are only partially considered.

Strategic pricing – A key lever for enhancing revenue

Myth #11: Banks have improved their pricing excellence as a key tool for increasing profitability

Today, many wealth managers still operate an unstructured discount policy and do not review their discounting practices regularly. Rather than using discounts selectively as an instrument for growing client assets, they often grant them arbitrarily to both new and existing clients. How much discount clients receive depends on their negotiating strength rather than their profitability. The difference between what a bank could potentially earn based on the price lists and what they actually earn after discounts – known as "leakage" – ranges from 10-50%.

With more and more clients showing a preference for low-margin products, reviewing the pricing strategy is becoming even more critical. Optimizing pricing has significant revenue potential: In our experience, implementing a systematic pricing strategy can deliver a 5-20% increase in earnings, depending on the competitiveness of current pricing practices.

A systematic pricing strategy will take into account three key areas:

> **Strategic fit:** The pricing strategy should follow a holistic approach – it must be embedded in the overall strategy, culture and client service model of the bank.

> **Focus on added value for clients:** Instead of focusing on volume, the pricing strategy should differentiate prices on the basis of the value and benefit a given product or service provides to the client. This way it is possible to segment clients according to their value-generation potential and their willingness to pay.

> **Modular approach:** To add value for clients, wealth managers should divide the offering into different modules. One option is to differentiate between the basic offering and optional modules. Optional modules can relate to specific markets or alternative fee structures. Clients can then customize the products and services they use by adding the modules that best suit their needs.

Modular, value-based pricing models offer the key advantage of flexibility. Prices are no longer set rigidly according to commission volumes or trading charges, but can be differentiated on the basis of packages tailored to specific client segments.

Deep dive: Client-centricity and flexibility in pricing at LGT

Stephan Tanner, Head of Management Office & Stefan Wolf,
Head Sales Management at LGT Private Banking

The past few years have taken their toll on the private banking industry. Nervous markets have led to significant uncertainty within the client base and a shift in client preferences. Tendencies toward liquidity and precious metals, and volatile revenue from brokerage fees have put margins under further pressure. Moreover, the costs for regulatory and fiscal compliance will continue to rise in the foreseeable future.

Numerous external drivers have strengthened LGT's resolve to conduct a thorough review of its private banking pricing schemes. However, initial considerations were of a different nature. Ten years of continuous growth in evolving markets had led to a high number of price models being used across LGTs five booking platforms, driving both costs and complexity. Ineffective organizational structures had emerged as employees figured out their own ways of working within the complexity. Reducing complexity and increasing transparency thus became internal drivers for new developments and improving the setup.

LGT's unique, stable ownership structure meant that it could take a long-term approach. The bank was determined to use this window of opportunity to develop a lasting solution instead of applying quick fixes. When developing its new pricing system, LGT paid close attention to cultural aspects within the company. LGT encourages an entrepreneurial spirit within which our clients and their advisors are free to develop individual solutions as long as they remain within target boundaries. It came as no surprise that the required governance toolset would be a cornerstone of the new pricing system. The decision to commit significant resources to revising our business processes and improving our Avaloq systems came naturally.

In dealing with clients, we need to address a number of key questions: What are client's investment goals? What tools can the client use to reach them? Where is the client from? And what are the specific segment and market requirements? With those questions answered, the pricing system itself is simple to use on a day-to-day basis as it revolves around the client's situation. Our redesigned price lists are client-friendly and allow client advisors to describe the underlying offering rather than just listing price points.

Due to developments in the market, we are seeing more volume-based price models with reduced brokerage fees. Yields are low, and in order to leverage the advisory expertise volume-based price models are more effective. Paying a brokerage fee on transactions increases the hurdle for clients in implementing the advice. Volume-based price models with low brokerage fees are key for achieving alignment between clients' investment goals and the bank's legitimate need to limit revenue volatility.

One year into the changes, there is no doubt that our decision to introduce modularity and flexibility at LGT was right. It will allow us to stay ahead as new client needs arise and new services and products are introduced. Meanwhile, the process remains transparent and governable as the general industry environment continues to rapidly transform.

Revisiting myths about the offering

Myth #7: Wealth managers have narrowed their product offering and are shifting toward a more client-centric approach
Only a few wealth managers have reduced their offering and abandoned a product-centric sales culture. The real challenge of putting the client at the heart of all activities has yet to be faced. Reactive implementation of regulatory changes distract wealth managers from doing so.

Myth #8: Clients have the same risk-bearing capacity throughout their portfolio
Clients typically segment their wealth into different pockets – at least mentally. For each pocket, they have a different risk-bearing capacity. To serve clients properly, wealth managers need to assess the needs and demands that clients have of each pocket separately. Depending on the core competencies of the wealth manager, there may be a need to focus on specific wealth pockets rather than offering services for all of them.

Myth #9: Most wealth managers have adapted their advisory process to reflect current industry trends
This is partially true: Most wealth managers have indeed adapted their advisory process to reflect new regulatory requirements and cross-border rules. However, most redesigning exercises make compliance issues the focus of the advisory process rather than client needs.

Myth #10: Clients want to choose from a wide range of products
Not true: Clients are typically overwhelmed by the large number of products and the resulting complexity. Client advisors, too, have difficulty preselecting solutions for their clients. As a result, 80-90% of wealth managers' revenues typically stem from 20% of the products offered.

Myth #11: Banks have improved their pricing excellence as a key tool for increasing profitability
Pricing is not always top of the management agenda, and pricing practices remain underdeveloped. Strategic pricing excellence will be a major driver of profitability in the next decade, especially as new regulations (for example on fee-sharing agreements between financial intermediaries) cut deep into wealth managers' profitability. The industry needs to introduce modular models for pricing based on the added value for clients.

What has changed so far?

> Market uncertainty and disappointing performance as well as the convergence of onshore and offshore banking mean that clients have shifted toward a more self-directed investment approach.

> Wealth preservation and performance targets linked to inflation are the focus of client expectations – wealth managers must actively take these expectations into account.

> Improvements in the advisory process are mainly driven by regulation – they still fall short when it comes to developing a true understanding of clients' needs and expectations.

> Share of wallet is still below its pre-crisis level – the average wealthy client now has relationships with numerous banks.

> Cash investments have reached new heights and are putting further pressure on profitability.

What lies around the corner?

> If they wish to understand their clients better, wealth managers must start by reviewing the advisory process which forms the bedrock of a client-centric service proposition – it will be a key differentiator in the industry.

> Banks must check that their offering is in line with new regulations – more and more wealth managers will move from an "open architecture" approach towards a "preferred partner" model.

> Modularization and product complexity management offer a strategic opportunity for banks to reduce costs and make efficiency gains – they must be addressed top down in a structured manner.

> Wealth managers should do away with vertical integration where it is not appropriate or effective and define sourcing models that efficiently manage complexity and costs.

> Wealth managers should implement a strategic pricing policy or framework that is aligned with their modular product offering – this will help them proactively manage profitability.

Players: Players must understand their playing field and align their business model with a client-centric value proposition

Introduction

The wealth management market has been turbulent in recent years. Economic uncertainty, the precarious future of the euro, governmental instability in Southern Europe, falling real estate prices and the condition of the financial services industry in general have presented significant challenges to the industry. Players need to reconsider their business models if they hope to reduce costs, master the increasing regulatory burden, protect their market share in mature markets and capture growth in new ones. Increasingly, we see players focusing on efficiency by reviewing their operational cost base. However, few have put their business model to a more fundamental test – something that we believe is crucial for sustained, long-term success.

Players currently deploy a number of different business models. The size of the market and the diversity of client demand allow players to position themselves in the way that suits them best. We identify four fundamental business models differing along the dimensions **"geographical footprint"** and **"depth of offering"**. In terms of geographical footprint, we find local players with activities in just one or at most a few countries and global players with activities in many countries and across regions. In terms of depth of offering, we find focused wealth managers and integrated players, the latter offering integrated asset and wealth management services often combined with retail, commercial and investment banking services. This gives us four fundamentally different types of players: Global Wealth Managers, Local Private Banks, Global Integrated Banks and Local Integrators.

Players must be fully conscious of what their chosen business model entails so they can develop the right competencies and focus on what is required for success. In this chapter we present the four different types of players, their different business models, their performance and their key success factors, including a picture of what the future holds for them. In brief, our findings are as follows:

> **Successful examples of all four types of players exist** – Global Wealth Managers, Local Private Banks, Global Integrated Banks and Local Integrators. The four differ in terms of performance, however. To be successful, players need to understand what their chosen business model entails, what challenges it brings and what its key success factors are. Local Integrators need to pay particular attention to the sustainability of their model, as they generate on average less growth, a higher cost-income ratio (CIR) and a lower return on equity (RoE).

> Given current industry dynamics, a fundamental strategic repositioning is required. **Now is a good time to choose a distinct position.** This requires a review of the business model, structures, clients, products, processes and the organization. It is important to understand how the industry is changing, what this means for individual players and how they should react.

> Determining the **right level of integration between the asset management and wealth management businesses** is a key challenge. Players need to realize efficiencies from untapped synergies between asset and wealth management – without jeopardizing the best available solutions.

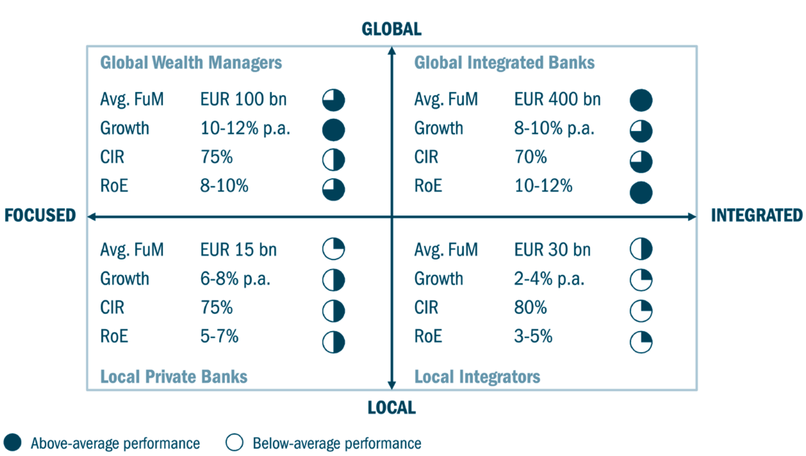
> Players should pursue tailored approaches to growth using their market position (e.g. client base), business model (e.g. other segments) and capabilities (e.g. market niche expertise). Many different approaches are possible.

> Wealth managers must keep a close eye on costs by concentrating on their core capabilities while boosting efficiency internally. They need to be cost-conscious and spend smartly on what is truly needed.

Dimensions of the business model

The business model is the basic setup of a company with regard to its target client segments, distribution channels, client relationships, product offering, delivery model and other elements relevant for value creation. It forms the backbone for value creation, enabling banks to deliver value to their clients and ensuring that those clients are willing to pay for it. As discussed above, we identify four fundamental business models differing along the dimensions "geographical footprint" and "depth of offering". Figure 22 gives a basic indication of how different business models perform.

Figure 22: Performance of different business models, 2009-2012



Based on a benchmark analysis of approx. 100 private banks, 2009-2012; "growth" refers to Funds under management (FuM)

Source: Roland Berger Global Benchmarking Model

As previously suggested, successful examples can be found among all four types of players. Even institutions with a "stuck in the middle" strategy can be successful. However, overall there are performance differences across the four business models with regard to size, growth, cost levels and profitability.

In order to compare performance, we collected information relating to roughly 100 private banks with a European presence, including banks in all four groups. For each of them, we calculated and compared key indicators of performance. Based on this data analysis and supporting interviews, we arrived at the following conclusions:

> **Focused players** – Global Wealth Managers and Local Private Banks – can employ a fully client-centric business model and generate higher growth rates, reflected in smaller declines in their funds under management.

> **Global players** – Global Wealth Managers and Global Integrated Banks – achieve higher growth rates thanks to their presence in emerging markets. They show smaller declines in funds under management than local (i.e. European) players.

Myth #12: Leveraging economies of scale is key to profitability

> **Global Integrated Banks** can achieve cost advantages over Local Private Banks due to economies of scale and scope, resulting in a superior return on equity (RoE). However, Global Wealth Managers are not realizing the costs advantages that are available.

Myth #13: Integrated wealth and asset management leads to cost and product advantages

> **Integrated wealth managers** – Global Integrated Banks and Local Integrators – have limited cost advantages but are able to benefit from enhanced product innovation by their asset managers.

> **Local Integrators** generate the least growth, the highest CIR and the lowest RoE. These players need to consider carefully the sustainability of their business model.

The particular business model deployed and its inherent profitability provide some indication of how successful a player can be in terms of size, growth and profitability. However, we believe that the actual setup and the player's specific capabilities are far more relevant in determining success. In order to pursue the right capabilities and focus on the requirements for success, players need to be fully aware of the precise needs of the business model of their choice.

Deep dive: Different approaches to growth at ABN AMRO Bank

Nicolas Debaig, Head Strategy and Business Development ABN AMRO Private Banking International

ABN AMRO Bank has navigated some turbulent waters over the last decade. In 2007 the old ABN AMRO Bank was acquired by Banco Santander, Royal Bank of Scotland and Fortis Bank and split up between them. Subsequently, in 2008, several parts of the combined ABN AMRO and Fortis businesses were nationalized by the Dutch government during the financial crisis in order to avoid bankruptcy.

ABN AMRO's Dutch and international private banking franchise is one of the strongholds of the new ABN AMRO. Overall it is in number three position in the eurozone, with strong positions in key private banking markets: number one in the Netherlands (ABN AMRO MeesPierson), number two in France (Neuflize OBC) and number five in Germany (Bethmann Bank). In addition to consolidating its position in the eurozone, it is fuelling additional growth through its Asian private banking franchise. Interestingly, ABN AMRO pursues different approaches to growth in these different markets.

In the Netherlands, ABN AMRO has access to an up-market retail client base. The retail bank has proven to be an important source of growth for the private bank. Key factors behind the successful cooperation between the retail and the private banks are as follows:

> **A clear management commitment to cooperation between the retail and private banks.** A clear management mandate is required to avoid turf wars over client transfers from retail to private banking. Clients are upgraded when both the client and bank will benefit from the transfer. Only then is the bank able to improve client satisfaction and increase revenues while reducing attrition.

> **A cost-effective intermediate offering in between retail and private banking.** The intermediate offering at ABN AMRO is known as "preferred banking". It is both cost effective and provides clients with a taste of the real private banking experience. This avoids the risk of clients starting to look for alternative offerings outside the bank before they fully qualify for the premium private banking service.

> **Seamless, hassle-free client upgrades from the retail to the private bank.** Any barriers to switching from the retail bank to the private bank need to be removed. ABN AMRO ensures a smooth transition by avoiding additional contracts, paperwork and administration as much as possible. This also applies to password changes, daily transaction procedures and websites. Sharing a platform with the retail bank also has cost advantages (base functionality at marginal costs) and offers increased functionality (for example in online and mobile banking).

In the Netherlands, the retail bank is an important source of new private banking clients. The situation differs elsewhere in Europe – France, Germany, Belgium, Luxembourg – and further afield in Asia. In these markets, ABN AMRO does not have a strong retail franchise to leverage, making it impossible to use the upstream proposition. Clients are acquired not before they are wealthy, but when they already are. As a result, ABN AMRO competes in the same way as other private banks and uses traditional levers to acquire new clients – the brand, relationship managers, events, referrals and networks.

In specific markets, ABN AMRO builds on its local strengths and capabilities. In France, for example, Neuflize OBC has a profound knowledge of several niche SME markets where it enjoys a strong market position: cinema, Parisian real estate and Internet entrepreneurs, for example. It pursues an advanced enterprise/entrepreneur approach in which private and commercial bankers jointly advise and service clients well in advance of expected liquidity events. This ensures a smooth transition from the commercial bank to the private bank. Thus in each market, ABN AMRO focuses on specific avenues of growth to secure its success.

The four business models in detail

Wealth management business models differ with regard to the scope of their activities and their geographical reach. Within the four business models, there are also differences with regard to the client, operating, governance and financial model used.

Global Wealth Managers

The organizational setup of Global Wealth Managers allows them to target and serve international clients who require international wealth solutions and independent advice. Global Wealth Managers benefit from the fact that the number of global citizens is growing and borders are becoming less important. International exposure and varying regulations and tax regimes in different countries drive client demand for integrated advice and less complexity. Global Wealth Managers provide comprehensive structures for products and services that take such regional or local factors into account.

Having a global offering affects the operating model in a number of ways. When dealing with the wealthiest clients, relationship managers need to offer regional or even global coverage. For clients with levels of wealth that do not justify a global relationship manager, a globally aligned offering allows for a relatively smooth transfer between countries with the support of teams of regional experts specializing in international estate or tax planning, say.

Global Wealth Managers can benefit from a **globally or regionally aligned infrastructure** and a **centralized back office.**

Global Wealth Managers **do not have access to an in-house asset manager.** Instead, they can provide **fully independent, client-centric and global investment advice** by leveraging multiple external global asset managers. However, this architecture – whether open or guided – brings with it the additional costs of finding, managing and monitoring these asset managers. Financially, Global Wealth Managers need to manage their complexity costs carefully. Their international footprint, combined with the limited scope of their activities and the need to purchase asset management services externally, means that they must closely monitor, balance and optimize the net margin on their asset base.

Global Integrated Banks

Global Integrated Banks are true **financial powerhouses.** They **leverage the scale, infrastructure and expertise** of their activities in retail, corporate and investment banking, as well as in asset management and insurance, and use this in their wealth management proposition. By so doing they can address clients who require international wealth solutions, product innovation or an integrated approach to their private and corporate banking needs.

At Global Integrated Banks, an in-house asset manager provides direct access to global markets and asset classes, and an in-house investment bank provides state-of-the-art, exclusive investment opportunities. Wealth managers can leverage these in-house capabilities and set themselves apart from the competition through product innovation and integrated reporting.

These players need to **keep an eye on the complexity** of their operating model, however. Increased complexity in their overall operations necessitates a high level of management attention. Costs and risks must be carefully steered and controlled. When sharing global infrastructure such as an online channel, the private wealth division usually has to compromise on specifications: It is not first in line when it comes to defining business requirements.

The governance model for wealth management units at Global Integrated Banks is something of a balancing act. The aim is to avoid potential conflicts of interest regarding the choices made by asset managers. From a knowledge-sharing and cost-synergy perspective, it makes sense to integrate the governance of the asset and wealth management divisions. However, bringing them too close together can result in a perceived loss of independence in client advice and client-centricity.

Financially, Global Integrated Banks achieve a superior CIR and RoE, benefiting from economies of scale and scope. Including the asset management and investment banking activities under the global umbrella ensures that asset management margins are kept in-house. However, the wealth management division should evaluate carefully whether the in-house offering is truly superior to external options with regard to product specifications, cost levels and performance.

Local Private Banks
Local Private Banks rely on their **reputation** and **brand,** leveraging their competencies to provide clients with high-quality financial services. They are often among the most traditional and oldest players in the market. Their client relationships can go back several generations and are frequently based on strong relationships with families. They benefit from an outstanding reputation in the higher echelons of society.

The operating model of Local Private Banks takes simplicity as its guiding principle. Their activities lack scale and scope, sometimes not including traditional payments or mortgages. When delivering this focused offering, Local Private Banks should **carefully determine their position in the value chain** and decide which activities can better be provided by external suppliers.

The governance model of Local Private Banks is built around client-centricity. As they do not have access to an in-house asset manager or investment bank, they need to select their preferred suppliers. Their local footprint complicates the selection of specialized foreign suppliers of such services.

Financially, the limited scale and scope of Local Private Banks makes them more vulnerable to market volatility and regulatory demands. Their long-standing client relationships tend to result in a less price-sensitive client base, which has corresponding revenue advantages. However, the limited scope of their activities and the need to purchase asset management externally reduces the net margin on their asset base. As a result, they must closely monitor, balance and optimize their revenue potential and the associated costs of their client and asset base.

Deep dive: Intergenerational wealth management at Insinger de Beaufort, a subsidiary of BNP Paribas Wealth Management

INSINGER DE BEAUFORT
BNP PARIBAS WEALTH MANAGEMENT

Peter Sieradzki, CEO of Insinger de Beaufort

Insinger de Beaufort is an unusual private bank based in the Netherlands. It is a traditional private bank with roots going back to 1779. In 2008 it entered a strategic partnership with BNP Paribas, only to merge with local BNP subsidiary Nachenius Tjeenk a year later. Since then, BNP Paribas Wealth Management has owned a 63% majority share in Insinger de Beaufort.

Through this strategic partnership with BNP Paribas Wealth Management, Insinger de Beaufort aims to offer the best of two worlds: the personalized approach, privacy and exclusivity of a local bank combined with the innovation power and security of BNP Paribas, one of the strongest banks in the world. Insinger de Beaufort builds its business based on its own vision and commercial strategy. It benefits from the structured approaches, best practices and support of BNP Paribas in areas such as processes, human resources and credit.

One of the key pillars of the bank is its intergenerational commercial model, characterized by familiarity, client-centricity and trust. Traditionally, the "scope" of a client is defined as a single generation in a financial household – in a traditional family setup, a husband and wife. Insinger de Beaufort extends this definition to include those further down the family tree. The entire family, including future generations, are now included in the scope of the client as part of a holistic intergenerational wealth offering: the family cluster approach. All family members are treated equally and receive the same benefits as the head of the family. In this way, subsequent generations are able to build a strong personal relationship with the bank, experiencing the full benefits of the service model. This strengthens loyalty to the bank, prevents dilution and reduction of the asset base and unlocks a new client base for the bank.

Joining up the dots between family members and different generations is a truly pivotal aspect of Insinger de Beaufort's client-centric approach. It is a characteristic found in many aspects of the bank's service, such as life event management. After all, when a grandchild graduates it is not only a life event for the grandchild – it can also have consequences for other members of the family. Private bankers at Insinger de Beaufort understand and address these potential links between different family members. By proactively making the connections, the bank is able to provide a high level of intergenerational wealth advice.

Local Integrators
Local Integrators are traditional, **trusted local financial warehouses.** Despite their limited geographical scope, they have a broad offering covering various segments. They are able to leverage their banking, asset management and insurance activities to the benefit of their private banking clients. They often offer their local clients a one-stop shop for their private and corporate banking needs. In-house asset managers provide direct knowledge of markets and asset classes. Local investment banking and corporate finance activities complete the offering of these players, underlining their role as local connectors within the economy.

Given their limited scale, Local Integrators need to carefully evaluate how they make their value proposition truly distinctive. Choosing which activities to perform in-house and which to engage an external partner for is a key item on the management agenda. These players need a distinctive position in order to overcome the challenges of intensifying competition, increasing demand for state-of the-art technology and the growing burden of regulation.

Local Integrators' governance models must ensure the independence of their investment advice and lead generation from the retail and commercial bank. The fact that they have an in-house asset manager should not cause a perceived loss of independence with regard to client advice and the client-centricity of the offering. The governance structure must also ensure commercial feed from the commercial and retail divisions through clear management commitment and incentive-based compensation schemes.

On the financial side, Local Integrators need to monitor their costs carefully as their broad coverage can result in a high level of complexity and associated costs. Their limited scale means that these players do not have the ability to spread their costs over a large client base.

Break-out: Bidirectional lead generation between a commercial and private bank

The commercial bank typically acts as an important source of revenue growth for the private bank: Based on a feeder model, it provides it with a systematic acquisition stream. At the same time, the private bank fuels growth in the commercial bank. In our experience, successful cooperation – with mutually beneficial results – relies on a number of key factors:

> *Proximity*: Ensure proximity between commercial and private bankers and appoint dedicated private bankers to each commercial banking unit

> *Involvement in sales processes*: Ensure participation by both parties in commercial alignment meetings, the structured development of prospect lists and alignment between the two banks with regard to networking and the treatment of clients

> *Joint training*: Increase the degree to which private bankers, commercial bankers and credit risk managers understand each other's business by establishing a joint training program

> *Shared incentives*: Use shared incentives to foster prospect generation and transparent reporting on joint efforts by the private and commercial banks

> *Involvement in credit risk management*: Establish guidelines and structured processes for credit risk management that specify who is involved in combined corporate/private cases (corporate lending vs. private investments)

Key success factors

The four different business models each have different key success factors in terms of brand, footprint, culture, operations, leadership, offering, pricing and commercial model. To remain successful, players need to be aware of the specific key success factors for their chosen business model and make sure that they are utilizing them to the maximum. We summarize these key success factors in Figure 23.

Figure 23: Key success factors for the different business models

	GLOBAL WEALTH MANAGERS	GLOBAL INTEGRATED BANKS	LOCAL PRIVATE BANKS	LOCAL INTEGRATORS
BRAND	Global dedicated wealth management brand addressing both clients and employees	Strong, global, universal brand across different segments and markets	Focused, strong local brand, distinctive and traditional	Universal, strong local brand, distinctive and traditional
FOOTPRINT	Global footprint covering key wealth regions	Global footprint covering all important wealth regions, leveraging the footprint of other parts of the bank	Focused footprint in key wealth areas within the bank's area of operation	Focused footprint in key wealth areas within the bank's area of operation, potentially benefitting from the local footprint of other parts of the bank
CULTURE	Client-centric culture that understands cultural differences and local preferences: "Your independent advisor, everywhere"	Performance culture: "We can do everything, everywhere"	Local client-centric culture fostering objective and independent advice: "Your familiar independent advisor"	Local performance culture: "Your local one-stop shop"
OPERATIONS	Bank leverages global expertise in operations (e.g. advisory processes, risk profiling) to capture economies of scale	Bank leverages expertise in operations across segments and markets (e.g. infrastructure, products) to capture economies of scale and scope	Simple operations due to limited scale and scope, and selective outsourcing	Simple operations, with economies of scope and integrated local reporting
LEADERSHIP	Leader in international exclusivity, wealth management expertise and client-centricity	Leader in product innovation and operational excellence	Leader in local exclusivity, trust and personal, long-term, intergenerational relationships	Leader in local pride and market knowledge
OFFERING	Offering serves global clients with international needs	Integrated financial offering serves clients with international needs, leveraging the bank's global product leadership and innovation	Personalized, flexible wealth management offering, specializing in a specific region	Integrated financial offering with product leadership and innovation in a local context
PRICING	Price advantages due to the ability to procure the best global products	Price advantages due to the ability to procure the best global products and internal economies of scale and scope	Price advantages due to local supplier proximity and the ability to procure the best local products	Price advantages due to internal economies of scope and local supplier proximity
COMMERCIAL MODEL	Commercial model based on exclusive global and local networks, groups and events	Global lead generation from commercial, retail and affluent segments	Lead generation from exclusive local networks, groups and events	Local lead generation from commercial, retail and affluent segments

Source: Roland Berger Strategy Consultants

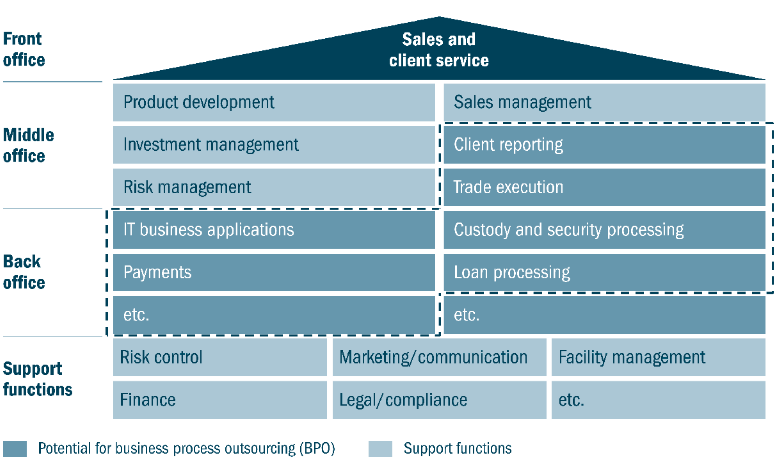
Finding the right level of vertical integration

Continuous cost pressure driven by new regulatory requirements and growing complexity have put realizing economies of scale firmly at the top of the management agenda. Opportunities for such economies of scale can be found in the disintegration of the wealth management value chain and the specific solutions being developed for back- and middle-office services. Smaller players potentially benefit to a greater extent from such services, which range from operations to specific applications, risk solutions and even compliance.

The ability to offer a truly professional service thus no longer depends on size. Economies of scale are needed not just at the corporate level but in different parts of the value chain. Wealth managers need to find the right level of vertical integration to secure and optimize their cost position.

A close investigation of the supply and demand for outsourced services provides some interesting insights into the underlying drivers, challenges and key success factors for outsourcing (Figure 24). Thus, on the demand side, outsourcing solutions are increasingly relevant for large parts of the value chain. The main areas of interest – apart from support functions – are in the middle and back office. Typical middle-office activities that profit the most from outsourcing are client reporting and trade execution. In the back office, IT business applications, payments, custody and security processing, and credit processing activities are all relevant for outsourcing. On the supply side, IT outsourcing partners are realizing their long-term ambition to enter the higher value-add market of business process outsourcing (BPO). Traditionally, the scope of IT infrastructure suppliers was limited to technology, such as the software and hardware for datacenters. Many IT infrastructure suppliers have already successfully expanded their offering to IT services, taking full ownership of developing and managing both platform and applications. This requires a more profound understanding of banking operations. As they now move into the higher-margin BPO market and take on end-to-end responsibility for specific banking processes, they will need to increase their knowledge of banking operations even further.

Figure 24: Relevance of outsourcing

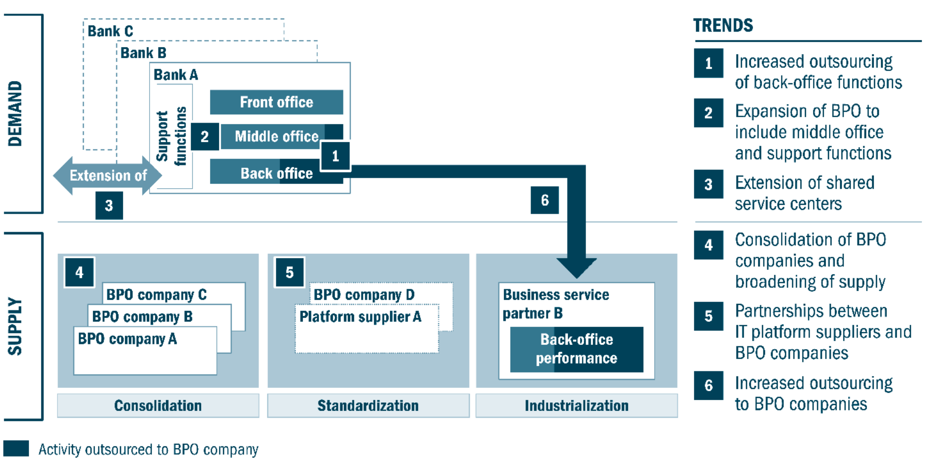


Source: Roland Berger Strategy Consultants

Trends on both the demand and supply side are driving the growth of BPO (Figure 25). On the demand side, we are seeing increased outsourcing of back-office functions, a new outsourcing of middle office and support functions and shared service centers now offering services for multiple banks.

On the supply side, a process of consolidation, standardization and industrialization is taking place: As BPO companies consolidate, the scope of their offering becomes broader. Partnering with IT platform suppliers increases the level of standardization in BPO solutions. And increased industrialization of processes makes them more suitable for BPO – as experience suggests that only industrialized processes can be successfully outsourced.

Figure 25: Trends driving BPO



Source: Roland Berger Strategy Consultants

A clear strategic rationale exists for BPO. However, a number of things can stand in its way:

> *Unaligned interests:* Limited transparency or differing ideas at the bank and the BPO company about the strategic direction of operations (size, objectives, operating model)

> *Excess complexity:* Technological and operational complexity, often driven by the existence of too many interfaces and modules

> *Suboptimal steering:* Ineffective ownership structures, organizational setup and responsibilities, often resulting in complex or drawn-out transitions

We identified four key success factors for overcoming these obstacles and achieving successful BPO:

> *Strategic congruence:* Ensure alignment over the objectives of the partnership and the strategic direction

> *Top-down decision making:* Create a cross-organizational "inner circle" as a driving force for the partnership

> *Focused assignment:* Clearly define the scope of the outsourcing, an exit strategy, future developments and the investment framework

> *Organizational flexibility:* Separate implementation and ownership structures in a manner that enables transparent, fast decision-making

Only if all these requirements are fulfilled can BPO be successful. Once players embrace these conditions, we believe that the market will see a steep increase in the adoption of BPO.

Aligning the value proposition

Today's changes in markets, regulations and client behavior are putting increasing pressure on business models and their profitability. Aligning the strategy and value proposition to the new realities of the industry is more crucial than ever.

The bank's overall strategy includes its vision, mission, core competencies and values. The value proposition of the wealth management activities should be aligned with this overall strategy. The value proposition must be a convincing statement as to why clients should choose that private bank over its competitors. It should be embedded in the overall strategy and act as a guiding principle for the wealth management business, both internally and externally. Top managers should base their business decisions on the value proposition, employees should act on it and clients should deliberately choose the bank in question because of it.

In a recent project at Roland Berger Strategy Consultants, we helped a global bank align its value proposition and wealth management activities. Client-centricity and sustainability were identified as the guiding principles and used to define a number of key values such as corporate DNA, client focus, business spirit, long-term perspective, discretion and independence.

The guiding principles and key values were then used as criteria for evaluating the value proposition. This resulted in a consistent value proposition that was both client-centric and sustainable. The ability to implement strategy is a key success factor in aligning the value proposition.

The bank must effectively translate its strategic alignment into operations. For example, it should focus on client-centricity in the advisory process while developing its offering for each client segment. The value proposition, as a manifestation of the organizational strategy, should be used as a basis for designing, running and refining the wealth management business.

A consistent value proposition will enable wealth managers to overcome the challenges with regard to client behavior (demand for less complexity, anticipated impact on bottom line), industry changes (especially with respect to regulatory uncertainty) and growing or protecting market share. In the process, wealth managers must build trust with clients by leveraging their specific expertise or capabilities.

Revisiting myths about players

Myth #12: Leveraging economies of scale is key to profitability

In our experience, profitability does not depend on total FuM (Funds under Management) but rather on the client focus, asset mix and certain regional factors. Global Integrated Banks can enjoy economies of scale if they manage their complexity costs optimally, but they do not automatically enjoy cost advantages over Local Private Banks.

Myth #13: Integrated wealth and asset management leads to cost and product advantages

Direct access to research capabilities and asset management know-how can potentially deliver operational excellence. However, the interfaces with the increasingly consolidated and professionalized asset management market are becoming streamlined to such an extent that, in practice, having an in-house asset manager leads to limited operational and cost benefits. Having an independent asset manager and an open or a guided architecture avoids conflicts of interest and ensures client-centricity in the wealth manager's advisory process.

What has changed so far?

> Revenues are under pressure due to poor market performance, low client activity, low interest rates, an asset mix shift into low-margin cash and near-cash products, simpler products, limited asset growth in established markets and increased pricing transparency.

> The growing regulatory burden requires costly changes in processes, products and internal structures. Additional costs cannot be easily passed on to clients and so smaller players in particular face difficulties managing the required changes and associated costs.

> Clients require more transparency, more independence and more guided architectures. Local players benefit from this as they are often perceived as closer to the client and more exclusive. Global players benefit from their global reach and capabilities.

> Wealth managers are reevaluating their business models and trying to find the right level of integration between their wealth management and asset management activities. There are successful examples of both fully integrated and completely separate businesses, as well as models in between the two extremes.

> Wealth managers are looking at their value chains and are thinking about BPO as a way of achieving economies of scale in their back- and middle-office activities. The specific solutions being developed here provide new opportunities to achieve these economies of scale.

What lies around the corner?

> The industry environment will remain tough, with sustained pressure on margins. To cope, wealth managers must define their business model carefully and then align their value proposition with this model.

> Private banks will continue optimizing their geographical footprint based on their capabilities, market opportunities and client needs. They should not expect significant cost benefits from realizing additional scale as this requires close alignment of offerings and integration of the various operating platforms.

> Local Integrators will be forced to review the sustainability of their business model in light of the poor average performance on growth, costs and returns. To ensure competitiveness, they should consider making strategic changes and focusing their value proposition on their distinctive capabilities.

> Private banks will increasingly try to find a level of integration between their wealth management and asset management activities that matches their value proposition and business model. They should do this by reviewing their client, operating and governance models.

> Private banks need to adjust their business model for traditional offshore markets such as Luxembourg and Switzerland by redefining their geographical focus and building new commercial networks in emerging economies.

> Wealth managers will be able to increase internal efficiency by:

– Reducing overhead and support while increasing client-facing staff

– Developing a focused core business based on distinct capabilities by discontinuing or outsourcing non-core activities, thereby capturing the increased BPO opportunity

– Realizing the efficiency benefits of online applications and mobile apps

– Standardizing the offering, redesigning the approach to risk and constraining the consumption of capital

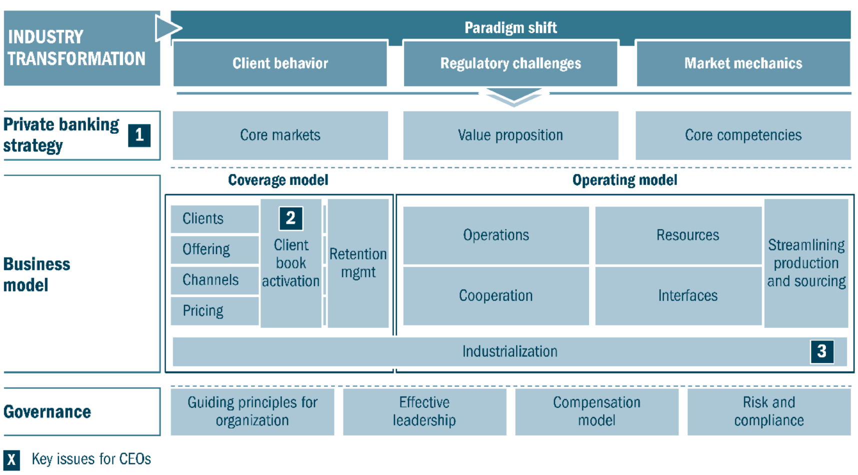
– Reducing end-to-end complexity by simplifying processes, organizational setup and IT infrastructure while leveling external spending behavior

CEO agenda – From defense to offense

Overview

Wealth managers must take a step back and analyze their situation with care and diligence. Those who rely on their core competencies and build on a client-centric value proposition will have a distinctive competitive advantage over those who do not.

Figure 26: The CEO agenda



Source: Roland Berger Strategy Consultants

In this chapter we outline a CEO agenda – the issues that the top managers of private banks should be addressing as a matter of priority. We make three key recommendations: **redefine the private banking strategy, activate the client book and industrialize the production model.** In each of these priority areas, top managers need to address a number of essential questions.

Redefining the private banking strategy involves aligning the private banking value proposition to the new realities of the industry. The key questions here are:
> How can we stimulate **organic and inorganic growth?**
> What are our **core, target and opportunistic markets?**
> How can we keep our **cross-border business** competitive?

Activating the client book involves increasing front office momentum. The key questions to be addressed are:
> How can we gain a competitive edge in our **core markets?**
> What are the most effective **levers for revenue enhancement** and best short-term initiatives?
> How can we systemize our **pricing and sales approach?**

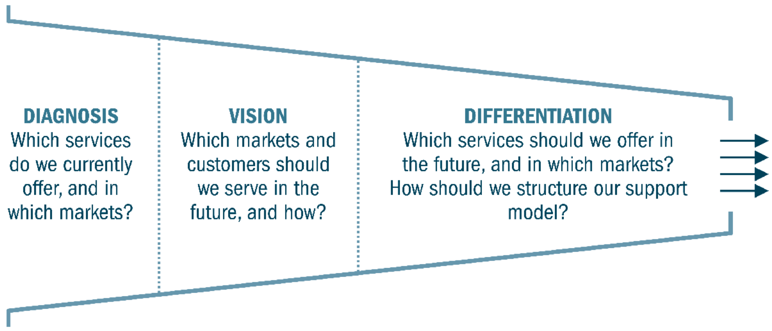
Industrializing the production model involves reducing complexity and using the current window of opportunity in the sourcing market to increase utilization of the platform or boost the share of sourcing. Key questions for top managers are:

> How should we position our **competencies** (back-office and middle-office) in the current environment?
> How can we realize sustainable **cost synergies** based on the business model?
> How can we create **flexibility** for our future investments?
> How can we make our **cost base** more **variable**?

Redefine the wealth management strategy

Top managers need to redefine their wealth management strategy. This will involve a process of diagnosis, vision and differentiation. They should ask themselves which core markets they want to operate in, how they want to operate, how their value proposition differs from that of their competitors and what core competencies they can leverage. Top managers should base the strategy on a proper analysis of the current situation and their understanding of the changes that are taking place in the industry. This strategy will then form the foundation for their future focus and activities. The focus of redefining the wealth management strategy should lie on speeding up organic growth by revising the current **market positioning** and value proposition in onshore and cross-border markets. The starting point here is analyzing the current market position compared to the bank's competitors and deciding what the desired market position is.

Figure 27: Redefining the private banking strategy



Source: Roland Berger Strategy Consultants

Based on this positioning, CEOs should then develop a **distinctive value proposition**. The product-centric sales strategy that dominated wealth management for years is on the way out. A good value proposition appeals to clients' expectations, reflects the core values of the organization and expresses the perceived added value for clients.

Today's clients want exclusive advice rather than a complex array of products. However, a value proposition is more than just a promise of added value for the client: It also serves as a guideline for the bank's own development. It should therefore clearly define the bank's goals, resource allocation and competitive advantages.

Once the core value proposition has been formulated at the level of top management and the governing bodies, it must filter down throughout the entire organization. This ensures that the core services are available in every market and a coherent image is presented to the outside world. At the same time, this process leaves room for regional variations and tactical alterations so the bank can address specific client needs in different local markets and segments.

Break-out: Integration or separation?
Who are my clients? What would they like? What do they really need? Where are my target markets? What should my offering be? How can I add the most value? How efficient is my business?

These are just some of the questions that wealth managers need to address when evaluating their business model and deciding on the right level of integration between their wealth management and asset management activities. When we look at the market, we find thriving examples of both fully integrated and entirely separated businesses, plus a host of intermediate models. What all these players have in common is that they have clearly assessed their value proposition and business model – and only then decided on the correct level of integration.

Integration is often backed up by cost-reduction actions. An integrated platform can cost less thanks to economies of scale and scope, for instance. Simplified interfaces also make seamless operations and technological integration possible. An integrated approach can help establish more calibrated asset management portfolios with risk-adjusted returns. Integration also supports exclusive offerings and so strengthens the product proposition. Another factor is that increasing regulatory requirements make it desirable to keep asset management in-house: Having internal knowledge can be beneficial for complying with regulations.

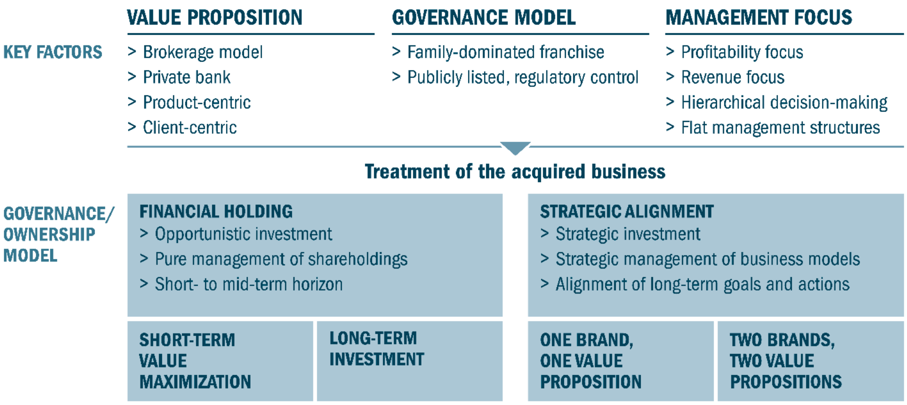
Separation of wealth and asset management can result from the increased pressure from regulators to ensure the equal treatment of in-house and third-party asset managers. Banks may also wish to reduce organizational complexity, avoid conflicts of interest within the organization and increase the strategic flexibility and visibility of the two businesses. Additionally, the volatility on the financial markets over the past five years has increased players' awareness of reputational risks: Keeping the businesses separate can stop damage to the reputation of one side of the business spreading to the other.

When deciding on the right level of integration, wealth managers should look at their client, operating and governance models:
> **Client model** – Client demands and activity distribution. The level of integration is determined by the impact on client satisfaction brought about by independent but integrated solutions
> **Operating model** – Achieving operational excellence through a clear make-or-buy strategy. The level of integration is determined by the efficiencies brought about by eliminating duplication, rationalizing the offering and sharing platforms, processes and service providers
> **Governance model** – Avoiding conflicts of interest through management and governance structures. The level of integration is determined by financial performance management and incentive systems

Having defined the value proposition, the bank should then **prioritize the markets served**. Distinguishing between core, target and opportunistic markets (plus markets that are of no interest to the bank) helps concentrate the organization's resources. Typical selection criteria used are market potential, fit of the value proposition and offering, cultural fit, leverage of the business model and booking platform, synergies within the group, and the regulatory situation. Banks should serve their prioritized countries through a cluster approach based on similarities in client needs and a cross-border framework. For example, banks need a different approach within Central and Eastern Europe: Country specific factors must be taken into account.

The strategy should also look at **opportunities for inorganic growth**. However, there are limitations on M&A deals in Switzerland in particular, and regulatory developments are making some client groups unattractive. Handling legacy issues increases the complexity of mergers, and the subsequent integration can significantly reduce the asset base.

Figure 28: Inorganic growth – Key factors and governance/ownership models



Source: Roland Berger Strategy Consultants

Activate the client book

Increasing front office momentum is a key lever for profitable growth. Sales initiatives in key markets aimed at specific client segments are fundamental to activating the client book. Banks should base these targeted initiatives – which have a direct P&L impact – on an increased client understanding. In parallel, they should refine their organizational setup, modularize the offering and introduce strategic pricing.

Confidence is returning among wealth management clients. Equity markets are growing, client activity is increasing and economic forecasts are looking up. As a result, clients are now more open to discussing their financial situation and needs with their relationship manager.

The focus of **activating the client book** should not be pushing products but advising clients in a holistic fashion, based on an improved client understanding. Wealth managers should begin managing their clients' wealth more actively, designing strategies that meet their needs. Active management involves three key dimensions: target markets, target clients and relationship managers (see Figure 29). Prioritizing target markets is important so that the bank can allocate its resources efficiently and take into account cross-border regulations. Clustering clients should look at both quantitative factors (e.g. client value) and qualitative factors (e.g. client needs). This enables a more systematic approach to serving customers and gives relationship managers key information about their clients – for example, they can now specifically consider the client's decision criteria when developing a suitable offering.

Finally, banks should run various initiatives for client clusters. These initiatives should be accompanied with support for relationship managers: special coaching, pragmatic tools and performance monitoring. Appointing "internal ambassadors" and establishing best practices is a further instrument to strengthen the success.

Figure 29: Activating the client book

Source: Roland Berger Strategy Consultants

A **modularized offering** and **strategic pricing** are also key to long-term success. These changes must be in line with the wealth management strategy, the bank's culture and the client structure. As we saw in the Chapter "Offering", a modularized offering implies a streamlined offering. Developing an offering landscape that links client clusters to product preferences and different product packages allows banks to deliver real added value to clients and so improve client satisfaction.

The modularized offering also forms the foundation for the pricing concept. Our experience working with private banks shows that focusing on earning a fixed target revenue – which differs depending on the client cluster – increases the entrepreneurial culture of the front office. At the heart of the pricing strategy lies managing the offering in line with client needs. Using a more flexible pricing model, wealth managers can set target revenues reflecting internal and external factors. This also massively reduces leakage.

Industrialize the production model

Increased pressure on margins and rising costs due to regulatory requirements have a significant impact on the bottom line. Wealth managers must achieve a sustainable cost basis. One approach for this is to reduce complexity by systematically streamlining processes in a front-to-back-office approach – in other words, to industrialize the production model.

Wealth managers can achieve incremental change by **reducing complexity** and **optimizing the footprint**:

> Standardize the production process for key products and harmonize any process steps that are identical for all lines

> Centralize the coordination of the collaborative network on a global level, for example by establishing a central function responsible for the non-front-office organization and non-core activities (IT, human resources, legal etc.)

> Set up shared service centers and review the number of booking centers

Traditional levers for industrializing production models – standardization and process automation, say – can help increase efficiency in the short to mid-term. However, structural changes to the business model are needed to increase efficiency in the long term. Wealth managers can **transform their business models** by working on the following areas:

> **Coverage of the value chain**: Wealth managers' value propositions define not only their ambition level for the client experience but also their core competencies and hence the required coverage of the value chain. In light of the current transformation process taking place in the industry, wealth managers need to consider the implications of a shifting value proposition and its impact on their core competencies when defining the coverage of their future value chain.

> **Structure of the value chain**: Wealth managers should pay close attention to the multiple interruptions in their value chain. In the medium term, suppliers will evolve from captive into independent service providers managed through a professional service management system.

> **Modularization**: Wealth managers should standardize and modularize their products and services to improve operational efficiency, realizing economies of scale within a guided financial services infrastructure architecture.

> **Supplier management**: Wealth managers should check whether their current procurement and partnering strategy guarantees ongoing efficiency improvements and meets key qualitative objectives. Coaching suppliers systematically on performance, costs and complexity management will lead to improvements here.

> **Cooperation management:** Wealth managers should seek out possible partnerships with other players, both nationally and internationally. This will enable them to further improve efficiency, optimize their risk situation and maximize their financial gains from transactions – a process known as "co-opetition".

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