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Global wealth management outlook 2014–15



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Executive summary



Since the financial crisis began in 2008, stock markets have enjoyed a considerable bull run, GDP growth is again robust in many markets, and assets under management are on the upswing around the globe. But these gains have not translated into the amount of top- and bottom-line growth that wealth managers would expect based on past recoveries.

According to a new study of global wealth managers by Strategy&, the prospects for wealth management have improved significantly over the last 12 months, but new global regulations (including the battle against undeclared offshore assets), changing client behavior, the rapid advance of digitization, and a fluid competitive landscape have permanently altered the rules of the game and raised the cost of doing business. Wealth managers must learn the new rules quickly and adapt their playbook accordingly if they are to capitalize on the continued economic recovery in 2014 and 2015.

There is a four-part solution: Apply a “capabilities lens” to look for markets where you can compete effectively, rethink your firm’s value proposition with tiered offerings aimed at transparency and client suitability, go digital with more effective use of information and communication tools, and use a *Fit for Growth** approach to adapt your cost structure to the revenue realities.

* *Fit for Growth* is a registered service mark of PwC Strategy& Inc. in the United States.

Key highlights: the four-legged strategy

To capitalize on the recovery in 2014 and 2015, wealth managers should pursue a four-legged strategy.

1. Apply a capabilities lens. Wealth managers need to take their firm's strengths into account when deciding where to compete — onshore and/or offshore. They are understandably drawn to markets that promise superior underlying growth, but managers have learned the hard way that the expense and patience required to compete in some of these markets make profits elusive. Going forward, wealth managers need to identify the markets where they can most effectively compete and maintain long-term differentiation. Even the biggest wealth managers can no longer be all things to all people.

2. Rethink the value proposition. Wealth managers need to reconsider their business models in light of regulatory requirements regarding transparency and suitability, as well as changing client behavior, preferences, and expectations. They need to develop and bundle

products and services in tiered service offerings that comply with evolving regulations and appeal to different client sets, and they need to offer pricing schemes that are variable and transparent to clients. Furthermore, they need to enhance the investment management and advisory process to deliver greater value to clients.

3. Go digital. Wealth managers must commit to a “digital agenda” to enhance the client experience to know their clients better, market products and services more effectively, lower costs in the back office, and improve compliance efforts.

4. Adopt a Fit for Growth approach. Since cost pressures will persist, wealth managers must review their operating model with a systematic effort to separate “good” expenses from “bad” (nonstrategic) expenses. In this way, they can adapt their cost structure to the revenue realities.

For more detail on these measures, see “Four Response Priorities,” page 22.

An industry still in transition

After surviving a tumultuous period of plummeting asset prices, spiraling revenue, and the near collapse of some of the world's leading wealth management firms during the 2008 financial crisis, the global wealth management industry is winning back some lost ground. But it is still struggling on several fronts.

According to a global wealth management study conducted by Strategy&, consisting of quantitative market analysis and complemented by in-depth interviews with more than 150 wealth management executives, senior financial advisors, and regulators, assets under management (AuM) are growing worldwide. In North America, after four years of steady growth, these assets have recently passed their precrisis levels. In China, Latin America, and other emerging markets, they have grown far beyond their mid-2000s levels. Only Europe is lagging and, even there, assets under management have increased significantly since the nadir of 2008 (*see Exhibit 1, page 7*).

Nonetheless, market participants report that earnings are still under pressure and they don't expect the industry to return to a precrisis way of doing business. The rules for wealth management have changed structurally — driven by increasing global regulations, the move from undeclared to declared offshore assets, changing client behavior, the advance of digitization, and a fluid competitive landscape.

Exhibit 1

Wealth management: What it is, how it's changing, what is required

	Key Market Trends	Implications for Wealth Managers
Market Development and Value Pools	Market-driven growth, but value pool mix highly different	Focus on markets that offer superior growth; employ a “capabilities lens” to create a true “right to win” in those markets
Regulatory	Regulators continue to set the agenda	Rethink your value proposition in the context of the new regulatory environment; enhance the investment management and advisory processes
Client Behavior	Clients becoming increasingly “self-directed”	Commit to a “digital agenda” to enhance the client experience and to reduce cost-to-serve
Competitive Landscape	Concentration, independents gaining share, digital players entering the field	Review operating model; capture cost-saving opportunities with a systematic <i>Fit for Growth</i> * approach

* *Fit for Growth* is a registered service mark of PwC Strategy& Inc. in the United States.

Source: Strategy& analysis

AuM make steady gains

Many of the world's wealth managers enjoyed solid AuM growth in 2012 for a number of reasons: strong GDP performance in emerging economies, rebounding equity markets worldwide, net investor inflows, and the fact that the number of high-net-worth individuals — those with more than US\$1 million of investable assets — continued to grow two to three times faster than GDP in most markets.

However, performance by region varied significantly (*see Exhibit 2, page 9*). In 2012, the Middle East was once again the standout region for wealth creation, posting its third consecutive year of impressive gains — 19 percent in 2012 after growth of 15 percent in both 2010 and 2011. The large Middle East wealth management centers (such as Dubai) experienced particularly robust AuM growth, fueled by inflows from Syria and politically unstable countries in North Africa, as well as the increasing number of HNWI households in more stable countries in the Middle East and North Africa (MENA) region.

The year 2012 also saw AuM growth accelerate in other regions. Asia's growth rate jumped to 20 percent, up from 2 percent in 2011, thanks to strong economic growth and increasing wealth concentration. This made Asia the “hottest” region for wealth managers. Meanwhile, North America and Latin America both posted healthy 12 percent AuM gains, up from 1 percent and 5 percent, respectively.

In North America, AuM have now passed their precrisis level. Latin America was the only region to notch positive AuM growth every year from 2007 to 2012. The region's largest market, Brazil, enjoyed political and macroeconomic stability as well as relatively high interest rates, encouraging investors to keep more assets onshore. At the same time, a flurry of initial public offerings by family-owned businesses, higher private-equity activity, and the economic rise of various industries (such as agribusiness) contributed to wealth creation.

The one exception to full AuM recovery is Europe, which despite 7 percent growth in 2012 has not returned to its precrisis levels. A number of factors weighed on Europe's performance. Besides weak GDP

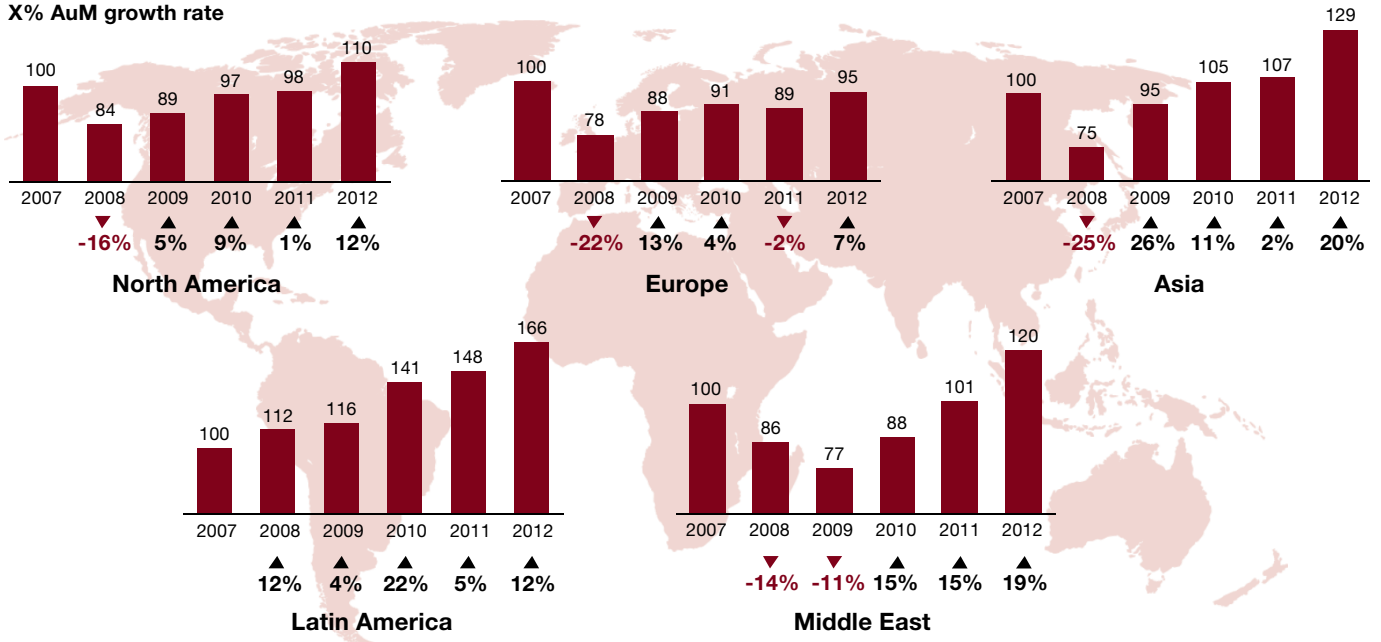
Latin America was the only region to notch positive AuM growth every year from 2007 to 2012.

growth, which was the primary culprit, other factors included the euro debt crisis, the transition from undeclared to declared money (which significantly reduced assets held offshore), and the growing confidence of wealthy citizens of emerging economies to manage their assets themselves.

Exhibit 2

Growth of assets under management worldwide, 2007–12, by region

Base = 100 in 2007
X% AuM growth rate



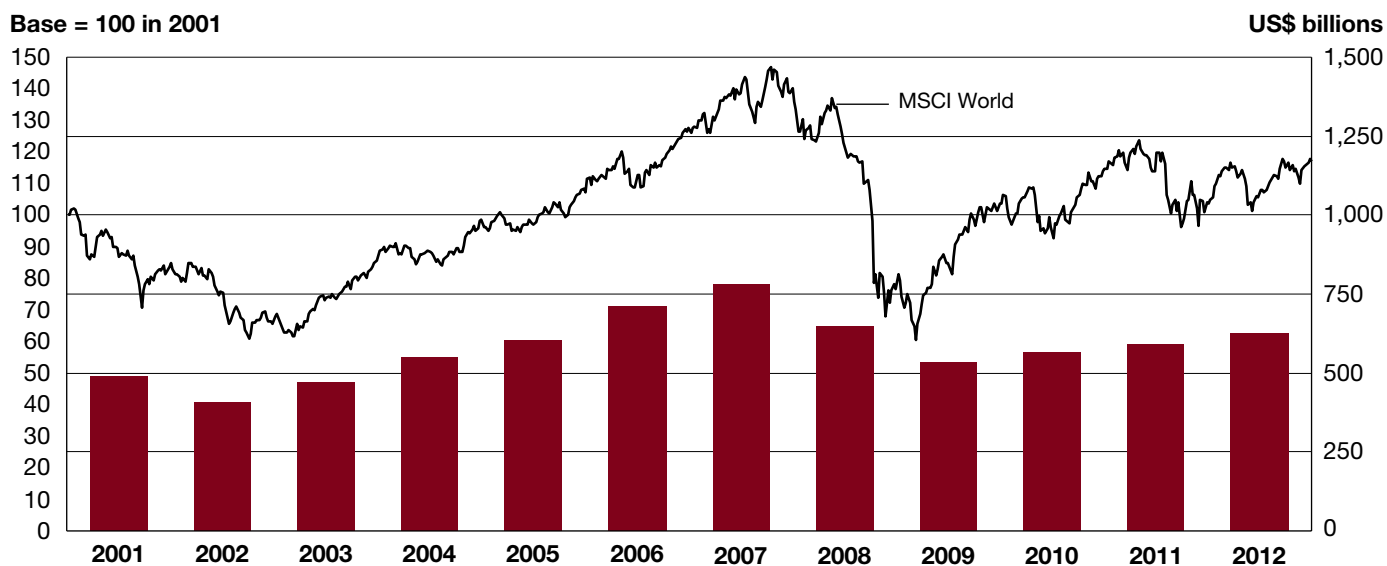
Source: Company reports (global sample), Strategy& analysis

Revenue and profits under pressure

Unfortunately, these AuM gains, although welcome, cannot mask the serious revenue and profit challenges facing the wealth management industry. Considering the strength of the equity market rebound since 2009, revenue growth among wealth managers has disappointed and lagged historical trends (see Exhibit 3). Profits also are on a downward

Exhibit 3

Market performance (line) vs. wealth management revenue (bars), 2001–12



Source: Company reports (global sample), Bloomberg, Strategy& analysis

trajectory worldwide. In other words, the recovery of the financial markets and the strong growth in AuM have not trickled down to wealth managers' bottom lines. Indeed, profitability is unlikely to return to previous levels unless wealth managers fundamentally change their propositions and operating model.

In Europe, revenues have stabilized at around 80 percent of precrisis levels for the same reasons that AuM growth has been relatively weak: political and macroeconomic uncertainties, new regulations, and the decline of undeclared offshore assets. Given these challenges, many European banks have tightened their belts. About half managed to decrease operating costs between 2009 and 2012, a remarkable accomplishment given the increase in regulatory complexity at the time. Unfortunately, this cost discipline could not entirely compensate for revenue declines. The average cost/income ratio rose from 60 percent in 2007 to 78 percent in 2012, and average net profit margins dropped by more than half, from 37 percent to 16 percent (*see Exhibit 4, page 12*). Performance varied among European banks. About 40 percent of players still maintain healthy margins of greater than 20 percent, while 20 percent of banks struggle to turn a profit.

North American wealth managers have fared better than their European counterparts. The financial impact of new regulations was less painful in North America than in Europe, and its cost management efforts were more effective because firms could reduce head counts more easily (they did so by almost 10 percent in response to the financial crisis). Given that personnel costs account for about 65 percent of total operation expenses in Europe and 58 percent in North America, this flexibility is a significant advantage. North American profit margins, which dropped from 29 percent in 2007 to 14 percent in 2009, recovered to 21 percent in 2012. Today, expenses in the U.S. are more or less rising alongside revenue growth, and the cost/income ratio trend has been flat since 2010.

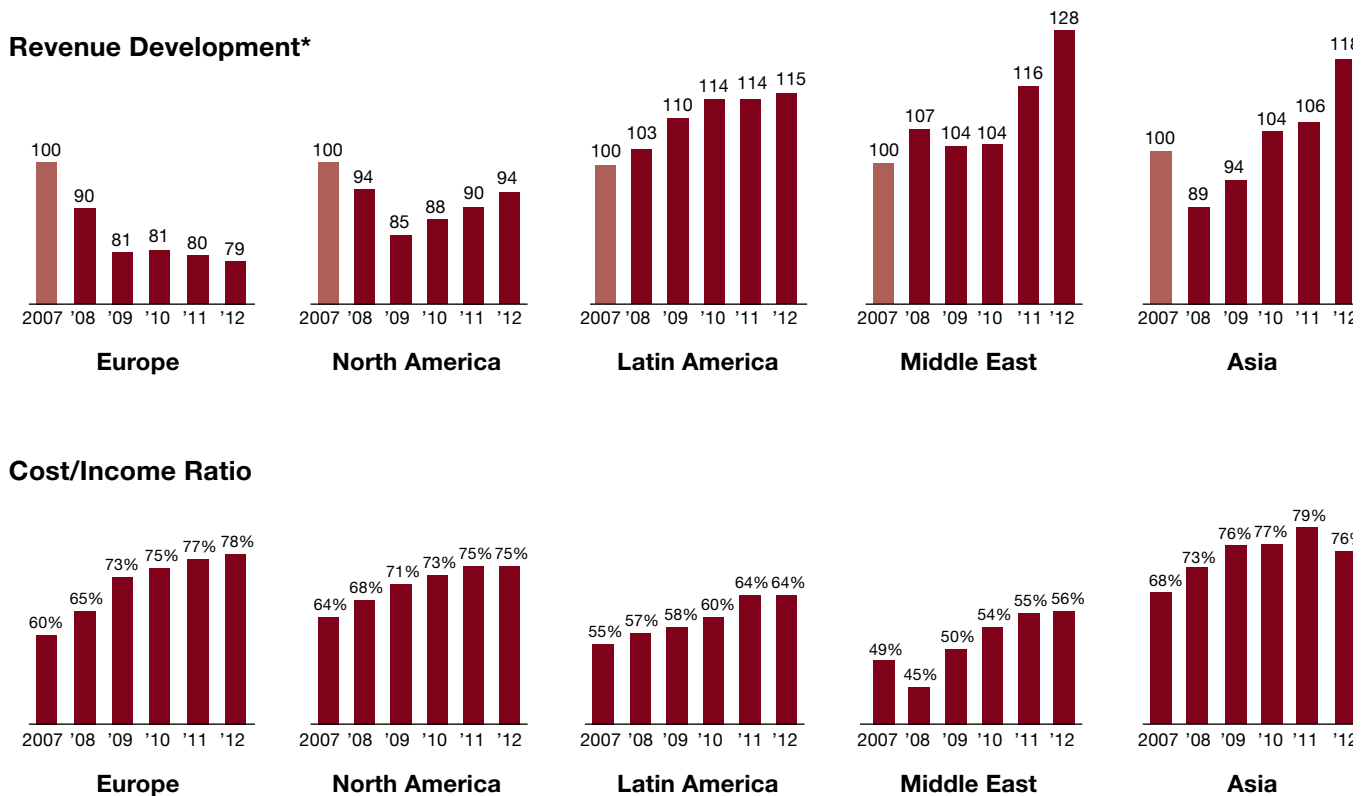
To some degree, Middle East wealth managers are victims of their own success. The robustness of their AuM has attracted new players, especially local banks, and intensified price competition. These entrants, coupled with increasing regulatory costs, caused cost/income ratios to rise from around 49 percent in 2007 to 56 percent in 2012. These ratios are still significantly lower than those in other regions, however, thanks to higher lending rates and relatively simple banking products with higher margins.

Regulations have also weighed on the operating efficiency of Asian wealth managers. Various initiatives — such as the focus on tax transparency among Asian financial centers — drove cost/income ratios

from 68 percent in 2007 to 79 percent in 2011. Efficiency ratios and profits improved in 2012 thanks to double-digit revenue growth and demand for more profitable advisory offerings. Still, the average net profit margin of 12 percent in 2012 remained far below the precrisis level of 30 percent.

In Latin America the vigorous AuM growth rates of recent years have been poorly reflected in the top-line performance of Latin American wealth managers. Revenue was virtually flat from 2010 to 2012, mostly

Exhibit 4
Revenues and cost/income ratio for major regions



* Revenue development of average wealth manager for each region (2007 = 100).

Source: Company reports (global sample), Strategy& analysis

due to declining spreads in Brazil, the region's largest wealth management market. Meanwhile, the region's cost/income ratio rose by almost 10 percentage points, from 55 percent in 2007 to 64 percent in 2012, and profitability has come under pressure. One factor is industry investment in innovative products and services for private banking clients, who increasingly demand technical expertise and holistic investment advisory offerings. This expectation has required players to put significant effort into the development of key capabilities and differentials. Since January 2013, AuM growth has started to slow down, mainly driven by rising economic and political uncertainties in the region. We expect this trend to continue over the next two years, further challenging players to increase differentiation and to act upon efficiency and scale.

Despite this mixed picture, market participants generally agree that the worst of the financial crisis is behind them and that profit margins are likely to improve over the next three years. Few believe the industry will return to the precrisis way of doing business, however. Looking forward, AuM, cost/income ratios, revenues, and profits will be driven by an intermingling of complex regulations, the rapid advance of digitization, evolving client behavior, and a fluid competitive landscape driven in part by the influence of digitization and the rise of the emerging markets.

New rules and regulatory challenges

The financial industry faces an unprecedented degree of regulation, covering a wide range of issues: capital, liquidity, proprietary trading, derivatives, corporate governance, and the transparency of offshore assets and income. These costly, complex rules have become a major — if not the most important — factor affecting the strategy of wealth managers. This is true globally, although European firms have arguably experienced the most pain; regulations on the continent have driven overall cost increases by 5 to 10 percent since the financial crisis.

If there is any good news on the regulatory front, it's that new global rules are finally taking clear shape, ending years of uncertainty about how to prepare. Also, in an ironic twist, these regulations will likely raise the industry's barriers to entry, which may ultimately help wealth managers preserve their margins. We see the major regulatory challenges for wealth managers falling into two main categories: taxation and transparency, and client protection and suitability.

Taxation and transparency

New rules on international compliance and transparency have radically changed the climate for tax havens. The two most significant changes, so far, are the U.S. government's new Foreign Account Tax Compliance Act, which places pressure on banks in every country to disclose the bank accounts of U.S. citizens, and the new withholding tax agreements between the U.K., Austria, and Switzerland. Most interviewees assume the Organisation for Economic Co-operation and Development will ultimately push for full tax transparency among all its member states — with automated information exchange becoming a new reality for offshore banking.

If this proves to be the case, players will need to reevaluate their offshore strategies. They will feel pressure to withdraw from some offshore markets and to focus on those where they have a clear value proposition, growth prospects, and proper compliance capabilities. Particularly in Western Europe, the replacement of undeclared offshore

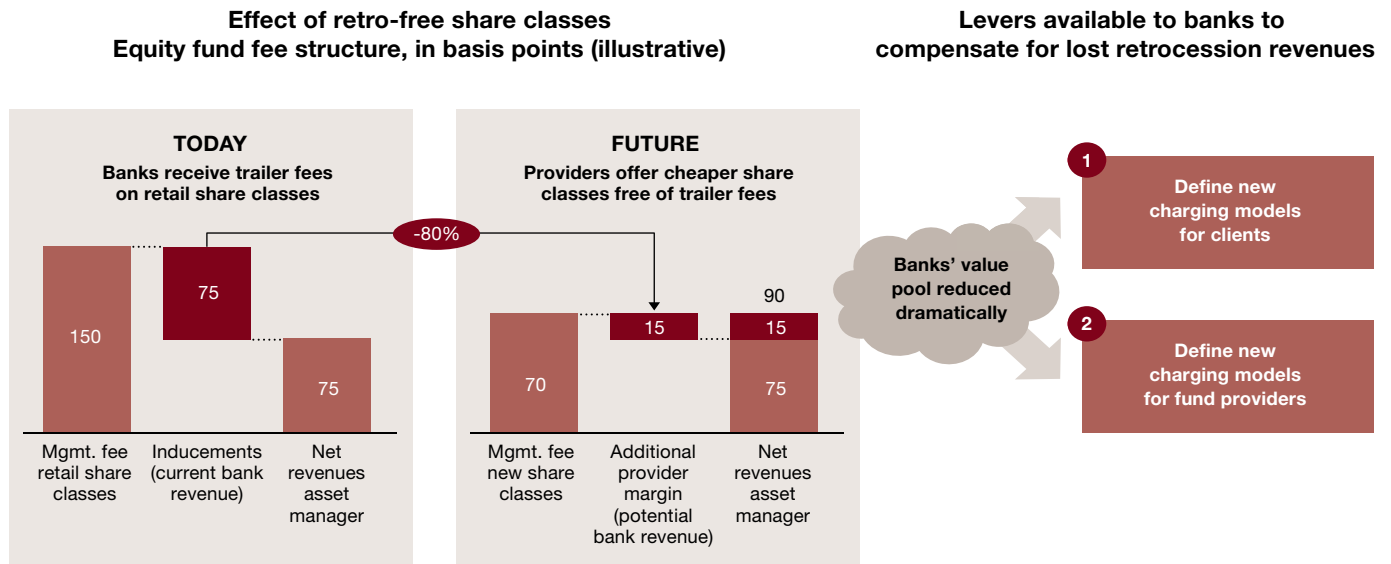
assets with declared offshore assets with full tax transparency will demand a much stronger investment management proposition. At the same time, new regulations may challenge offshore client service; this is a key element in the current draft of the European Commission's Markets in Financial Instruments Directive (MiFID II), which is expected to be implemented in 2014 or 2015.

Client protection and suitability

Besides creating taxation and transparency issues, new regulations are also changing traditional distribution, compensation, and pricing models in the wealth management industry, altering well-established ways of doing business.

In the past, product manufacturers paid banks handsome distribution remunerations (“retrocessions”). But recent legislative initiatives aimed at eliminating conflicts of interest — such as MiFID II and the Retail Distribution Review — spell the end for these business practices (*see Exhibit 5*). The U.K. has banned retrocessions since the beginning of

Exhibit 5
The future of retrocessions



Source: Strategy& analysis

2013, and stricter regulations are expected soon in the European Union (E.U.) and Switzerland. Most of those surveyed expect that these bans will lower product costs for clients and profits for banks — as has already proven the case in the United Kingdom. Interviewees also expect that integrated players with their own asset management capabilities will prove more profitable than pure distribution banks going forward.

On the issue of “suitability” — the matching of riskiness to client risk tolerance in financial guidance — regulators have pushed national and international client protection initiatives such as packaged retail investment products to improve client information, eliminate conflicts of interest, and document client meetings. The current draft of MiFID II also contains suitability rules. For example, a client relationship manager (CRM) must be certain that a client is sophisticated enough to understand the financial markets and a particular investment’s associated risks. If the client lacks sufficient understanding, the CRM is at risk of being sued for “mis-selling.” Suitability rules like this increase sales and marketing risks for wealth managers, along with their cost burdens.

Client behavior

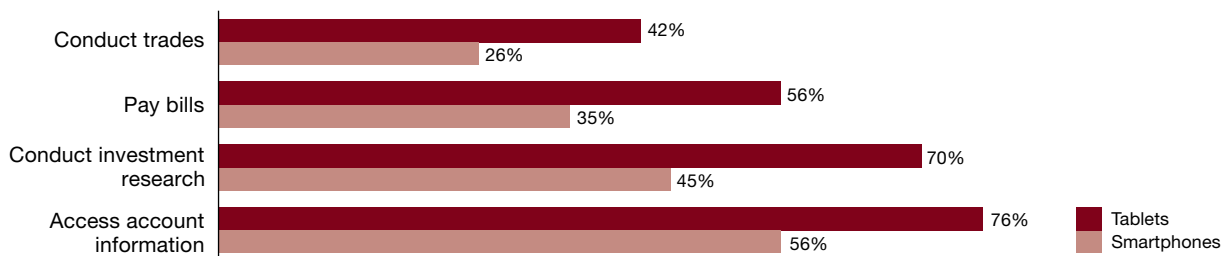
Besides the myriad regulatory issues reshaping the global wealth management landscape, the industry must also placate clients whose daily experiences on sites such as Google and Amazon, and on devices such as smartphones and tablets, are influencing their expectations for wealth management. Clients want plentiful, transparent information at their fingertips, as well as the freedom to conduct research and make decisions wherever and whenever it's convenient. That might be at home on the couch after the kids are put to bed, or on the train commuting to and from work (see Exhibits 6 and 7, page 18).

As more and more high-net-worth individuals are motivated to use technology and emerging channels to manage their wealth, the industry is moving toward a 24/7 multichannel, digital environment dictated by clients — especially for standard products and services. About half of wealth managers surveyed expect the number of self-directed investors to increase, while only 6 percent expect it to decline.

Exhibit 6

HNW clients' use of mobile devices for financial and account management

Percentage of respondents

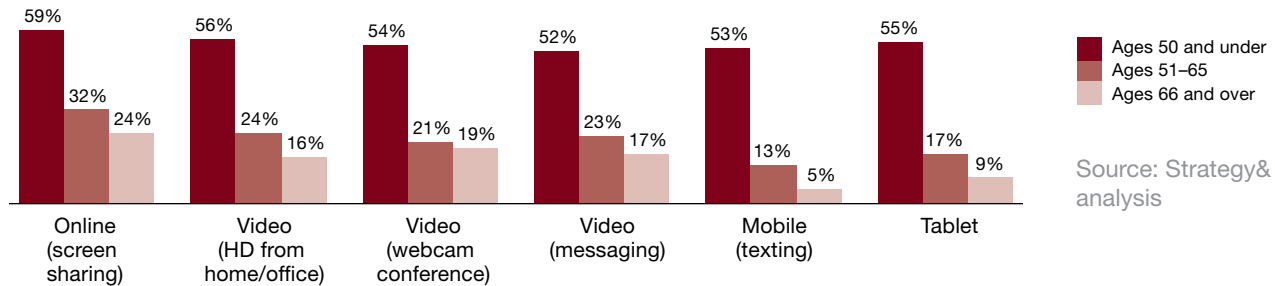


Source: Strategy& analysis

Exhibit 7

HNW clients (by age) interested in using technologies with advisor

Percentage of respondents



Source: Strategy& analysis

Not surprisingly, younger HNWI's embrace the new technologies with gusto, and their digital approach to wealth management has become much more sophisticated. Generation Y investors (those born since the early 1980s, currently in their 20s and 30s), are not simply making trades online. They are joining peer-to-peer networks and other virtual communities to benchmark their own results and make investment decisions. Some platforms leverage social media by allowing participants to "follow" successful portfolio managers and replicate their portfolios and trades.

Clients still desire personal consultations for more complex wealth management decisions, but they also expect these interactions to occur whenever and wherever they want.

Competitive landscape

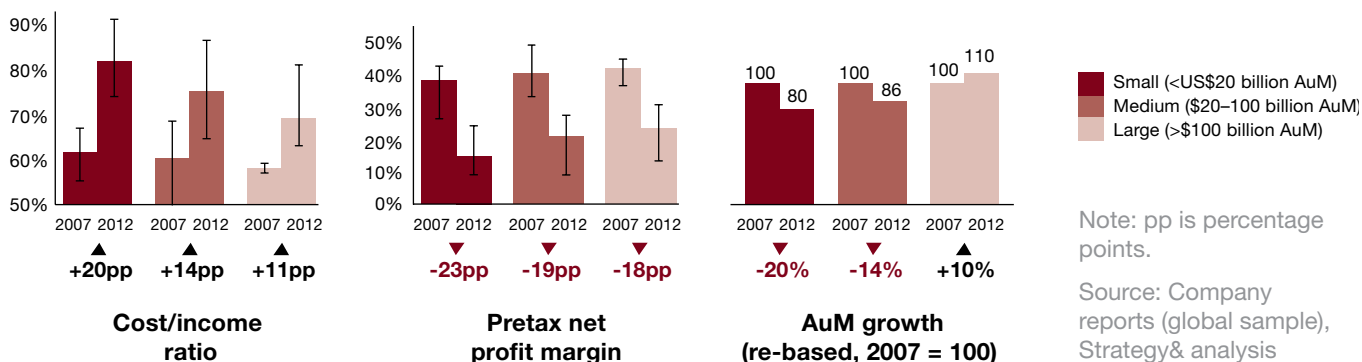
These global regulatory trends and evolving client behaviors, particularly around technology, are reshuffling the competitive landscape. Players are consolidating in developed and emerging markets, and innovative digital players are making inroads.

Acquisitions and spin-offs

The costly operating environment is hurting wealth managers of all sizes, but large players are weathering the storm better than small players that increasingly lack the necessary scale — particularly related to IT costs — to keep their businesses viable. Since 2007, small banks have experienced slower AuM growth, greater increases in cost/income ratios, and a faster decline in profit margins than large and medium-sized organizations (see Exhibit 8). This has driven a wave of acquisitions and consolidation, which is expected to continue.

Exhibit 8

Performance by size of wealth management players (European wealth managers only)



At the same time, many international universal banks are looking to shed overseas wealth management operations that are marginal or unprofitable, and that provide potential reputational risk, especially as they adjust to tougher capital and regulatory requirements at home. Not long ago these banks invested heavily in places such as the Middle East, setting up dense local networks to serve clients and family offices. But in the past three years, many have partly or fully withdrawn from their offshore activities. This has benefited local banks that have rapidly gained investment expertise and strengthened their private banking offerings.

Typical buyers in the Middle East and other developing markets have been local players looking to increase their wealth management footprint. For example, Standard Chartered bought Morgan Stanley's private wealth management business in India, and HSBC merged its Oman business with a local player. Some private banks in these markets have gone a step further — buying spin-offs from universal banks to make their own overseas moves. Thus, Union Bancaire Privee (UBP) bought Lloyds' international private banking business and Julius Baer integrated Merrill Lynch's international non-U.S. wealth management business.

The rise of independents

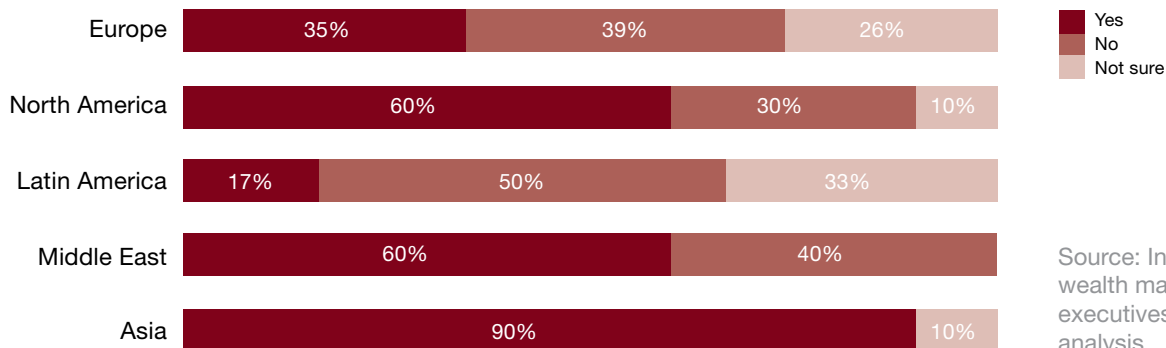
At the same time, and somewhat at odds with the consolidation trend, is the rise of independent wealth managers unaffiliated with large banks. Large financial institutions suffered significant — and seemingly permanent — reputational damage during the financial crisis. Many HNWI's are now inclined to move their financial dealings to independents, such as multifamily offices that leverage open banking platforms and can offer an array of products and services that were once available only from larger institutions.

Although this is a broad global trend, differences by region exist (see *Exhibit 9, page 21*). Asia, where the market is still relatively small, is particularly fertile ground; new players are opening their doors at a rapid pace. In Europe and North America, the independents are more mature but are a popular alternative to large financial institutions that continue to suffer negative headlines. The demand for independents is weakest in Latin America, largely because more than 50 percent of the region's assets reside offshore.

Exhibit 9

Will independent players gain market share?

Independent players gaining market share in importance in many markets in recent years. Do you expect this trend to continue?



Source: Interviews with wealth management executives, Strategy& analysis

Enter new digital players

Three types of digital providers are targeting the wealth management market: investment advisors that provide real-time customized advice including goal setting, allocation, monitoring, and rebalancing; portfolio review providers that offer financial management portals to track portfolio and advisor performance; and investment communities that offer a platform to share and discuss investment ideas. But their long-term viability is uncertain. So far these digital innovators have mainly managed to destroy the value pools of incumbent players by offering digital services for free or at a much lower price point, rather than taking market share. Nevertheless, they are forcing incumbents to make significant technology investments to keep pace.

Over time, a more serious threat to today's wealth management firms will be established online brokers that decide to complement their transactional expertise with wealth management services. For example, Charles Schwab has made several acquisitions to expand its fee advisory offerings and is rolling out 80 branches in 2014. It has already enjoyed some success: Revenue from advisory services saw compound annual growth of 30 percent from 2009 to 2012.

Four response priorities

We believe wealth managers can keep pace with the industry's changing dynamics and capitalize on the recovery in 2014 and 2015 by concentrating on four priorities: focus on markets that offer superior growth by applying a "capabilities lens," rethink the value proposition; go digital; and adopt a *Fit for Growth* approach.

Apply a capabilities lens

First, wealth managers need to define clearly which markets they intend to play in — onshore and/or offshore. As noted earlier, wealth managers are understandably drawn to markets that promise superior underlying growth, but the expense and patience required to compete in some of these markets make profits elusive. Going forward, wealth managers need to apply a capabilities lens to identify the markets where they can most effectively compete and maintain long-term differentiation. Even the biggest wealth managers can no longer be all things to all people.

This inevitably requires some difficult trade-offs in terms of markets to play in, client segments to target, and business models to adopt. Managers need the discipline and rigor to stick to whatever capabilities strategy they choose and execute diligently over time.

Rethink the value proposition

New regulations on suitability and compensation, as well as the demands of clients for tailored solutions and digital access to financial information, are forcing banks to rethink how they bundle products and services in tiered service offerings that appeal to different client segments and enable the wealth manager to control the cost-to-serve

appropriately for the different segments. These packages should include digital client communication elements including “post-advisory services” such as notifying clients when a product drops off the bank’s recommendation lists.

The industry also needs new pricing models. Clients want to know exactly what they are paying for, and regulators want clients to have the ability to compare prices across the industry. Transparency is the name of the game. This will fundamentally change how wealth management services get priced. Two-thirds of banks believe that pricing will shift from fee- and transaction-based models toward “pay for advice” or flat-fee arrangements. In fact, some banks have already introduced such pricing models, particularly in the U.K., where new client protection and suitability laws are already in effect.

Though the U.K. experience suggests that pay-for-advice pricing will become more widespread, many wealth managers still doubt the HNWI’s willingness to pay for advice. Self-directed clients in particular are highly price sensitive and shop for the lowest rates and commissions. But even less self-directed, less price-sensitive investors increasingly demand transparent pricing schemes, such as flat fees for basic packages, all-in fees for advanced packages, and volume/transaction fees clearly linked to established thresholds.

With retrocession payments phasing out, banks may need to reduce their product partnerships for economic reasons and build or buy their own menu of offerings to maintain an adequate diversity of investment options. On the flip side, if product providers choose to vertically integrate by building or buying in-house retail distribution capabilities, they could compete effectively against wealth managers, given their pricing advantage.

In a world of increased transparency around advice and investment performance, wealth managers must perform more rigorous risk profiling of clients and take a more controlled and centralized approach to investment management for both tactical and strategic asset allocations. This could represent a major culture change for many wealth managers, but those that are making the change are already reaping the benefits.

Go digital

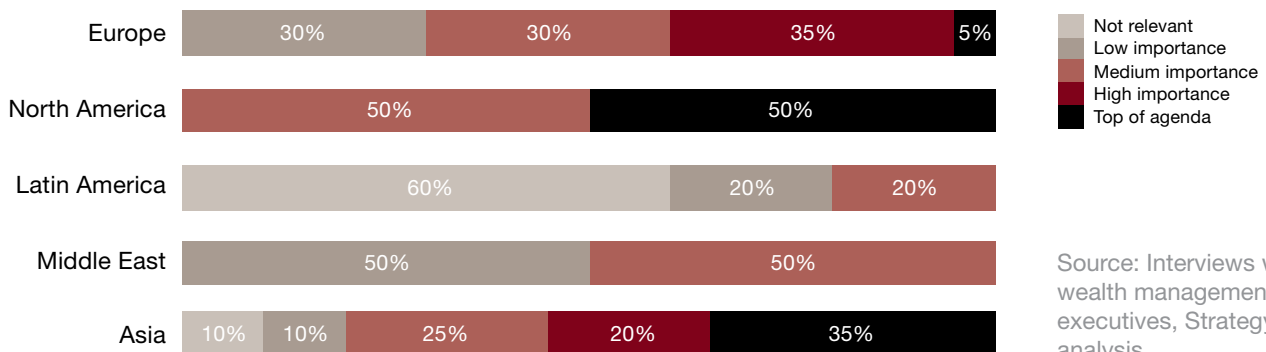
The perceived imperative to digitize the business model varies by region to a surprising degree (see Exhibit 10). In the U.S., digitization is a top priority. Wire houses see digitization as a way to profile and segment clients for target product and service offerings. Discount brokers see digitization as a way to provide “high touch, low cost” services. Wealth managers use digitization to track client interactions for compliance and audit purposes. And, overall, managers in the U.S. tend to be on the lookout for novel digital offerings they might mimic, acquire, or gain through partnership.

In other parts of the world, digitization is a greater priority for large players than small players. Some even argue that being non-digital is a differentiator and part of their value proposition. Overall, Latin American wealth managers gave the lowest priority to digitization — 60 percent said it’s not relevant, and 20 percent more described digitization as a low priority. This despite the fact that digitization is critical to fulfilling wealth managers’ stated priorities for 2014–15: to better understand client needs, generate client-centric holistic advice, and deliver a superior client experience. Demographics may influence digitization’s low priority among wealth managers in general. New

Exhibit 10

Importance of digitization by region

How prominently is the topic “digitization” positioned on the top management agenda?



technologies appeal strongly to clients in their 20s, 30s, and 40s, but some HNWI clients are 65 years of age or older and may still prefer low-tech, high-touch interactions with an advisor.

There are five pillars to a digital agenda: *Build a 360-degree view* of clients' assets and behavioral profiles to provide high-quality, competitive, and personalized advice. *Provide high-speed, always-on access to portfolio, research, and advice* through mobile technologies, such as advisor–client chat, videoconferencing, and interactive applications (financial planning and portfolio simulations, for example). *Enhance the quality and personalization of advice* using “big data” analytics to identify the most relevant opportunities for each client. *Streamline and automate back-office operations* to eliminate time-consuming manual activities. *Establish a social media presence* to evaluate client sentiment (through mining text on blogs and forums), to communicate with existing clients (for example, by enabling advisors to connect with LinkedIn groups and Twitter followers), and to strengthen the financial advisors' community (using internal blogs and enterprise social networks, for instance).

Adopt a Fit for Growth approach

Wealth managers have worked hard over the past two years to lower their cost bases, but the effort has not been enough to overcome the escalating cost of doing business. In response, wealth managers need a strategic, ongoing approach to fixing their cost base and positioning themselves for growth. Taking a *Fit for Growth* approach starts by articulating a clear and compelling cost agenda from the front line to the back office; continues with building lean and resilient processes, systems, operations, and organization structures; and culminates in the institutionalization of capabilities that keep resources flowing to “good” costs and away from “bad” costs. Growth markets need an approach to cost management very different from one appropriate for mature markets.

For wealth managers, the process of cutting costs while growing stronger manifests itself in several identifiable moves: Exit markets of nonstrategic importance where the company does not have the capabilities to win, and make sure no stranded costs remain; set client profitability standards and, when these standards are not met, fix, sell, or close the book; introduce tiered service offerings to align cost-to-serve with client value; avoid duplicating activities across the

organization (e.g., multiple house views), which drives up costs, confuses clients, and creates compliance risks; build or buy only when differentiation is possible — otherwise partner with low-cost specialists across the value chain; and avoid damaging fat-tail events by adopting careful policies for managing reputational and operational risks and a zero tolerance for transgressions.

An attractive industry

Despite the trials of the last few years and the challenges that lie ahead, wealth management is an attractive growth industry for the long term with return on equity superior to that of any other financial-services segment. As noted earlier, the number of HNWIs is growing two to three times faster than GDP growth in many regions of the world; that, plus the continued strong economic activity in the world's most robust emerging markets, bodes well for the industry.

Yet this positive outlook does not make the industry's transition any easier to manage today. Given the regulatory load, changing client behavior, and new competitors enabled by digitization, the costs of doing business have never been higher and earnings are under intense pressure. However, we believe that by focusing on the priorities set forth in this paper — apply a capabilities lens, rethink the value proposition, go digital, and apply a *Fit for Growth* approach — wealth managers can navigate the industry's transformation and capitalize on the continuing global recovery in 2014 and 2015.

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