

## *Navigating to tomorrow: serving clients and creating value*

### Global Private Banking and Wealth Management Survey 2013

*Helping senior  
leadership chart a  
course for the future  
of wealth management*

*June 2013*





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## Foreword

*We would like to thank each and every one of the 200 organisations across 51 countries who participated.*



*We are pleased to present the findings and insights from the 20th Anniversary edition of our 2013 Global Private Banking and Wealth Management Survey.*

We are delighted to present the 20th Anniversary Edition of our Global Private Banking and Wealth Management Survey.

Participants in this edition of our Survey series are struggling with challenges around a combination of major external changes. Our Survey indicates short-term margin and growth pressures in many markets due to an adverse macro-economic environment and continuing regulatory pressures placing demands on the business.

Participants see the future as being less about providing products and services and more about delivering solutions and advice. Going forward, trust, reputation and brand will all play a greater role in client propositions and client perceptions of value.

The core theme of this year's Survey is that there remains much to be done by the industry. In our analysis, trusted adviser status has not been fully restored and culture and ethics have now come to the forefront of the trust agenda. Existing challenges around operations, technology and next generation wealth transfer need to be addressed, but in our view, achieving excellence in client experience and executing effective transformational change now need to be the priority areas of focus for the industry.

<sup>1</sup> "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

### *Pervasive regulatory pressures are driving cultural change.*

Since we began this Survey 20 years ago, reputation has been a recurring and important theme. Popular consensus suggests that trust in financial services is absolutely essential for society, yet we seem to have reached a low tide mark. The private banking and wealth management industry's trusted adviser status must be restored if it is to prosper sustainably.

But rebuilding a reputation is easier said than done. Behavioural change is a challenge, requiring time, constant messaging and clear role modelling and tone from organisational leadership. Aligning the powerful lever of reward and incentives to appropriate behaviours is fast becoming the norm. Client outcomes, doing the right thing, putting the needs and interests of clients ahead of simply maximising profit are all areas of focus. Put simply, "we do it because it is the right thing to do (and we still make money)" is the new call to action for the industry.

### *The quest for operational efficiency and differentiation through technology continues.*

Participants have been investing for significant future improvement and some are now through the first phases of their transformation agendas. Cost-income-ratios remain high, particularly in established markets, and there is now a greater emphasis on sharing and outsourcing solutions to further improve efficiency and improve front to back operational risk profiles.

Digital technology has been a focus for many organisations that must now develop plans to build digital trust through improved security to meet rising cyber threats.

### *Traditional approaches to product and service provision are changing.*

The emphasis is now on solutions and a shift away from perceived commoditised products to advice. The shift to open architecture will continue and organisations are now focused on rationalisation and more specialist products. Greater transparency in pricing and the abolition of retrocessions in some countries is leading to margin pressure.

The industry value chain is evolving with greater specialisation and focus on the key determinants of success. As a result, new and innovative competitors today compete alongside traditional industry players.

### *Understanding the client's perspective of value is only getting tougher.*

Respondents need to understand their clients better. While respondents are clear that many aspects of their client relationships are effective, key demographic trends, (including the rise in importance of Generation Y and of women as specific client segments), now need to be embedded within segmentation techniques, next generation transition management needs to improve and profitability measurement needs to become more sophisticated.

Respondents rank themselves as needing to improve in some key areas of client value added, especially in client reporting, digital offerings and provision of broad based advice. The industry needs to become smarter at understanding what clients really value, and in turn how much they will pay for the value added. Private clients tell us that they are currently underwhelmed by how they are communicated with by their wealth managers.

*The industry is now at an inflection point. There are two strategic priorities: achieving excellence in client experience and managing transformational change.*

In our view, the industry is now at an inflection point and there are two overarching strategic priorities for wealth managers: achieving excellence in client experience; and managing transformational change.

**Achieving excellence in client experience:** Across the entire industry, transforming the client experience must be the key strand running through a private bank or wealth manager. Understanding how the key themes discussed herein affect the overall client experience we believe will be key to achieving differentiated, and economically sustainable, business performance. The value exchange between wealth manager and client needs to be fairly balanced. Achieving this balance in the value exchange will require a significant shift in both leadership mindset and front office capabilities for most industry players.

**Managing the speed and the effectiveness of change:** Most of our respondents are currently undertaking what they see as significant transformational change. More than half are not fully satisfied with the

traction being achieved or that necessary change is occurring with sufficient speed. Our analysis shows that the industry is part way through its transformation and, in many areas, our respondents appear to have underestimated the level of change required to meet existing operational challenges. It is understandable that transformation programmes are proving to be challenging in light of the sheer scale and breadth of the task at hand and the costs involved. But industry players will need to do more across the spectrum of their business and operating models than has been the case to date.

There remains much to be done, but for those organisations which transform effectively across the spectrum of their business, the opportunities are significant.

This year's survey again sets out a snapshot of the current state of the industry and provides forward looking views on its likely evolution over the next two years. As such, it provides a useful guide to executives on the future of wealth

management as a business. Executives will gain a perspective on how the industry intends to prioritise its response and the level of organisational agility that is necessary for success. As we have done in our previous reports, we have complemented this edition with a number of PwC Points of View giving our opinion and views on key industry topics.

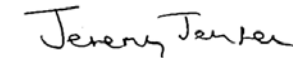
We thank each of the 200 organisations across 51 countries who participated for their time and valued contribution, which is greatly appreciated.

We hope that you find this Survey both valuable and thought provoking. We would be delighted to discuss any of the topics within this report in more detail. Alternately please do not hesitate to contact any member of the global wealth team at [wealth@pwc.com](mailto:wealth@pwc.com), or your local PwC contact.

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01



02

## Survey headlines

*Pervasive regulatory pressures are driving cultural change.*

*The quest for operational efficiency and differentiation through technology continues.*

*Traditional approaches to product and service provision are changing.*

*Understanding the client's perspective of value is only getting tougher.*

## Industry strategic priorities

*Achieving excellence in client experience*

*Managing the speed and the effectiveness of change*

### *Performance and change*

Some progress has been made in rebuilding client confidence and trust, but more remains to be done. Doing the right thing is the new call to action as firms focus on cultural and ethical behaviours.

Continued margin pressures in established markets means that cost and efficiency management needs to be taken to the next level.

Newly emerging markets are leading the way on cost managed growth.

Back office operations continue to lag relative to the front, but participants are investing in systems and technology and expect this to pay dividends in the near future.

There has been reshaping activity as industry players refocus and restructure, and the industry is now at an inflection point.

### *Markets and clients*

Wealth management market growth varies tremendously by geography and this multi-speed market place is here to stay. Newly emerging markets are showing highest forecasts of net new money growth.

Singapore is closing the gap on Switzerland as an International Financial Centre for private client assets.

Non-traditional segment approaches that look beyond AuM are on the rise.

Participants are failing to capitalise on the intergenerational opportunity.



03



04



05



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### *Products and services*

There is downward pressure on pricing for simple products and participants are focussing on fee revenue from financial planning and advice.

Fewer products will be sourced in-house in the future as participants predict a continuing trend for third party product provision.

The transparent unbundling of products and services is creating opportunities for new entrants within the wealth value chain.

There is a greater focus on pricing transparency in some key markets.

### *Human capital*

The bar for Client Relationship Managers' (CRMs) skills and performance is rising—their role is changing as new business models evolve, requiring a broader range of skills.

CRMs will play a critical role as the industry seeks to rebuild trust. With increasing client demands, this will require them to focus on the areas in which they can add value.

Competition for talent will increase. Organisations need to take a holistic view, to identify, invest in and retain the talent they need.

With the regulatory environment changing, remuneration needs to be kept under review and will not be the only means that successful organisations use to motivate their people.

Human capital management increasingly will be a source of competitive advantage. Organisations need to increase their focus on talent management and building a culture where employees can flourish.

### *Operations and technology*

The sector continues to report too many manual processes.

Technology investment is expected to focus far more on digital capabilities, including mobile, in the next two years.

In the quest for scale, respondents are seeking alternative arrangements for operational platforms, including more cross-divisional sharing within parent groups, and all players are considering more third party operational outsourcing.

### *Risk and regulation*

Compliance risk is now top of the risk management agenda and has overtaken reputation.

The conduct risk agenda remains a key focus and this will move organisations into the areas of culture, ethics and behaviours.

Organisations are struggling to keep pace with the scale and speed of current and future regulatory change.

Tax information exchange remains a priority for cross border players.

The cost of regulation continues to rise with participants expecting a significant increase in the next two years.

The industry continues to underplay cyber security risks.

# *Performance and change*

Some progress has been made in rebuilding client confidence and trust, but more remains to be done. Doing the right thing is the new call to action as firms focus on cultural and ethical behaviours.

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Newly emerging markets are leading the way on cost managed growth.

Back office operations continue to lag relative to the front, but participants are investing in systems and technology and expect this to pay dividends in the near future.

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***“The inexorable move towards transparency and consumer protection will cause significant disruption to business models unless dramatic action is taken. For many firms, it may already be too late.”***

- CEO, EMEA, Global wealth manager

### **The C-Level Agenda: Adapting the organisation to a fast-changing environment**

The industry is now at a strategic inflection point. Our respondents paint a picture of both short-term pressures on margin and regulatory scrutiny and medium-term challenges in regard to collaboration and providing innovative solutions, trust, reputation and brand and operating in a multi-speed marketplace. In response to these challenges, wealth managers, particularly in established markets, are now reviewing their strategies, business models and value chains and are transforming themselves to re-establish client and commercial advantage.

For established markets, the environment remains challenging. Mounting regulation, sluggish growth and slower wealth creation are all conspiring against them in the short-term. For emerging markets, the picture is brighter, with robust market growth, higher wealth creation and younger clients.

Against changing industry shifts, our survey respondents also expect an upsurge in merger and acquisition activity, as some organisations in established markets choose to exit or restructure the business, while others merge to gain scale and players from emerging markets seek to diversify geographically and build additional capabilities quickly.

### **Key industry themes**

In the medium-term, respondents believe that there are new opportunities as their industry shifts from selling products to crafting solutions. For international players, there are also opportunities for a greater focus on emerging markets with higher levels of growth. Importantly, all participants recognise that trust, reputation and brand in future will play a greater part in clients’ perception of value. The next few years will likely see a significant reshaping of the sector and its various business models.

### **Short-term margin pressure**

The factors putting pressure on margins vary globally. These include: subdued client activity, more intrusive regulators and tax authorities leading to greater transparency, elimination of retrocession fees, as well as the growing cost of implementing regulation or paying fines. As a result, wealth managers are continually looking to find new ways to reduce cost in order to protect margins.

**Figure 1.1**

Top 5 industry themes that participants identified:

#### **Short-term pressures**

Margin pressure will continue in the short-term due to a weak macroeconomic environment, the volume of regulation and evolving nature of client needs—maintaining status quo will therefore be challenging.

Continuing regulatory scrutiny on institutions to evidence that the client understands risk and that appropriate and suitable products and services have been provided is placing increased demands on the client relationship managers, product specialists and the compliance function.

#### **Medium-term challenges**

The future will be less about providing products and more on collaboration and providing innovative solutions to clients to meet their objectives and goals.

Trust, reputation and brand will play a greater role in client propositions and perception of value.

Globally, emerging market economies will see higher levels of growth of wealthy clients and assets relative to the established economies.

### Continuing regulatory pressure

For most wealth managers, preparing to comply with multiple regulatory reforms simultaneously is proving very challenging, to the extent that it is beginning to trigger significant changes to both business strategies and operational models. This is particularly true in the established markets. This pressure is especially evident in the area of protecting clients, where regulators are continuing their scrutiny of suitability and appropriateness. The front office finds itself facing increased demands to deliver the best client experience while at the same time demonstrating compliance in advice and product provision.

### Shift from products to client solutions with trust, reputation and brand becoming more important

Looking to the future, wealth managers judge that medium-term opportunities will arise from a fundamental shift in how they serve clients. They are moving from a wealth management world of providing investment products to one where they craft innovative investment advice.

Survey respondents also foresee trust, reputation and brand playing an even greater role in client perception of the value their services deliver.

### Growth will vary across established and emerging markets

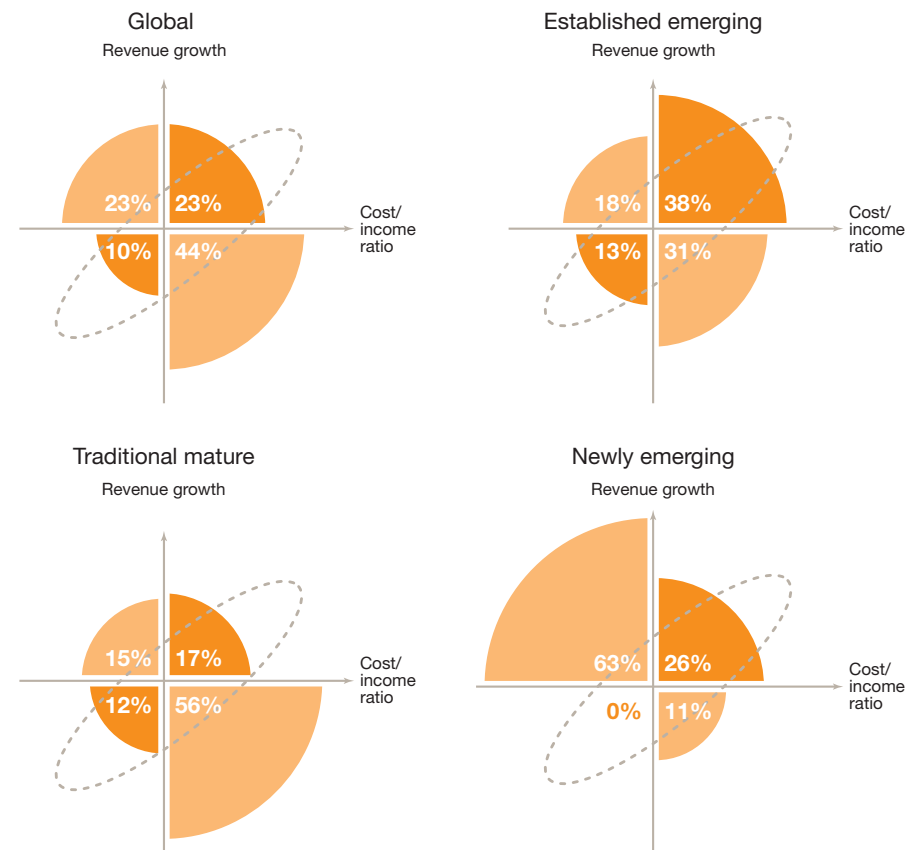
The industry is growing at different rates in different regions. We are in a multi-polar world—countries are at varying stages of growth and evolution. For example, the transfer of wealth across generations is a dominant theme in Europe's mature markets. In contrast, wealth management throughout Asia's emerging markets have a greater emphasis on wealth creation.

Adapting to these short and medium term issues is essential. Agile organisations that can adapt their market and client approach, serve their target clients and stakeholders well, protect their margins and transform their business models will achieve differentiation. They are poised to become the industry leaders of the future.

Figure 1.2

When looking at what our respondents told us about their costs and revenue expectations, we observed only a small group as performing well and a larger group facing uncertain prospects.

The charts below track cost-income data above and below 60% and revenue growth above and below 10%, by quadrant.



### Revenue growth trends

Participants achieved a global average of 17% revenue growth in 2012 compared with 2011, and this is expected to fall to 14% in 2013. To grow revenue, they expect acquisition of new clients to be the primary source of growth, but even so they're concentrating more on giving existing clients high-quality service and gaining a deeper share of assets.

Typically, these participants have initiated a range of strategic initiatives to acquire new clients and grow share of assets. These include developing new and improved service propositions, distribution channels and expanding client communities.

### Efficiency management in mature markets combats margin pressures

Wealth management costs are rising relentlessly as regulatory and operational pressures are expanding due to the rapid introduction of new technology systems that can meet the regulators' demands, while also improving the client experience.

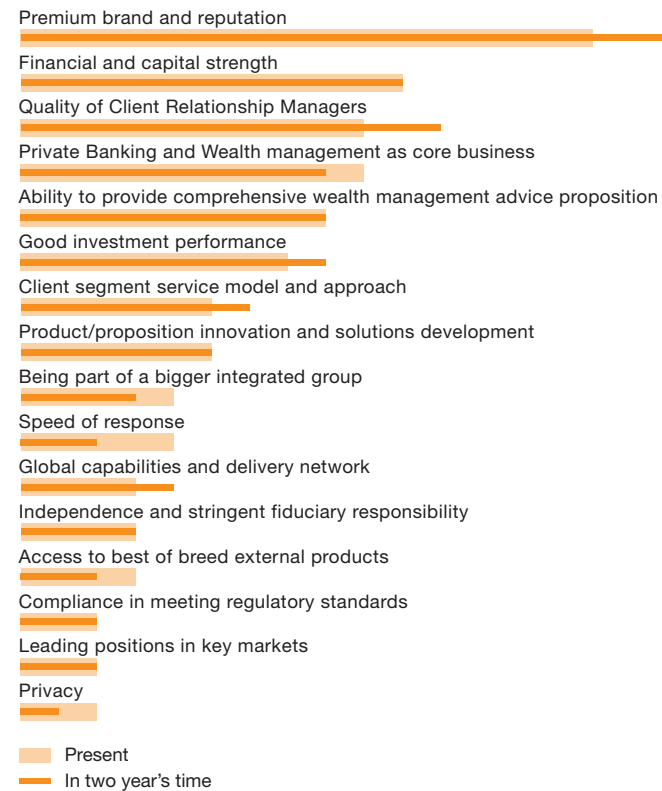
On a global basis, cost-income ratios remained at 69% during 2012. But respondents are implementing aggressive cost-cutting reorganisations which they expect, on average, will substantially reduce cost-income ratios to 64% in 2014.

Newly emerging markets are the winners in terms of cost managed growth, while established emerging markets continue to out pace traditional markets. In terms of cost reduction actions, participants are now beginning to exhaust the easier short-term ways of cutting costs. As they expect to achieve a further average cost reduction of 6%, they clearly need to act more radically.

Wealth managers are seeking to implement major productivity enhancements in key areas of their businesses. Furthermore, they are restructuring areas of their businesses in order to refocus them. On top of mounting cost pressures, they have to compete with new industry combinations and disruptive new entrants, many of whom are enabled by lower-cost, technology-enabled business models and attractive client value propositions.

Figure 1.3

Please rank your organisation's current top 5 differentiating factors now and in two year's time.



### **Differentiation targeted at a few key areas**

The industry faces a tougher, competitive environment. Participants are seeking to boost their differentiation in key areas by enhancing their brand and reputation, rebuilding their capital strength, improving the quality of their client relationship managers (CRMs), all while refining the propositions they deliver.

Premium brand and reputation remain wealth management's principal differentiators. Brand is becoming a more important part of the proposition and a differentiating factor. There is a greater need to preserve and enhance the reputation of the external brand, as it becomes important to external public perception of prospective clients, as well as to engendering client confidence.

Reflecting the attention of regulators on banks that are "too big to fail", and client awareness of this issue, participants regard capital strength as the second most important differentiating factor. The adequacy of capital is a lens through which the entire industry is viewed.

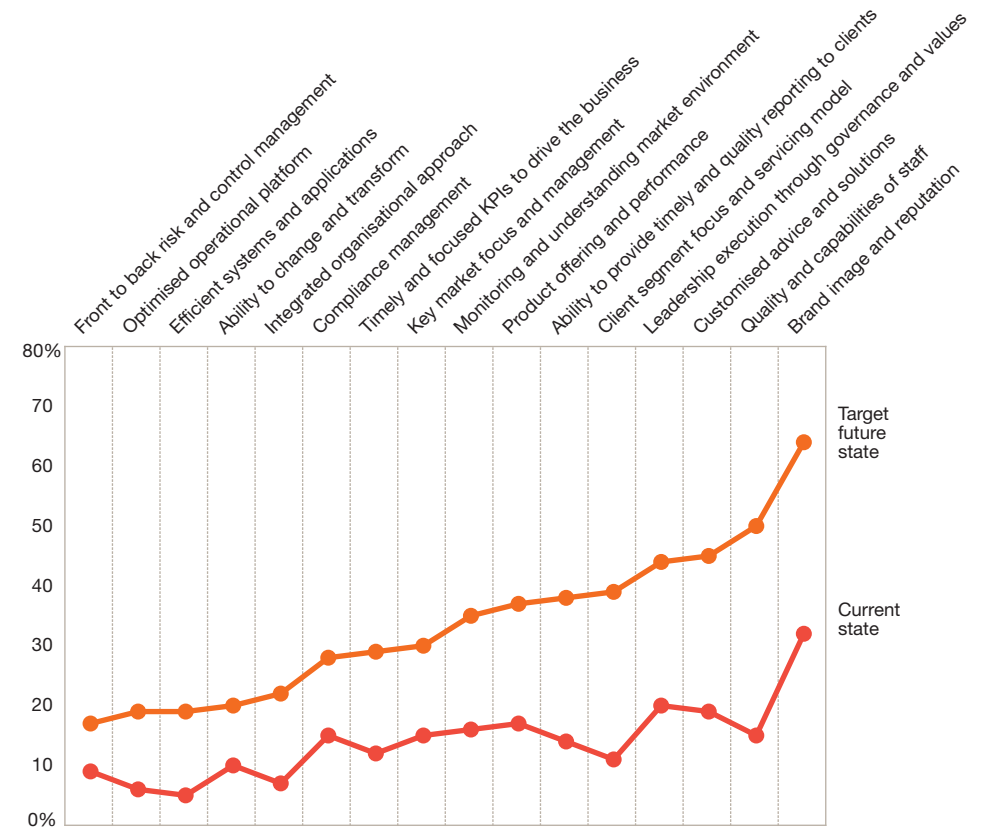
Unsurprisingly, participants still view the quality of their CRMs as being an important differentiator. Good CRMs not only attract and retain clients, they are key to complying with client-protection requirements. The survey revealed an emphasis on improving client value propositions in key areas such as comprehensive wealth management advice, investment performance, product innovation and solutions development.

### **Ability to change and transform becomes more critical**

To gauge the extent to which participants are responding to these changes across the industry, we asked participants to what degree they are transforming their organisations. The feedback further confirms the picture of an industry truly at an inflection point, as the majority (74%) of participants are either currently undertaking very or fairly significant organisational transformation. Progress with this transformation is proving challenging and only 39% of participants are either highly or very satisfied with their ability to change.

**Figure 1.4**

Please rate your organisation's current state in the following areas, and your desired target state in the next two years.



Based on respondents' answers to the survey, we analysed leading and high-performing aspirations from current to future state across a range of business areas and functions.

## *PwC viewpoint*

The competitive landscape of wealth management is reshaping

*There has been a great deal of recent reshaping activity as players refocus and restructure.*

The private banking and wealth management industry is reshaping as it moves through an inflection point.

There are a number of forces at work within the industry driving pressure on margins, including increased regulatory and tax scrutiny, driving client flows and compliance costs. For some industry players in many markets this has led to refocusing, with a strategic desire for some diversified financial services groups to refocus on core areas. Restructuring has also occurred with some wealth managers combining their wealth and asset management arms.

In addition, there have been divestments as well as acquisitions, reflecting differing value expectations between buyers and sellers. These differences were evident for several years following the financial crisis and have now narrowed somewhat. Both buyers and sellers now have a number of years of post-financial crisis results with which to re-establish business valuations and this may increase deal closure rates in the future.

Where formal deals have failed, more targeted reshaping has occurred through team “lift-outs”. Though these often attract less media attention, they can be particularly effective for quickly and cost-effectively building regional, product or investment strategy expertise and scale. As such, they may represent an attractive means of driving continued business growth in times of market uncertainty. Such lift-outs may also represent continued advisor migration to more independent models. This is typically driven by the industry’s

continued shift to open product architecture and the desire of advisors to avoid affiliations with private banks and wealth managers with in-house financial product manufacturing.

Increased regulation and tax disclosure requirements will continue to place upward pressure on front office and administrative costs, compressing margins in the process. Existing players will therefore likely seek to obtain efficiencies through greater economies of scale. The challenges of realising synergies and achieving economies of scale should not be underestimated due to cultural and national regulatory differences. Such increased costs are also occurring against a background of continued fee compression, particularly for traditional active management. Lastly, shifts to passive investment vehicles continue, with resulting downward pressure on revenues and potentially on firm valuations.

Macroeconomic forces are also expected to continue to drive client and product flows. For example, initiatives on tax transparency are expected to continue to lead to net outflows from traditional offshore centres and wealth accumulation in emerging economies will continue to drive focus on expansion in these markets.

Some traditional industry players have been in refocus or exit mode. The business models of some diversified banking and insurance groups—some of the traditional owners of private banking and wealth management operations—continue to be under regulatory and shareholder pressure following the financial crisis.

Several of these groups have already acted to wholly or partly divest their private banking and wealth management units in an effort to raise regulatory capital and address strategic demands to retrench to core activities and markets.

New acquirers are seeking access to established wealth management markets. Some new types of buyers have emerged to replace traditional owners, including buyers from developed markets that were relatively unaffected by the financial crisis. For such buyers who were successful in navigating through the crisis, the breadth of such divestitures may be creating attractive opportunities to gain either market share or footholds.

Additionally, interest has come from emerging markets players eager to acquire wealth management expertise and access large wealth pools in more developed markets. However, it is still to be seen how widely national regulators accept certain classes of non-traditional buyers as owners of regulated financial services businesses.

The industry is in a more fluid state today than has been the case historically. There has been a great deal of recent reshaping activity as players refocus and restructure, driven by the industry inflection point, and this will only continue. The reshaping of the industry is in its early stages and players will need to make key choices about where and how they compete across their business model. They will also need to be able to change and transform their businesses in a sustainable way.

### **Mixed progress with changing key areas**

In order to understand the challenges facing wealth managers as they seek to reorganise their businesses, we asked them where they anticipate making the biggest changes. We did so by asking participants to rate their organisations current state now and their target state in the next two years.

The four largest gaps to close are in the areas of:

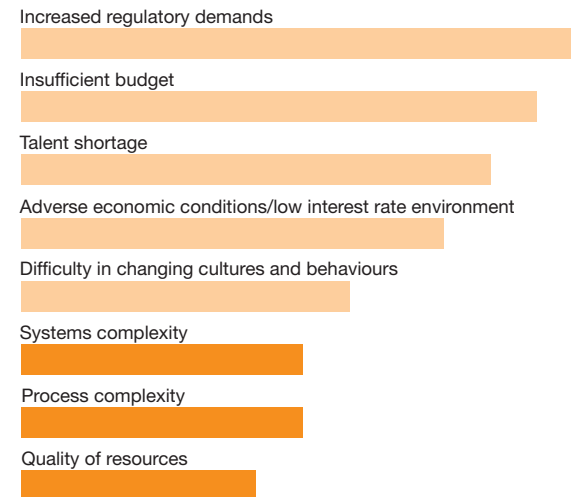
- staff quality and capabilities
- brand image and reputation
- client propositions in terms of client segment focus and servicing model
- the provision of customised advice and solutions

Notably, participants do not plan to place as much emphasis on the back office, compliance and control, which may suggest that they are under estimating the scope for necessary improvement in these areas.

Participants also revealed the internal and external barriers they need to overcome in order to achieve these improvements by 2015. Externally, the burgeoning demands of regulators and the adverse economic conditions/low interest rate environment are the biggest barriers. Internally, they face challenges from insufficient budgets, talent shortages and anticipate difficulty in changing cultures and behaviours, as well as to overcome systems and process complexity.

**Figure 1.5**

What are the top 5 barriers that you are most concerned could impede your organisation's ability to successfully move from your current state to your desired target state in 2 years?



***“Some firms are combining their wealth and asset management capabilities. As with many areas of the industry, the plan appears sound, but successful execution can be extremely challenging.”***

- CEO, EMEA, Global wealth manager

### Consolidation and industry reshaping likely to accelerate

In the past, wealth managers have tended to focus more on organic expansion than on acquisitions for their growth. The small number of sellers, high valuation premiums required, as well as the substantial merger integration risks in client and CRM focussed businesses have all led to this low level of consolidation.

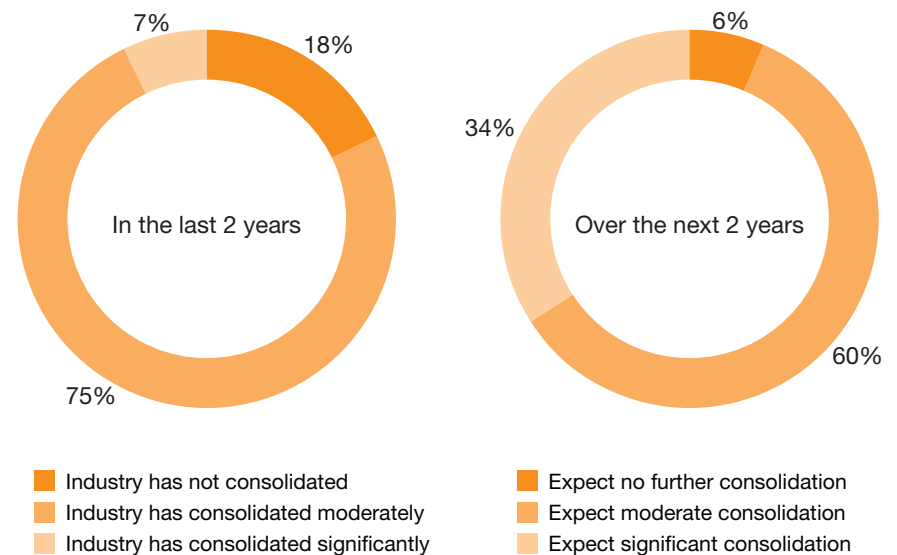
But in the coming two years survey respondents think this trend will change. Three quarters of survey participants stated that the industry has consolidated moderately in the past two years. Looking forward over the next two years, more than a third (34%) now expects significant consolidation to occur.

In 2011, participants indicated that the projected rate of consolidation in the industry would double. While today's data does not show that pace, it does highlight that consolidation is gaining momentum.

We asked those respondents who had made acquisitions about the success of their post merger integration experiences, they told us that, over time 20% of their acquisitions had not been as successful as planned. They highlighted four critical success factors being retaining clients, retaining advisors, retaining investment specialists and achieving operational and systems synergies. Participants have not addressed these factors as successfully as they would have liked. Notably, nearly a quarter of respondents indicated that they had not been as successful as they had planned in retaining CRMs while others mentioned client retention challenges.

Figure 1.6

In your opinion, what level of consolidation has there been in the Private Banking and Wealth Management industry over the last 2 years, and what do you predict the trend will be over the next 2 years in your territory?





*As a call to action in the private banking and wealth management industry, ‘we do it this way because we always have’ must be replaced by ‘we do it this way because it is the right thing to do—and we still make money’.*



## *PwC viewpoint*

### The importance of culture, integrity and business ethics in rebuilding trust and reputation

*Private banks and wealth managers need to be courageous and proactive if they are to rebuild external public perception and engender higher levels of client confidence and trust.*

The conduct of private and public sector organisations is under scrutiny across the world. From the LIBOR scandal through to rogue trading and lack of tax transparency, the attention being paid to organisations' integrity and that of individuals acting in their name has arguably never been greater. But while such episodes undermine common trust, they vary widely in nature. Some reflect unlawful behaviour while others are perfectly legal; some mirror organisations' inherent culture and others spring from rogue behaviours. Yet they are all seen as ethical failings.

Since we started this publication 20 years ago, "reputation" has been a recurring and important theme. Popular consensus suggests that trust in the financial sector is absolutely essential for society. Yet we seem to have reached a low tide mark, a moment in time when actions not words are required, and trust and reputation within the financial sector must be repaired.

Rebuilding a reputation for trustworthiness, doing things in the best interests of clients, delivering good client outcomes, being open with regulators and working with integrity are all much easier said than done. Missives from Head Office will not suffice; organisations must motivate their people to look at how they behave and adopt the highest codes of ethical behaviour. An organisation's future is bleak unless its behaviours match the messages about business integrity emanating from the board room.

And here lies the problem. Behavioural change across an organisation is a challenge—requiring time, consistent messaging and exemplary example from business leaders. It is about setting the right tone at the top, converting this into easily understood practices and supporting and encouraging the right behaviours through employee development, performance management and reward.

Induction programmes and training must be used to stress the importance of integrity. Incentives need to reinforce, and not undermine, desired behaviour. Rewarding relationship managers simply for growing assets under management will not encourage them to tackle their suspicions that a longstanding and wealthy client may not be tax compliant or may not meet KYC or AML rules.

Addressing these issues requires understanding how cultural and behavioural norms contribute to an organisation's risk resilience, as well as the relationship between business ethics, integrity and risk. Business ethics can be defined as the application of a set of moral values that an organisation's stakeholders accept as the principles that should guide behaviours. Integrity is the adherence to moral and ethical principles. These definitions provide a useful basis for moving forward.

The challenge is to create reliable guiding landmarks, from which wealth managers can continually calibrate (and re-calibrate) their ethical compasses. Much revolves around their ability to build adaptive capacity in business ethics and integrity. Adaptive capacity can be analysed across four dimensions:

- **Alignment:** do leaders, managers and employees behave consistently, based on a congruent set of values and ethical principles defined for an organisation as a whole?
- **Awareness:** as social norms evolve, are the ethical standards and everyday practices followed in our business keeping pace? For example, is paying tax just a legal duty or a moral one and are we reflecting the shift?
- **Ability:** how do we measure the behaviours of our people so that we can track and monitor our ability to apply ethical principles in line with our strategy and values?

- **Agility:** what changes in culture, behaviour, organisational structure and incentives could we make to improve our integrity and business ethics?

For the calibration of an organisational ethical compass to be effective, the board must initiate the exercise. The compass must include a specific business ethics and integrity risk appetite, which should become an integral part of the behavioural norms that translate culture and values into actions. Boards can set the right tone for decisions, by making sure that their people have the right high-quality information, use the right processes to generate insights and see the stories behind the numbers. This leads to a series of cascaded conversations between leaders and their front-line reports about what appetite there is for risk in their local accountabilities and performance targets. Simply put, the compass needs to be translated into front-line, day-to-day decisions, ethical dilemmas and trade-offs.

Private banks and wealth managers need to be courageous and proactive if they are to rebuild external public perception and engender higher levels of client confidence and trust. Regulators will push them on issues like tax transparency, but they should take the lead themselves. The most courageous organisations are already doing so, recognising that it is a tough road, that some clients will be lost, but understanding that an organisation that has reviewed its client book, products and incentive programme critically will be first to regain public trust and, with it, new business.

As a call to action in the private banking and wealth management industry, 'we do it this way because we always have' must be replaced by 'we do it this way because it is the right thing to do—and we still make money'.

## *Markets and clients*

Wealth management market growth varies tremendously by geography and this multi-speed market place is here to stay. Newly emerging markets are showing highest forecasts of net new money growth.

Singapore is closing the gap on Switzerland as an International Financial Centre for private client assets.

Non-traditional segment approaches that look beyond AuM are on the rise.

Participants are failing to capitalise on the intergenerational opportunity.



**“Clients are going to be faced with having to be much more dependent upon their own resources in the future. They face longer retirements with increasing health care costs which ultimately they will have to bear.”**

- CEO, EMEA, Global wealth manager

The world of wealth management continues to change rapidly according to our respondents. In this section we highlight some of the specific areas where wealth managers see change and where they are prioritising their actions to deal with market and client developments. This includes onshore and offshore client segment evolution, multi speed geographic markets and how wealth managers are confronting the twin dynamics of intergenerational transfer in established markets and the rise of younger entrepreneurial wealth creation in newer markets.

### **Onshore and offshore changing dynamics**

Our respondents were almost equally split between those operating entirely onshore, and those operating both on and offshore.

Whether onshore or offshore, wealth managers are having to adapt their organisations to serve the diverging needs of their client segments. Onshore propositions are becoming more targeted towards core affluent and HNW and clients are now seeking broader financial planning and advice. Offshore needs are now more typically targeted towards UNHW and family offices and require more sophisticated trust, taxation and cross border understanding.

Onshore markets are now investing more in meeting the increased local regulatory compliance requirements. For offshore, the traditional cross border model is also changing. In a world

where there is a demand from entrepreneurs for more tax transparency and integrated cross-border servicing, these markets require more cross border compliance and tax knowledge and become attractive for those organisations with sufficient scale, international networks and expertise to meet these requirements.

Newly created wealth now comprises more than half of clients’ assets globally, with ‘old’ traditional money accounting for the remainder. New wealth, including that created by entrepreneurs, continues to rise steadily as a proportion, with respondents anticipating it will reach 60% of their assets in just two years time.

### **Multi-speed market**

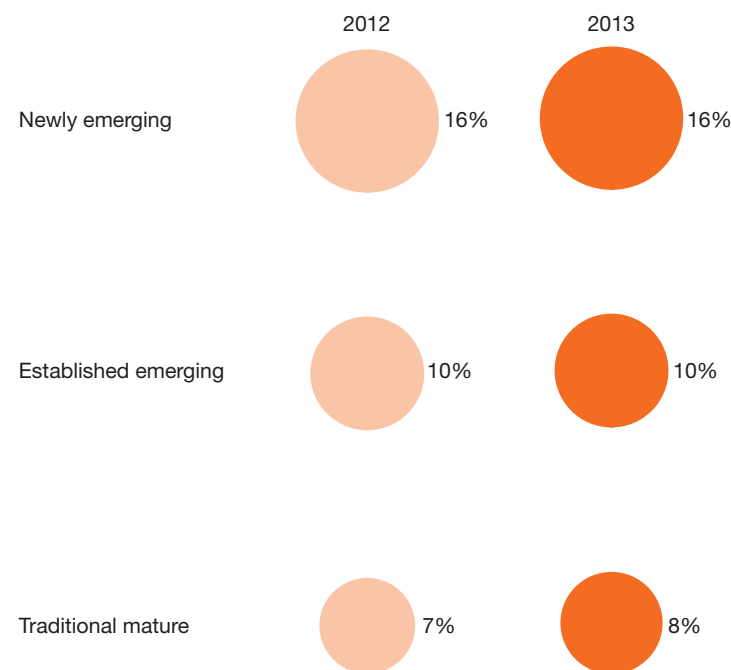
Globally, wealth creation is becoming ever more dispersed and diverse and the wealth management industry is doing likewise. Multi-speed geographic markets are evolving.

In Western Europe growth is slowest of all, while North America shows moderate growth, and in emerging markets growth remains relatively high but has slowed in some areas. To these, we can add a further group of nascent markets which are accumulating new wealth most rapidly with net new money growth forecast as 16% in 2013.

As sources of wealth diversify and transparency becomes both more necessary and more desirable, relative popularity and attractiveness of IFCs continue to shift.

**Figure 2.1**

Growth in net new money as a percentage of Assets Under Management (AUM):



**“Switzerland is losing ground on players in Singapore, Dubai, Miami and Hong Kong. The power is shifting away from Western Europe and the US. New players are looming on the horizon.”**

- Senior Executive, EMEA, private banking group

### **The relative positioning of IFCs is shifting**

Switzerland remains the most attractive IFC for clients, according to respondents, despite the pressures for transparency. However, as we move forward into an era of greater transparency and shifting wealth creation patterns, centres located in emerging markets stand to gain increased stature.

Switzerland is expected to not only be overtaken by Singapore, but to also face stronger competition from London. The future for Switzerland, and all international financial centres, will increasingly be about developing defined areas of expertise to differentiate as transparency and increased regulatory standards create a more level playing field between the larger IFCs than has been the case in the past.

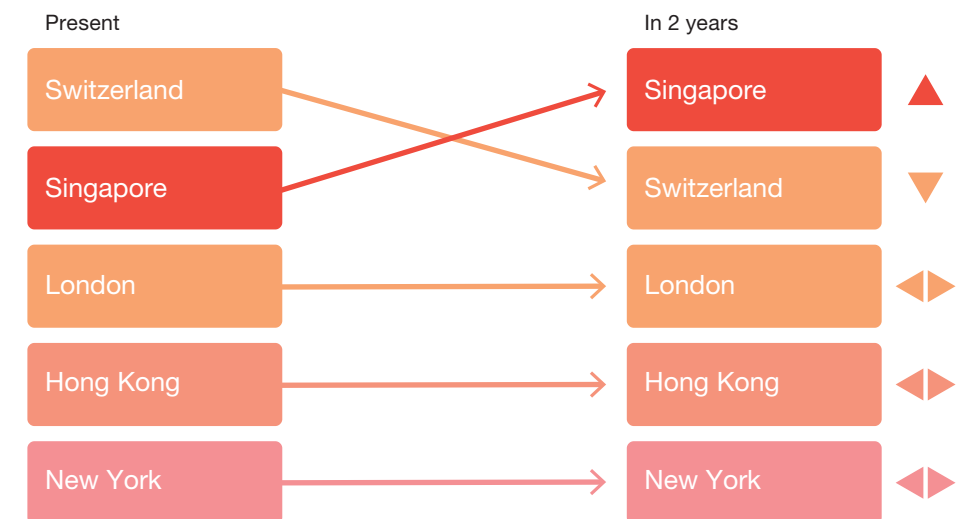
Beyond these top five IFCs, respondents also consider Shanghai and Dubai as fast growing centres, closely followed by Brazil, Miami and Mexico City as competition between traditional and newer IFCs and cities for the wealthy is expected to intensify.

### **Organisations don't yet fully understand all of their changing client needs**

Given these changes, our respondents do not currently fully understand all of their clients' changing needs. This is certainly the case in the mature Western European and North American markets as healthcare provisioning and life expectancy projections change, clients need to prepare to manage their wealth decumulation to fund extended periods of lifestyle adjustment and retirement. This requires advice on long-term funding and planning for retirement, tax, trust and estate planning and understanding extended family issues, such as how to transfer money between generations. With the increased global dispersal of wealth it is also important to distinguish between the needs of ageing baby boomer populations in the developed markets and younger more entrepreneurial related wealth needs in emerging markets.

**Figure 2.2**

In terms of ability to attract private client assets, which do you believe are currently the top 5 most successful International Financial Centres, and which do you think will be the top 5 most successful International Financial Centres in 2 years?



## “Connecting with the younger generation is a key challenge.”

- CEO, Americas, multi family office

### Retaining clients

Retaining clients remains a focus for most private banks and wealth managers. Changes in personal circumstances are cited as the greatest reason for clients leaving a wealth manager. “A decision by the next generation” is the third most important reason for change and shows both the importance and the challenge of better managing the inter-generational wealth transfer and in preparing for serving the needs of younger clients.

Compared with our 2011 survey, wealth managers are now less successful at retaining wealth when it is transferred between spouses. In this instance, the 75-100% proportion of assets retained in 2011 fell to 71% in 2013. In the case of transfers to children, the retention rate remained stable at 51%. But wealth managers have now become far more successful when wealth is transferred to foundations, with the retention rate jumping from 10% in 2011 up to 42% in 2013. Philanthropy and long-term commitments to institutions that hold the values of a patriarch, matriarch or family are important and continue to be a focus.

Even so, currently half or more of a client’s assets are lost when wealth passes on to a charitable foundation or to children. There is risk to wealth managers retaining assets if they do not manage the inter-generational opportunity better. To do this, wealth managers need to understand the future stakeholder landscape better to avoid loss of assets and having to develop new relationships with the surviving spouse, next generation heirs, or the boards of charitable foundations in a more competitive environment.

### More sophisticated client understanding and segmentation approaches are now urgently required

Organisations need to know the impact of these changes on both onshore and offshore clients, their different segments (e.g. UNHW, family office, core affluent, source of wealth, entrepreneurs) and their product and advice needs.

Figure 2.3

To what extent do you understand the needs of your clients for the following areas?

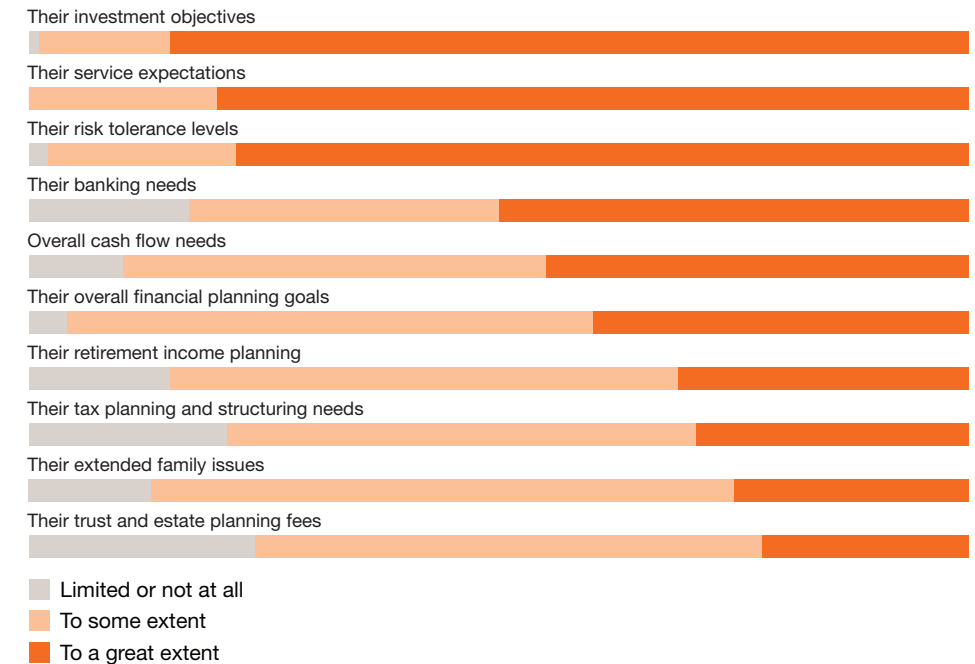
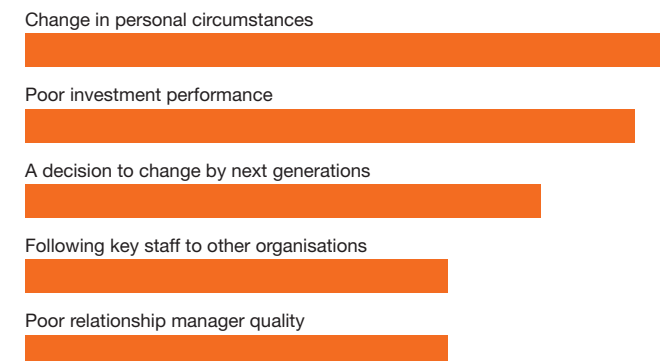


Figure 2.4

What are the top 5 reasons clients leave your organisation?



## **PwC viewpoint**

### **Understanding the client: new demographic reality**

*The industry's traditional ways of approaching wealth management and client segmentation make it necessary for more sophisticated techniques and behavioural analytics to be developed.*

Respondents have identified a need to understand their clients better in certain important respects. While many aspects of clients' wealth needs are already well understood by CRMs and organisations, importantly, there are some key demographic aspects of the wealth management market that, in our view, are not being adequately addressed today.

#### **Client experience for Generation Y**

Much has been written about differences in attitudes and cultural and social norms across the generations; from the older generations, baby-boomers and Generation X, through to Generation Y (the Millennials). To understand what each of these cohorts value and how wealth management propositions aligned to those values should be developed, the industry needs to become more sophisticated.

Younger generations have different traits to their predecessors. Our research tells us that Generation Y is the most educated, confident, globally mobile, technologically aware cohort in history. This group of consumers will change jobs more frequently, put a greater emphasis on flexibility in how and where they work, have increased life expectancies and care deeply about their broader communities. Obviously not all members of Generation Y share identical characteristics. While our research confirms more common characteristics than previous generations, factors such as ethnicity, gender and national culture influence different behaviours and attitude to risk.

Some wealth managers are already adapting to this through different and more transparent reporting, greater real time access through enhanced technology, earlier long-term savings planning, consistent client experience models across borders and more flexible advice channels and use of social media.

#### **Women—an important demographic**

Women tend to outlive their male partners and stand to gain control of wealth through not only their own efforts but also through inheritance and divorce.

In addition, women are gaining increased seniority as business leaders, and are often the decision makers in next generation transfers within family groups. Of course there are important local and cultural distinctions across these trends to be made, and generalising across any segment is inappropriate. But it is clear to us that women are an increasingly important, empowered and wealthy client demographic. Yet only 8% of our respondents currently consider gender when segmenting their client base.

Women clients have many requirements similar to men—from the sale of a business to a job loss, marriage, children, educational costs, ageing parents, divorce, long-term care and inter-generational planning. But they often have different attitudes, life stages, risk appetites and decision making criteria when they make decisions about their wealth.

Wealth managers need to understand better the different networks of influence on which many female clients rely for decision making. Women often make more decisions collaboratively, with input and referrals from a number of friends and colleagues, as well as social media and other research. Some wealth managers are leveraging team-based approaches and recruiting more women CRMs into their organisations at every level to address this situation.

What's clear is that the industry's traditional ways of approaching wealth management and client segmentation make it difficult to address these matters and more sophisticated techniques and behavioural analytics must be developed. This cannot be simply about recasting traditional products: to be successful the industry must develop offerings that address the unique characteristics of demographic reality.

## PwC viewpoint

Progress being made with delivering value to clients and creating a positive experience for them—much more still remains to be done. It's the small things in client relationships that make a difference.

*Often small areas of the client experience can make a significant difference to the quality of the relationship.*

Our research included direct interviews with practitioners, private clients and families. Wealth managers need to improve their client experience and realising this can provide an opportunity to obtain a greater share of clients. Often, small areas of the client experience can make a significant difference to the quality of the relationship. Additionally, in the future, private clients will continue to evolve and demand additional requirements that leading players will need to meet. This will require flexibility and nimbleness in terms of human capital and technical infrastructure.

Clients currently find it hard to differentiate between their providers, yet they also appear to be less tolerant of poor client experience and value additional services and advice beyond product transactions.

Continuity, particularly among lead advisor and supporting team members, has now become much more important to private clients. Given their experiences over the past decade, we see private clients as less confident in their personal wealth affairs. Consequently, how a client perceives his relationship with his wealth manager has become an increasingly important factor, and it makes intuitive sense that clients seek to secure advice from people whom they have come to know and have confidence in. A tangible benefit of a client's increasing focus on relationship continuity is that, in the absence of CRM turnover, clients appear more willing to tolerate low yield or poor investment performance, implying a direct link between continuity of client service and lower client turnover rates and willingness to place more assets with their CRM's firms.

Clients are also now placing a greater importance on knowledge and education. This covers the current generation of clients as well as the next generation.

For example, increasingly wealthy parents are concerned about how their children would be trained to be responsibly wealthy in a world of greater austerity.

Some clients are also seeking greater knowledge through mobile devices. They are receiving alerts and sound bytes which they can further analyse at their convenience. This has expanded to include reporting, and document delivery. There is increased use of models and financial planning tools that help clients better simulate and manage their wealth and to be better informed when they talk with their CRM, which helps support more effective and efficient dialogue. Private clients are not only changing the way they interact with their providers, but they are now more interested in factors beyond yield and performance to encompass risk, price transparency and independence.

Currently, clients are finding it hard to differentiate between their respective individual providers and have been generally ambivalent unless the quality of service deteriorates or an issue arises.

Going forward, clients will demand a better client experience providing opportunities for both traditional and new wealth managers. These provide a snapshot of some of the areas where we found clients currently value

Clients are now starting to place more value on the levels of service they receive. They are more interested in alternative type investment approaches and also value more frequent and more proactive flow of information and ideas from their wealth managers. Most clients have relationships with 2 to 3 wealth managers, with one regarded as the lead. What now appears to be changing is that some clients are now also including new types of providers in the mix. This includes traditional options like custodians,

asset servicers, multi family office as well as new advanced technology offerings.

### The voice of the clients:

Clients have clear views on what works and what does not. They value their CRM's and how they service them.

Private Client 1: *"The real challenge for my adviser is that whenever I call, I expect them to recall my affairs perfectly. This is a real challenge."*

Private Client 2: *"My provider delivers both service and expertise that I value. To improve on this I would like to be able to make full use of technology including social media as well as mobile. In terms of their support I would also value much more pro-activity."*

Private Client 3: *"My wealth manager adds real value by making his fees really transparent, particularly in light of the performance of my portfolio. For example, when my portfolio valuation report arrives it shows me how my investments have grown, net of fees. My wealth manager gives me great visibility on how I'm doing and how that relates to what he is charging me."*

### Improving client experience offers an opportunity to pull ahead

This provides a snapshot of some of the areas that we found clients currently value and identifies some client expectation gaps from their wealth managers it also highlights some changes that they will value in the future. This provides both traditional and also newer wealth institutions that can keep close to their clients, understand what they value and who can consistently deliver a higher quality client experience the opportunity to pull ahead of the pack and gain a larger share of the client wealth market leadership position.

## *Products and services*

There is downward pressure on pricing for simple products and participants are focussing on fee revenue from financial planning and advice.

Fewer products will be sourced in-house in the future as participants predict a continuing trend for third party product provision.

The transparent unbundling of products and services is creating opportunities for new entrants within the wealth value chain.

There is a greater focus on pricing transparency in some key markets.





**“We believe that our ability to price our services rationally is increasing. We were recently successful in raising our average fees and have also begun to charge for financial planning.”**

- CEO, Americas, wealth manager

Many respondents are dependent on asset management for a significant proportion of their revenues. They face pressure from regulators demanding greater product transparency and are experiencing pricing pressure and commoditisation and rationalisation of some product areas. They are also experiencing demand for value added products and services. In terms of their approach to providing investment management, open architecture is expected to gain more ground. For larger groups, collaboration and cross selling was identified as an under exploited opportunity to obtain products and services and to increase revenues.

**Participants face increased product regulatory pressures**

Survey participants report that in 2011 and in 2012 asset management and related services generated the majority of revenues. Net interest income from banking followed at 24%, with the balance coming from other products and services.

In the established markets, regulators are now demanding greater product transparency in such areas as pricing, key product summaries, risk ratings and other information. Upcoming regulations are also expected to cover additional areas of focus, such as client testing of new products and the new

product development process. This means that wealth managers have to find new ways to control product cost and deliver increased product value to clients. Otherwise in the new world of wealth management, there’s a danger that many traditional products and services could increasingly become commoditised.

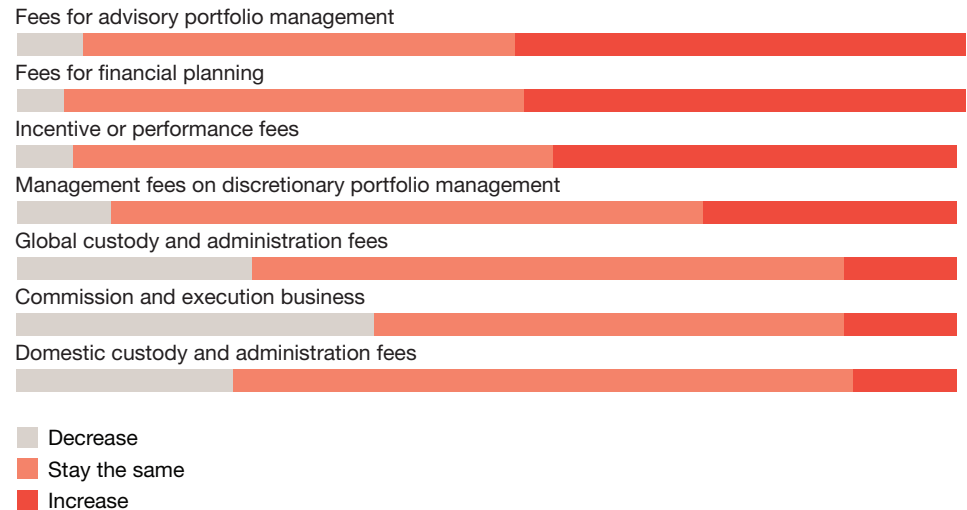
**Pricing power differs across products and services**

The survey data revealed striking differences in pricing power. Respondents are relatively optimistic about their ability to maintain or increase fee levels for solutions such as advisory portfolio management and financial planning. 63% of respondents also expect to be able to maintain discretionary management fees. However, over a third expect a decrease in pricing for transaction products and services such as trading commissions.

In our view, with such challenges, wealth managers need to plan their product and service strategies more carefully than in the past, in order to maintain and improve pricing power. Clearly, they have to concentrate on defining their offerings in the areas where they can deliver greatest client value. Generally this would be focused on designing and delivering a more comprehensive wealth management experience with reasonably certain outcomes.

**Figure 3.1**

For each of the following pricing arrangements, please indicate whether you expect the actual prices to increase, decrease or stay the same in your organisation over the next 2 years.



**Product performance, third party sourcing, improved transparency and new products are key to address pricing transparency and retrocession challenges**

Wealth managers are looking to improve investment performance and the client experience. Recognising that they cannot always employ the most talented portfolio managers themselves, they're looking to allocate money to the best external/independent asset managers.

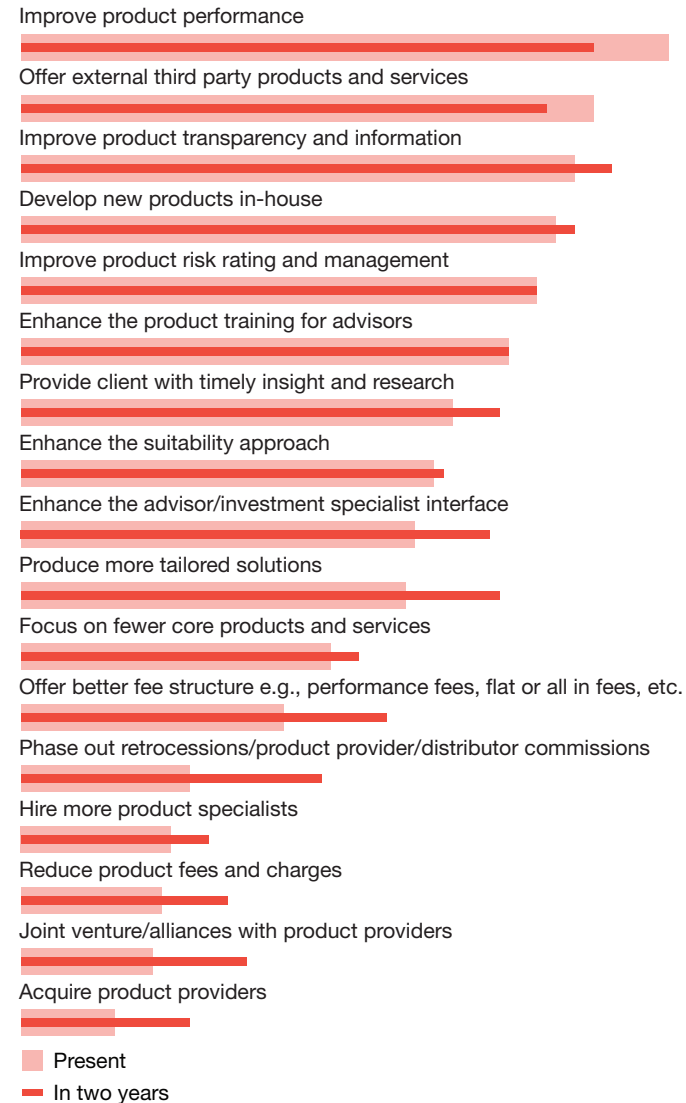
They are also improving product transparency and information. In the developed markets, regulators are in the early stages of reviewing the appropriateness of retrocession fees, or trail commissions, for fund distributors. Our survey participants foresee retrocession fees being phased out in many markets over the next few years. Globally, the percentage of wealth management firms that do not take retrocession fees is expected to increase from the current level of 22% to over a third.

In future, wealth managers will also give clients more product risk information and provide more training for advisors ensuring more timely insights and research, improving the CRM/investment specialist interface and giving more tailored solutions.

In the eyes of our respondents, today's wealthy know what they will pay for. In the future, our respondents expect clients to pay for holistic financial planning and fees for active advisory managed portfolios and discretionary management, but not for transactions. With regards to participants that say their clients are willing to pay for financial planning advice now, participants expect this to double in two years. This difference reveals a powerful trend. Wealth managers must make sure they have the capabilities to deliver the financial planning and portfolio management services needed to achieve value for their clients.

**Figure 3.2**

What is your organisation's current approach to product and services development and how do you expect it to change over the next 2 years?



*“Asian clients truly appreciate and benefit from groups that are able to leverage their capabilities in investment banking to provide services to private clients. Private banks that are able to provide one bank strategy capabilities are better positioned to capture growth in the region.”*

- Head of Strategy, Asia, private bank

### The distributor’s strong position

While wealth managers might anticipate losing retrocession fee income, they are likely to gain a greater share of the fees charged for advice related to investment products. As owners of the client relationship, they are in a strong negotiating position with their product and service providers particularly for perceived commodity type products. As such, they are demanding a greater share of fee income from asset managers. Wealth managers need to decide which third-party investment funds to offer their clients, and asset managers must offer attractive propositions to be included.

Open architecture models are gaining ground strongly. According to the survey data, just 15% of participants now offer solely in-house investment products, and this percentage will decline further to 7% in two years. By contrast, 65% offer a mix of in-house and third-party products – a percentage forecast to increase to 76% in two years.

Participants state that banking and foreign exchange make up the highest percentage of in-house products, while ETFs and specialist funds tend to be sourced externally.

Our past surveys have identified product sourcing and cross-selling in larger financial groups as an opportunity for increasing sales. Notably, many of this year’s larger survey respondents are now cross-selling through referral management and collaboration more effectively than ever before. Respondents perceive retail and wholesale banking, asset management and investment banking to have the closest links to wealth management. This year’s survey identified retail and wholesale commercial banking as being the key to cross-selling.

Figure 3.3

Which services do your clients pay for now, and which services do you expect your clients will be willing to pay for in 2 years?



We believe that there remains great potential for wealth managers in larger groups to improve revenue collaboration with their investment banking and wholesale commercial banking areas.

In particular, when investment banks sell an entrepreneur's business, they are in a strong position to refer that individual to

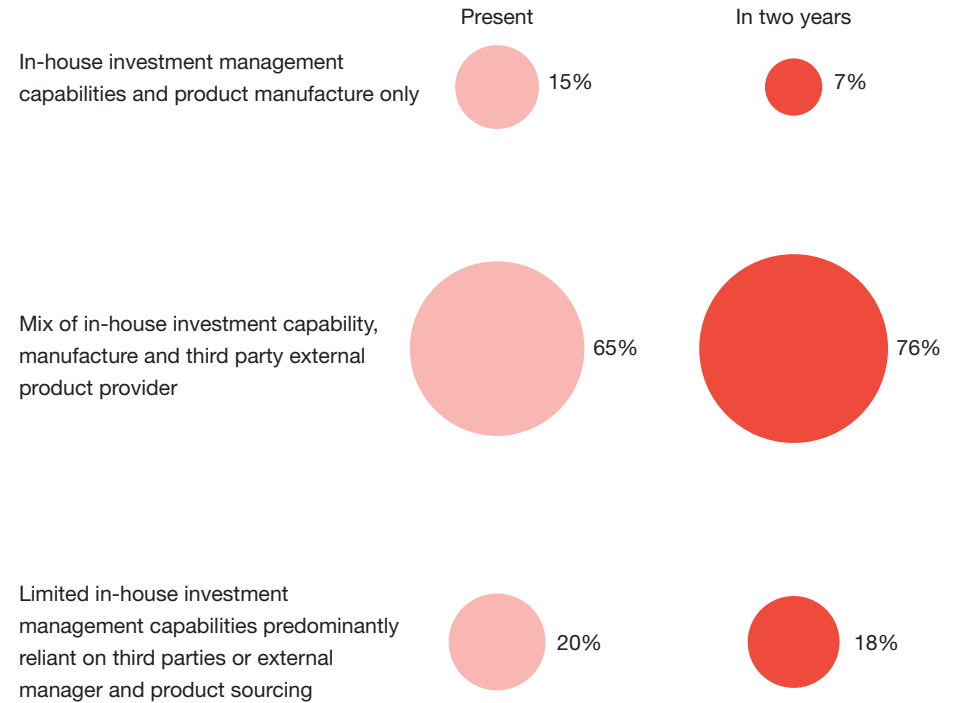
their wealth management divisions for long-term wealth planning.

Equally, we see a growing trend for medium size and smaller private banks and wealth management players which are not part of bigger groups to link with external providers to provide this service.

*Far fewer products will be sourced in house in the future as participants predict a continuing trend to third party product provisioning.*

**Figure 3.4**

What is your approach provisioning now and over the next 2 years regarding your wealth management infrastructure?



## **PwC viewpoint**

How 21st century transparency is breaking down the value chain

*Transparency into the specific product and service elements is creating opportunities for new entrants, forcing existing integrated organisations to re-examine their positions within the value chain, as well as creating the potential for new alliance and partnership models.*

Across the wealth management value chain, clients' and regulators' demands for greater transparency into the individual components of cost and value are transforming market dynamics.

The survey reveals a wealth management industry in transformation. Client and regulator demands for transparency are rippling across the entire value chain. From the investment advice and planning distribution front end of the value chain, through to product and services manufacturing, asset servicing and custody, no area remains untouched.

Transparency into the specific product and service elements is creating opportunities for new entrants, forcing existing integrated organisations to re-examine their positions within the value chain, as well as creating the potential for new alliance and partnership models.

Broadly, transparency is putting downwards pressure on the total expense ratio. But organisations face varying challenges, depending on where they sit in the value chain.

At the point of distribution, clients are willing to pay more for solutions that truly add value, creating an opportunity for differentiation. New entrants are proving most effective at capturing this opportunity, in particular those using digital capabilities to support advisors to deliver keenly-priced, advised offerings direct to clients. These can enable a wealthy client to see all their accounts, and receive reports, statements, and even compare options, and advisors, products and fees charged all from the comfort of their home with a tablet.

Some traditional distributors are also looking to develop similar direct propositions, complementing their advice and CRM-led propositions. But managing these two propositions on a complementary rather than competitive basis will be challenging. Doing so successfully will require investment in training CRMs, in development of tailored insight to increase relevance and value, as well as making contact more proactive.

For product manufacturers, the range of prices which clients are willing to pay is narrowing, limiting the opportunities for differentiation. Furthermore, the move by many private banks and wealth managers to open product architecture, and the challenges to the traditional retrocession-based distribution model mean manufacturers need to improve their investment specialties or seek a efficient product offering at scale that is acceptable if not necessarily high performing.

When it comes to asset servicing and custody, clients are demanding improved reporting and access to information on a more timely basis, through increased monitoring and alerts, and access to wider market information and benchmarks. This trend is requiring private banks and wealth managers to consider how much of the asset servicing and custody operations they will seek to undertake in house.

Many are seeking to outsource more elements in order to cut costs, while enhancing data management and global integration of information. Enhanced monitoring and managing of custody service levels will help to maintain client satisfaction and meet risk requirements.

In conclusion, greater transparency means that wealth managers will need new skills and capabilities across each of the value chain's three areas: distribution, products and services, and asset servicing. Organisations will struggle to deliver both cost-efficient scale and differentiation of service across all areas. In order to do so, wealth managers must decide where they can extract a profitable margin between the clients' willingness to pay and their own cost of delivery.

In other areas, they must look into alternative value chain models and partnerships and decide what value added activities they should perform in house versus share with their parent or outsource to independent third parties.

This will be challenging and wealth managers will have to define where their core competencies lie in the new, emerging transparent world. Should they choose to outsource non-core elements of their services, they must remember that they retain fiduciary responsibility. So as they outsource more, they will need to master the capabilities in negotiating service levels and assuring data security with their partners.

## *Human capital*

The bar for CRM skills and performance is rising —their role is changing as new business models evolve, requiring a broader range of skills.

CRMs will play a critical role as the industry seeks to rebuild trust. With increasing client demands, this will require them to focus on the areas in which they can add value.

Competition for talent will increase. Organisations need to take a holistic view, to identify, invest in and retain the talent they need.

With the regulatory environment changing, remuneration needs to be kept under review and will not be the only means that successful organisations use to motivate their people.

Human capital management increasingly will be a source of competitive advantage. Organisations need to increase their focus on talent management and building a culture where employees can flourish.



**“We are not satisfied with the overall effectiveness of our CRMs.”**

- CEO, Americas, wealth manager

**Expectations of CRMs are now increasing**

As the environment toughens with greater competition, increasing regulations and more demanding clients, much of the burden is falling on Client Relationship Managers (CRMs).

Notwithstanding these new demands on CRMs, they also provide the main interaction between clients and the organisations. In an environment where the industry needs to rebuild trust, CRMs will play a pivotal role and it is questionable whether all are up to the task and how much investment will be required from organisations to build up the skills of this critical section of the workforce.

Not only will their performance need to rise to higher levels than before, but they will have to learn new skills and behaviours. They will no longer be judged primarily by their ability to attract new assets under management but also by how well they advise and service their clients and achieve acceptable profitability.

This changing environment additionally highlights the need to distinguish between high-quality, talented CRMs and the average CRMs and their ability to develop new skills and behaviours and adapt to new ways of working.

**Desired CRM attributes are expected to change**

The attributes of what makes an ideal private banker or wealth manager is expected to change over the next two years. Currently respondents rank the ability to identify and respond to client needs, to gain new clients, good communication skills and responsiveness to clients as the top five attributes. In two years, new attributes are expected to move into the top five, including good knowledge of products both external open product architecture and internal in house products as well as cross-selling skills.

**Wealth managers have varying confidence in CRM abilities to master these challenges**

Wealth managers’ confidence in their CRMs’ abilities varies depending on the product or services involved. While more than 80% of wealth managers are happy with their CRMs’ ability to advise on the mainstream investments, banking and financial planning areas, they are less sure of their abilities in specialist areas such as tax planning where only 61% are content in the technical ability of their personnel. In other areas such as retirement planning and specialist collectibles, confidence in their CRMs’ abilities is even lower.

**Figure 4.1**

What do the top 5 attributes of an ideal Private Banker/Wealth Manager look like now and in the next 2 years?



**“A good CRM can read a client’s ambitions for the future. This includes anticipating potential changes in life stages and an understanding of implications from overall family financial planning.”**

- Chief compliance officer, Americas, wealth manager

### CRMs will need to adapt to the digital age

CRMs are also having to adapt to the digital age in their communications with clients during the next two years. Mobile phones, tablets, social networking and video are all expected to grow in importance as a means of communicating. CRMs in the future are expected to spend less time meeting face-to-face, talking on the telephone and sending written reports and letters which will be superseded by digital interaction with their clients.

There is a huge change expected in how clients expect to receive information and interact with their CRMs. Firms are investing in delivering real-time and more visual reporting and mobile text alerts that clients can use whenever and wherever and on any device they choose.

Respondents also report that interactive portfolio simulation and financial planning tools will give clients more direct control on how they choose to receive and interpret data. Over the next two years, it is expected that these tools will become more important as mobile access and technology advances makes them more readily available.

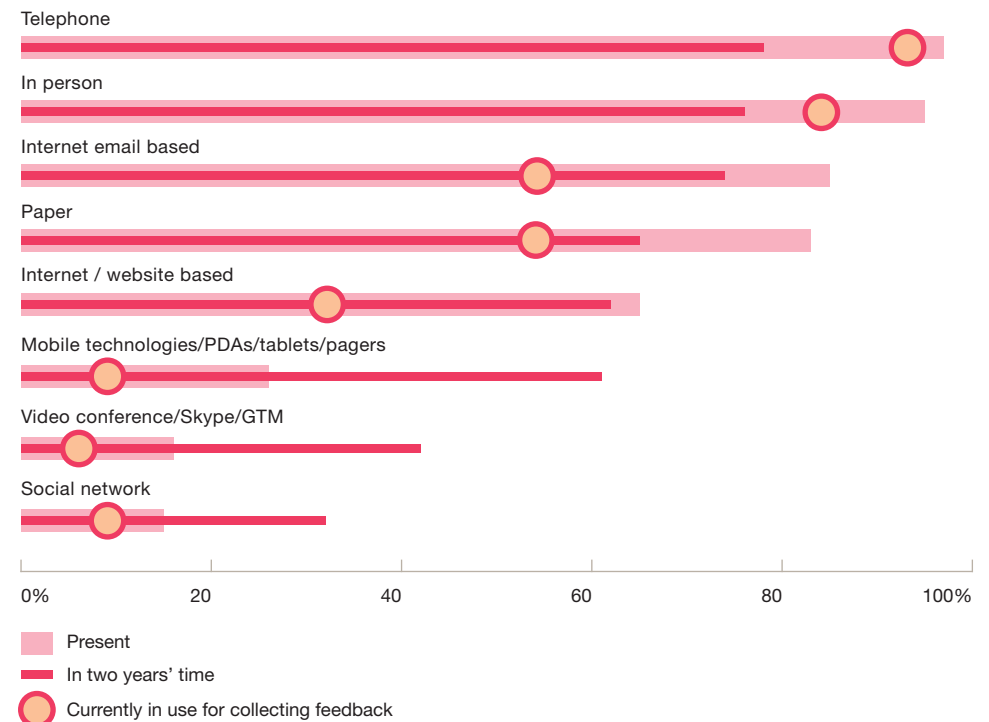
### Optimising client service levels

In order to better optimise the way that they serve clients, wealth managers have been revisiting the number of clients served by each CRM. They are seeking to achieve the right balance of clients to CRM, so that clients do not get over- or under-served. Empowering the CRM with appropriate technologies is key to making the CRM client interaction as efficient as possible.

Much more attention is also being devoted by respondents to an increased focus on profitable client segments to better manage CRM. Currently, 61% of respondents have an active program for moving less profitable clients into segments with product offerings which are more cost effective to deliver. The remaining 39% do not have such a program in place.

Figure 4.2

Which of the following does your organisation currently primarily utilise to interact with your clients and which are you planning to utilise in the next 2 years? Which of these means does your organisation currently utilise to collect client feedback?





## Developing the best CRMs

In order to raise the quality of CRMs, wealth managers need to invest more time and resources on acquisition and in training. They will have to recruit higher-quality professionals and invest in enhanced training for all their CRMs as well as working on changing critical behaviours. This requires investment in terms of time and money. While increasing this commitment might stretch out the time it takes before newly hired CRMs become profitable—from the current two and a half year period—this will be required. The outcome should be better engaged and more profitable CRMs.

CEOs agree that they will have to invest more in CRMs with the majority (71%) saying the industry must spend far more on talent management and development that has historically been the case. In some instances, wealth managers are encouraging CRMs to leave as they seek to retain only the best-quality CRMs to attract, grow and retain clients. Concerns about limited career prospects are also driving CRMs to leave. Historically, taking talent from competitors may have been a viable strategy, but in the future wealth managers will have to look for broader and different pools of talent.

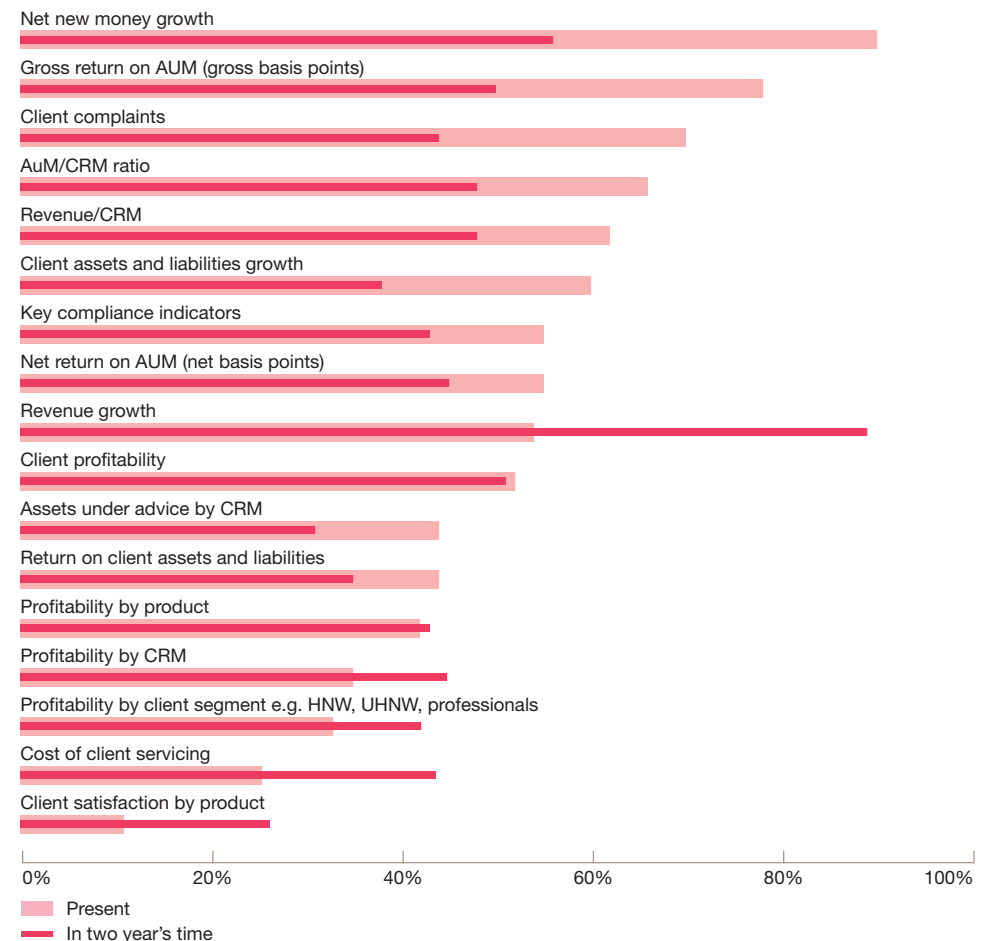
Wealth managers now have less to fear from losing CRMs than they once did. CRMs moving from one wealth manager to another tend not to take more than 16%, on average, of the client assets they serve with them.

CEOs want to raise CRM quality significantly. They believe that 68% are currently performing well but anticipate lifting this level to 95% level within two years. CRMs are expected to have new skills—they should be proficient with new technologies so that they can communicate with their clients through whatever channel is most appropriate, including social networks and alternate service delivery channels. Tablets and smart phones are proliferating among the wealthy and those that serve them. More conventionally, CRMs serving cross-border clients must now have a sound understanding of tax issues.

The survey identifies remuneration and bonus as the most important reasons for CRMs staying, as well as the main reason for them leaving. With wealth managers' success built increasingly on CRM quality, wealth managers are expecting to pay more attention to better managing and developing their talent.

Figure 4.3

Which of the following key performance indicators does your organisation currently measure and what does your organisation plan to measure in the next 2 years?



## “Sourcing talent is absolutely the toughest part of my job.”

- CEO, Americas, multi family office

### The focus of Key performance indicators (KPIs)

Participants believe that maintaining historic levels of asset growth may not be possible in the developed world, due to factors such as increased competition, greater transparency and regulation.

Wealth managers are adjusting performance measurement. In the future, respondents tell us that wealth managers will use revenue growth as their primary key performance indicator (KPI) for judging CRMs. Raising new money now falls to second place. CRMs will also find themselves evaluated by a range of new KPIs, including measures of client and segment profitability and cost of servicing. Furthermore, client experience KPIs such as satisfaction, retention and loyalty will be more closely monitored in the future to help evidence good client outcomes.

Wealth management firms have a great opportunity to help CRMs to use their time productively and more efficiently. Our survey shows that CRMs are currently spending time fulfilling a host of new administrative tasks, including meeting new regulatory and compliance obligations.

### Top people risks are effectiveness of CRMs, retention and attraction of talent and compliance with regulation

Our survey shows that the top 4 people risks all relate to managing the performance and effectiveness of talent and retaining this talent in organisations. The most successful organisations will be those who: understand what they want from their employees; can identify these employees; and have effective holistic programs to manage them.

As softer cultural based metrics that focus on employees “doing the right thing” and demonstrating the right behaviours become increasingly important to meet regulatory requirements in the developed markets, human resource professionals will need to put mechanisms in place to help measure and monitor this type of activity.

To do this, firms will also need to ensure they have more balanced data and management information to properly measure and assess CRM performance.

Figure 4.4

What do you consider to be the top people risks in your organisation?



### **Risk and compliance heads in demand**

As wealth managers race to meet the wave of new and more intrusive regulations, heads of risk and compliance are some of the most sought-after skills in the immediate future, according to respondents. Over the longer-term, wealth managers are likely to be seeking a broader range of skills across pivotal roles, meaning they will need to put in place the right talent management frameworks to develop wider groups of employees.

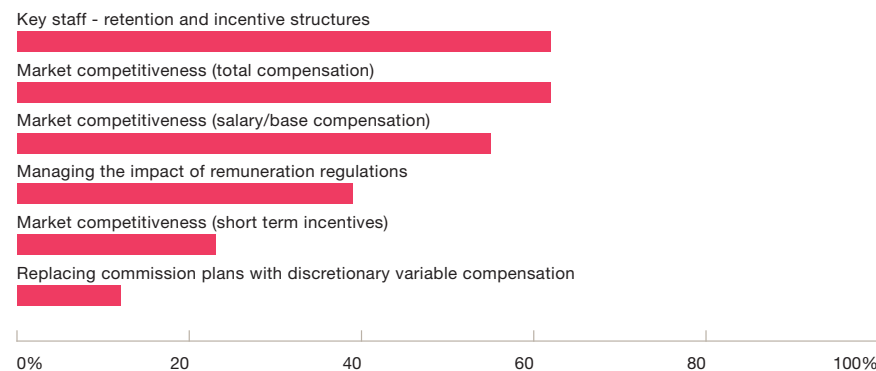
### **Adapting to a new remuneration environment**

In terms of challenges to recruitment and retention, participants ranked the key challenges they are facing now and over the coming two years. Retention and incentives structures are key.

Firms need to assess how they are going to respond to the impact of new more stringent regulation, such as those coming into effect in the EU that will limit variable compensation. Respondents acknowledge their top remuneration challenges for the next two years as keeping total compensation at a competitive level and having the right retention structures for key staff.

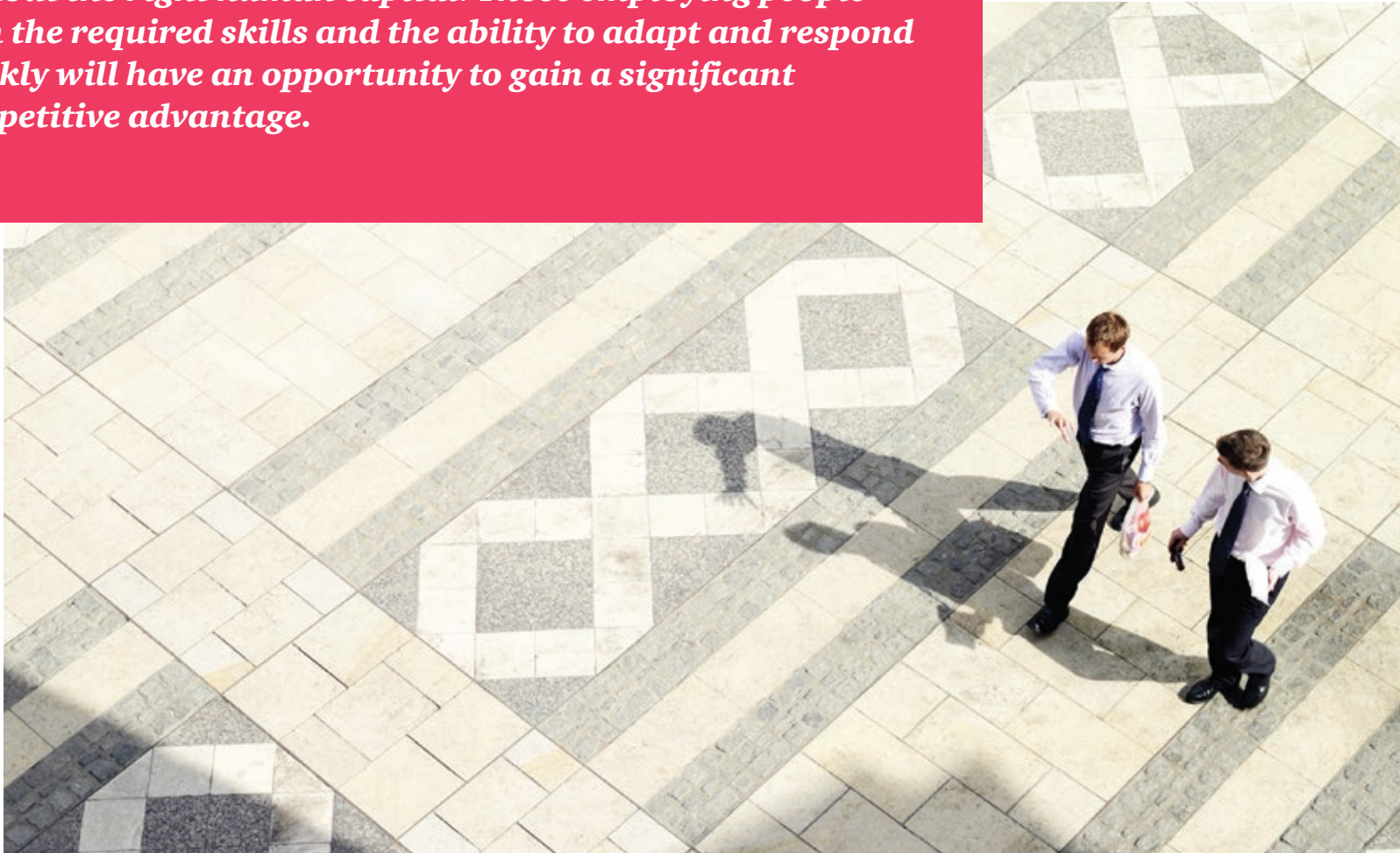
**Figure 4.5**

Which of the following are the most pressing remuneration challenges facing your organisation now ?



***Competition for talent will increase. Organisations need to take a holistic view, and be able to identify the talent that they need, invest in this talent and then retain it.***

***Wealth managers will not be able to achieve future success without the right human capital. Those employing people with the required skills and the ability to adapt and respond quickly will have an opportunity to gain a significant competitive advantage.***



## **PwC viewpoint**

**Excellence in human capital management will foster competitive advantage**

*As the performance bar for CRMs rises, so excellence in human capital management will become a greater source of competitive advantage.*

In the new regulatory environment, wealth managers will have to adapt quickly in order both to comply with emerging regulations and to meet changing client expectations. Our survey suggests that cuts in CRM numbers might be at an end, and senior executives now have a growing respect for the abilities of their CRMs, although they are still expecting even better performance in two years' time. What's clear is that CRM performance and behaviours are going to have to rise to levels never seen before in the industry.

Wealth managers will not be able to achieve any of this without the right human capital. Those employing people with the skills required and the ability to adapt and respond quickly will have an opportunity to gain a significant competitive advantage.

Developing talent and performance management systems that help support, grow and develop the key skills needed to enhance productivity and effectiveness will be crucial. Firms will need to keep their talent strategies and performance management processes under regular review. With the pace of industry change organisations will need to be able to identify and develop their own talent, supplementing this with the right hires, and retain this talent using a

broader range of tools than just remuneration. Development of individuals will be critical and building the right culture will be important in retaining talent within the organisation.

Wealth managers will have to develop the capability to constantly fine-tune their human capital acquisition, training and integration. They will need to adapt their management systems to diagnose which processes and systems are weakening CRM performance. They will need to be able to fix the problem and develop holistic strategies to resolve the issues that they identify.

Firms that can achieve this kind of excellence in human capital management will boost CRM effectiveness and productivity, as well as the speed with which they can improve performance in specific areas. Increasing regulatory controls on compensation will mean that firms will need to rethink how they use remuneration to provide incentives and motivate their employees, as they will find it increasingly difficult to do so using only financial incentives.

Firms will need to rethink their value proposition for professionals and look more into the softer non-financial rewards they

will offer. Improving engagement with employees and changing behaviours will be essential. By implementing long-lasting cultural change, wealth managers can become employers of choice and attract and retain the best talent. Firms should therefore not underestimate the importance of culture, values and employee engagement as they look to achieve their business objectives, especially as they seek to provide incentives and appeal to a more diverse employee population.

Firms should combine changes to remuneration with their response to regulatory compliance. In this way, they can make a virtue of necessity, working towards the key commercial objectives of retaining talent, achieving greater alignment with longer-term objectives and strategies, and supporting long-term sustainable and compliant client relationships.

As the performance bar for CRMs rises, so excellence in human capital management will become a greater source of competitive advantage. Firms that can achieve this level of performance will be able to meet the challenges and seize the opportunities presented by a period of rapid industry change.

## *Operations and technology*

The sector continues to report too many manual processes.

Technology investment is expected to focus far more on digital capabilities, including mobile, in the next two years.

In the quest for scale, respondents are seeking alternative arrangements for operational platforms, including more cross-divisional sharing within parent groups, and all players are considering more third party operational outsourcing.



**“Today, investing in systems that enable detailed profitability analysis per client is a ‘must’.”**

- CEO, EMEA, private bank

**Growing technology investment aims to transform the sector’s efficiency**

The wealth management sector is currently in the middle of a cycle of significant technology investment. Many respondents are now upgrading operations and technology infrastructures, both to meet the significantly increased regulatory requirements and to deliver efficiency improvements for commercial purposes. They have, however, yet to fully realise the benefits of these investments.

Participants are at different stages in the investment cycle. Just under a half of respondents report that they’re investing in core processes, technology and applications—for either commercial or regulatory purposes—although 18% still have legacy systems. Over the next two years, the majority of our participants expect to see benefits of increased productivity or efficiency from their current technology investments.

**Operational budget priorities are directed towards growth, efficiency and ensuring compliance**

Allocation of operational budgets reflects the motivation behind the sector’s push to upgrade systems. When allocating operational budgets, participants’ first and second

priorities are supporting/enabling business growth and cutting costs through greater efficiency. But implementing the systems to comply with new regulations has now become more of a priority than in previous surveys, as has investing in the technology to deliver a better service to clients.

These trends show how technology investment is now better supporting the wealth management sector’s drive to adapt to changing client demands and greater regulation. When planning budgets, respondents are seeking to balance supporting mandatory regulatory compliance with supporting discretionary business efficiency improvements.

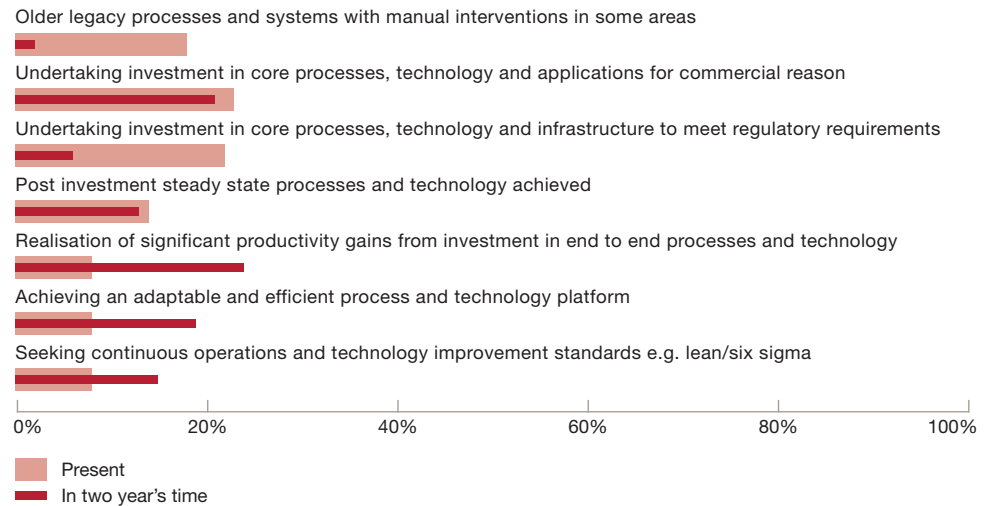
**Selective use of shared services**

The majority of respondents within broader corporate groups share at least some operations with their parent. Currently 41% of participants use a mixed model of operations which are provided both within the private banks and wealth managers and from their parent. A further 21% rely entirely on their parent group and the remaining 38% perform operations entirely through an in house operational model.

To gain greater levels of efficiency, respondents are sharing support functions with their parent and are outsourcing highly-commoditised or utility functions, including middle and back office processes, data centres or network infrastructure.

**Figure 5.1**

Which one of the following best describes your organisation’s current position with regard to (a) your operations and technology infrastructure and processes, and (b) which best describes how you expect it to be in 2 years?



Wealth managers perform business-critical functions internally, such as client data analytics and business management information, reporting and marketing. They also tend to keep compliance and risk management internally. Over the next two years they have plans to outsource more of their technology infrastructures, including data centres and applications management and technology services as the range of sourcing options available expands and matures.

### **Significant operational legacy challenges needing to be overcome**

As they seek to realise their operational challenges of enabling growth, cutting costs, supporting regulatory compliance and creating a more client-focussed organisation, participants are confronted with many challenges. Their difficulties include too many manual processes, the need to provide aggregated client data and reporting and the need to better align technology and architecture with business priorities.

They believe that CRMs are not using the tools they have effectively. But wealth managers report that they expect to overcome these challenges and to turn

them into opportunities with the majority of respondents anticipating progress in coming years. Management is becoming more concerned about data management and information security, identifying improvements in these two areas as priorities for the next two years.

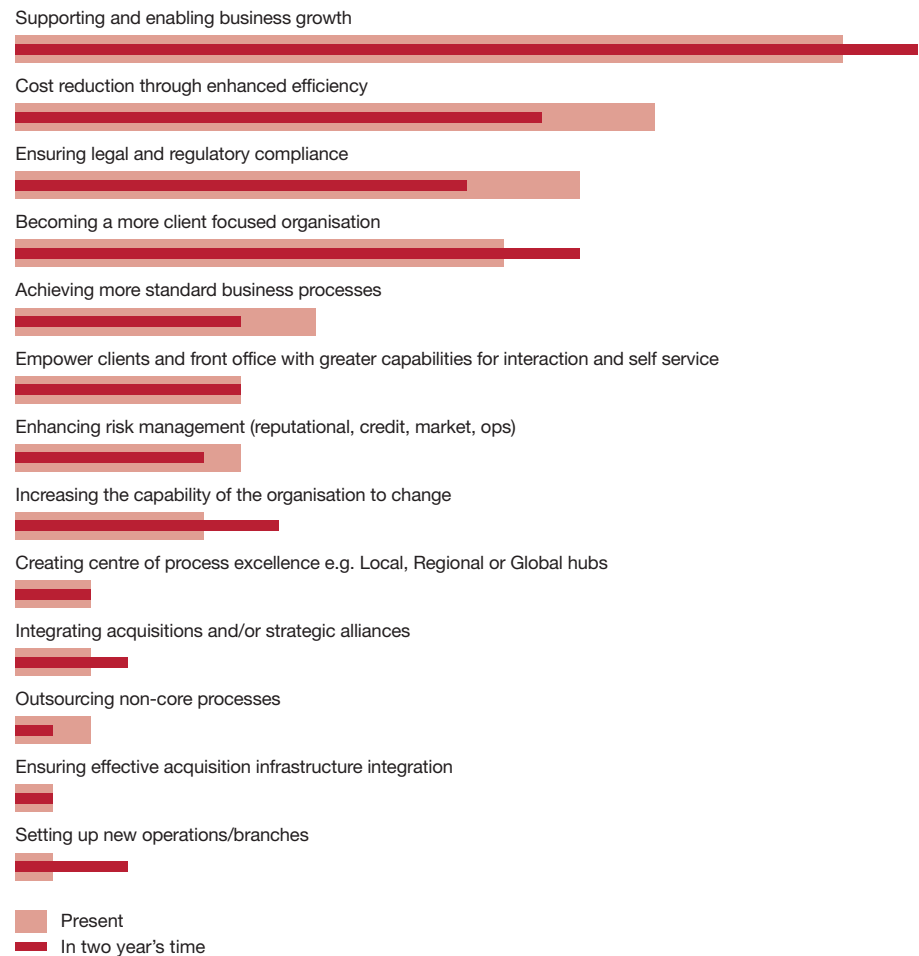
### **Improving operational controls is a priority**

Wealth managers are in the process of significantly improving their controls. At present about 22% of respondents indicate that they have only “partial documentation” for their key operational controls and processes. This limits the effectiveness of their compliance and risk management frameworks. This is a particular weakness at a time when regulators are introducing new rules and increasing operational scrutiny.

Respondents expect to improve documentation of controls and procedures over the next two years. They also anticipate integrating controls procedures into training. Respondents say that in the next two years they expect to have controls well documented and integrated into staff behaviour.

**Figure 5.2**

Which best describes the current operations and technology posture of your organization and which best reflects where you expect it to be in 2 years?





**“There is constant pressure to challenge support costs—and a general desire to simply get more done for less.”**

- Senior Executive, EMEA, wealth manager

**Technology budgets will help transform the regulatory agenda, CRM support and the client interface**

In order to fund wealth managers’ technology improvements, budgets are growing. In 2012, respondents report that budgets increased by approximately 5% on average. Growth for 2013 is projected to be about 10%.

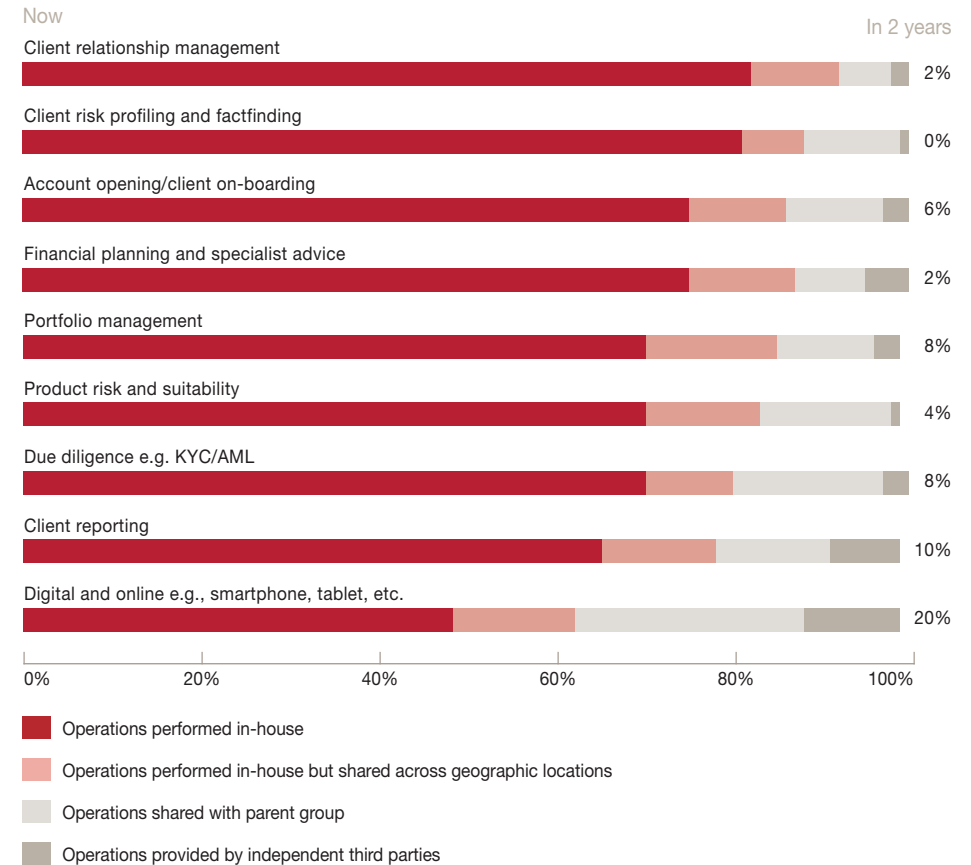
Currently, the number one technology priority is to adapt systems to address emerging regulatory requirements. Enhancing CRM tools to support advisors is the next greatest priority. These are followed by making efficiency gains from process automation. As wealth managers adapt their services to clients’ changing needs, online reporting, improving client valuations and enhancing client data security are now higher on their agenda.

Looking forward to the next two years, wealth managers will concentrate more on the commercial aspects of technology. Enhancing CRM tools to support advisors and more mobile client interaction tools become the greatest priorities. They are also prioritising investing more in communicating through digital and social media, especially digital connectivity for tablets and smartphones.

In terms of technology systems, wealth managers are investing in order to achieve priorities such as improving the performance of CRMs, to comply with key regulations and to improve client portfolio monitoring and upgrading client reporting. Looking forward over the next two years, wealth managers acknowledge that they need to invest to improve their online and digital communication with clients. Investments in these areas and enhancing the CRM technology environment, all have an important part to play in the next phase of improving the client experience.

**Figure 5.3**

Which of the following operations functions does your organisation currently primarily perform in-house, obtain from elsewhere within your parent or obtain from an external third party? Please indicate the new functions your organisation plans to outsource, if at all, in the next 2 years.



### **Supporting the CRM and client interface will pose challenges but will provide significant opportunities**

Wealth managers regard improving client relationship management software and databases and portfolio management and investment advice tools as priorities for supporting the CRM. They also recognise the potential of alternative service delivery tools. Advances in smartphone and tablet devices, combined with personalised, location based services and touchscreen user interfaces, are opening opportunities for innovation in client communications, while re-shaping client expectations. At the same time, these changes offer wealth managers the chance to increase efficiency.

Participants expect technology to help CRMs better manage the profitability of their client relationships. They are also using alerting technology to support more pro-active and timely client and CRM conversations and actions. Participants see technology as enabling key compliance tasks around risk assessment, suitability, profiling and financial plan development.

Wealth managers' use of digital technology is about to go through a rapid evolution. Currently, digital technology mainly supports traditional communications activities such as proposal generation, banking and mobile calculators. But respondents foresee their use of social networks climbing by 40% in the next two years. Mobile and tablets will grow to represent almost 85% of client infrastructure for managing the client experience. This new reality requires far-reaching behaviour, skill and technology changes.

Only 24% of our respondents think their organisations are currently well prepared in terms of the necessary skills and supporting infrastructure. Almost a quarter (24%), of respondents tell us that they are either not prepared at all or are under-developed with their digital service delivery strategy.

**Figure 5.4**

What are the top challenges your organisation faces with operations and technology?



## **PwC viewpoint**

The urgent need to simplify legacy application and data architectures

*Increased regulatory scrutiny is now one of the most significant reasons why wealth managers need a better understanding of operational risks and controls.*

Many wealth management organisations have tried and failed to establish one single architecture standard globally for their applications. This failure is not surprising considering how businesses have expanded in recent years, with successive waves of growth, acquisition and realignment. This uneven growth path has created a siloed approach to data management and a need to concentrate on exploiting client data for competitive advantage by pulling information together, often from disparate systems, for multiple purposes to give a single view.

Fully exploiting data is a challenge as wealth managers have fragmented technology architectures. Differences in timing, release levels, packages and versions have all made the problem worse, affecting the roll out of new implementations in various countries. Acquisitions can also further disrupt architectures, as it is tempting to pick the best elements of different architectures, rather than enforcing a common standard across multiple business lines and geographies.

Data also represents an opportunity. In our view the identification, extraction and normalisation of data accounts for a significant proportion of the cost of integration before any underlying business problem can be addressed. Wealth managers must overcome this barrier to success. The hallmark of newer technologies is their flexibility to move beyond standard package application standardisation. This means organisations can leverage their technology investments and concentrate on how they can better optimise the use of data. This approach gives legacy applications greater longevity and makes merger integration much simpler.

The software vendor community has made great strides in standardisation, release schedules and version control, all of which have reduced the cost of keeping software up to date and helped wealth managers to better upgrade their software, although there remains room for improvement.

In the future, wealth managers may need to accept more standard packages and service offerings, and shy away from customisation. At present customisation rates range from 30-60% of standard package applications. Unless a firm enters into a joint development relationship carefully, there can be problems and unplanned expenses. Invasive customisation threatens the ability of commercial packages to be upgradeable and can require wholesale reinstallation. Replication of the status quo in a new technology is expensive and time-consuming; moving to a better set of functions and processes with a more standard package is far better.

The same issues and concerns apply when outsourcing. More institutions will outsource to solve their platform alignment and standardisation issues. Migrating to an existing platform, which an independent service provider is already operating, is often the safest option. Furthermore, this option offers access to existing pools of skilled expertise, which means there is less development risk than in a bespoke environment.

In reality, with pressures on efficiencies and for better data management and compliance, most players are now having to look seriously at this difficult topic and are exploring solutions outside their normal comfort zones. This is something which we have not often seen before. They are attracted by the savings which, typically, are significant. The standardisation of applications, advanced architecture focusing on underlying data and the customer's single view required by many regulations are all pointing the way to a new reality for technology infrastructure and applications.

The increased regulatory scrutiny is now one of the most significant reasons why wealth managers need a better understanding of operational risks and controls. While firms continue to improve infrastructure to comply with regulations, they are concentrating on embedding control points within their systems and application infrastructures. Doing so allows them to monitor and manage identified risks in the seamless manner that regulators demand.

Our survey illustrates wealth managers are now investing in operations and technology, aiming to achieve far greater levels of efficiency. How wealth managers develop more internal standards and migrate to better use of data will be a key element of future success.

Technology vendors' ability to help their wealth management clients to prepare appears mixed. This observation applies to the full range of service providers, including technology firms, asset servicers and other providers of outsourced services.

The pace of change is causing many wealth managers to revisit how their systems should evolve in order to protect market share and remain relevant. While wealth managers ponder how to solve this problem, new market entrants with disruptive technologies are bringing new solutions to market.

These solutions address the needs of certain segments, such as the younger generation's appetite for social media and digital communication, as well as capitalising on loss of trust with some established financial firms. These technologies also appeal to the older generation's demand for increased simplicity, transparency and convenience over longer, more active and demanding lives. Consumers' demand for technology enabled self-service and guided options is also growing.

Wealth managers are planning to interact digitally with their clients more than ever before. Currently, participants only hold basic online digital information (e.g. email addresses, mobile numbers, social media information) for 63% of their client base. They now communicate digitally with around 47% of clients. In the next two years, participants foresee collecting basic client data for 79% of their client base and communicating digitally with 67% of clients. Clearly, this is a new, fast developing channel for client interaction and one that spans multiple generational cohorts.

After a period of under investment, wealth managers are now investing significantly in technology, driven by compliance and commercial challenges. The focus is directed to helping the CRM perform and in designing digital and mobile strategies to improve the client experience. While wealth managers are committed to these investments, they have yet to realise the benefits. The challenge will be to coordinate changes in processes, IT and people sufficiently quickly within budgetary constraint to meet the changing client and regulatory requirements.

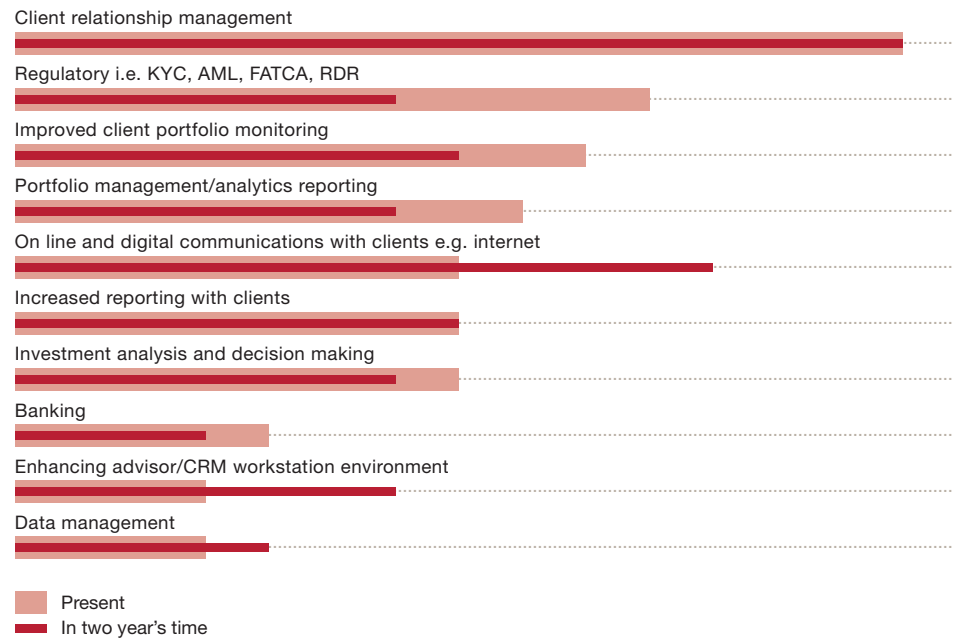
**Figure 5.5**

What are your top 5 priorities for allocating your technology budget currently and in the next 2 years?



**Figure 5.6**

Thinking specifically about technology systems, what are the top 5 systems your organisation invests in now and in two years?



*“Much of the industry’s technology spend over the past few years has been prioritised due to mandatory upgrades to existing infrastructure and regulatory changes. Going forward, the industry has to address the chronic underspend in technologies and generate substantial benefits for clients as well as front office effectiveness.”*

- CEO, EMEA, global wealth manager



***The rising importance of collaboration and social media cannot be ignored. Digital social interaction provides opportunities to influence and interact with wealth communities for product/service research, delivering brand defining messages, while monitoring client sentiment in real time and in a convenient and easy way.***

## PwC viewpoint

Mastering digital and social media is becoming best practice

*Digital change presents the promise of a reimagined client experience. It provides an opportunity for competitive differentiation.*

Private banks and wealth managers have traditionally been slow to respond to the digital challenge. However, given industry changes, they are now seeking to use the evolution of technology to their competitive advantage.

Digital change presents the promise of a re-imagined client experience. It presents opportunities for competitive differentiation. The revolution of digital commerce already prevalent in other industries is coming to wealth management. Many wealthy client segments are eager consumers of advanced technology. Older investors are already using tablets while smartphones have become an essential part of millennials' daily lives. To fulfil the potential from interacting with clients across these channels, wealth managers will have to get better at viewing the future through their clients' eyes.

While changing technologies in other areas, wealth managers have been slow to use digital technologies to connect with their wealthy clients. Privacy, culture and CRM capabilities are all among the reasons for holding back. But in order to project their brands across the generations, wealth managers must create a much more connected experience with their clients. How firms create connected experiences will be critical.

- **Tablets and mobile devices:** As new devices come to market, the mobile proposition is becoming more compelling. Key considerations of data security and privacy will have to be part of the client offering. These will have to be reviewed to maintain client confidence.

- **Collaboration and social media:** The rising importance of collaboration and social media cannot be ignored. Digital social interaction provides opportunities to influence and interact with wealth communities for product/service research, delivering brand defining messages, while monitoring client sentiment in real time and in a convenient and easy way.

New channels offering clients guidance are now proliferating—clients are joining online investment communities to share data and insights with each other through social media. Automated financial advice will provide a new level of sophistication in financial information, available to all levels of the wealth pyramid.

Evolving digital and social technologies are enabling wealth managers to explore opportunities for creation of digital communities. Among the approaches available are:

- **Embedding CRMs:** Embedding CRMs in social networks or communities offers a chance to interact with clients, establish reputations for thought leadership and advice, so creating a following. Internal networking will allow CRMs to focus on emerging market niches quickly and cost effectively. Digitally-connected communities build trust and respect long before a formal sales process begins.
- **Channel integration:** The client expects all their relationships with the CRM across all channels, web, social network, to be integrated and to deliver a seamless experience. This applies across multiple channels and devices. To meet

this rising challenge, firms should position themselves to exploit digital connection and service delivery opportunities in all their client, advisor, and employee management interactions.

- **Data content, analytics and insight:** The exponential increase in data volumes are increasing client expectations about wealth manager's ability to deliver custom reports, and insights, alerts and recommendations.
- **Data security:** Clients also expect to feel confident in the security of their digital wealth information. How firms create, maintain and review their security standards is critical in an increasing environment of cyber assaults from multiple quarters.
- **Mastering social and digital media represents emerging best practice in wealth management:** This disruptive technology trend will introduce new competitors. Much in the way "crowd-sourcing" and "app-development" have transformed the way technology is developed, we see collaborative development or communities of the connected transforming the voice of the client.

Private banks and wealth managers need to establish a coherent forward looking digital strategy. They should seek to improve the client experience, reduce costs to service, enhance compliance and identify new revenue opportunities.

## *Risk and regulation*

Compliance risk is now top of the risk management agenda and has overtaken reputation.

The conduct risk agenda remains a key focus and this will move organisations into the areas of culture, ethics and behaviours.

Organisations are struggling to keep pace with the scale and speed of current and future regulatory change.

Tax information exchange remains a priority for cross border players.

The cost of regulation continues to rise with participants expecting a significant increase in the next two years.

The industry continues to underplay cyber security risks.





***“The industry has become more global, more complex and more regulated. It requires larger amounts of investment in order to continue to run a fully compliant organisation.”***

- CEO, EMEA, private banking group

**Regulatory risk dominates the emerging risk agenda**

In terms of strategic risks, compliance with new regulations now comes top of respondents’ risk management agenda. It is followed by client and product suitability risk, while reputation risk drops from its number one ranking in our 2011 survey to now rank third. Strategic industry and business event risk has risen to rank fourth. Both market and operational risk continue to remain high on the agenda.

In terms of client and product suitability risk, 89% of all respondents now document clients’ advice and suitability requirements and provide a copy of this documentation to the client. Notably, only 37% of respondents’ client risk assessment processes currently incorporate behavioural/psychometric analysis. Strategic industry and business event risk reflects uncertain economic state of parts of the world.

Both market risk and front-to-back operational risk considerations are now much higher on the agendas of senior management. Wealth management leaders recognise that improvements in controlling operational risk reduce overall risk, making profits more sustainable. Risk management is being used not only to comply with regulations, but also to increase profitability, protect market share and improve the client experience.

Overall, the risk rankings in our survey have changed since the 2011 survey, reflecting the greater regulatory requirements and increased scrutiny. Client and product suitability have now become critically important, particularly in the established markets. Wealth managers are making sure that operational risk management is now more integrated from the front office all the way through to the back.

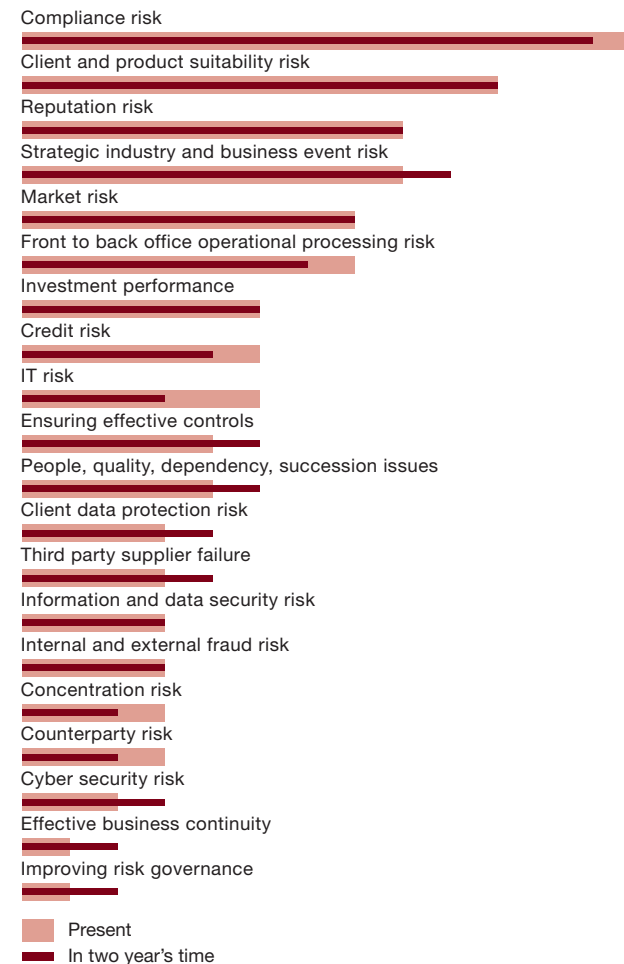
**Risk management priorities**

Respondents described their approaches to risk management as based primarily on stringent regulatory compliance and loss prevention. They are also concentrating on pro-active engagement with regulators.

In the future, wealth CEOs are expected to play a greater role in sponsoring and promoting enterprise-wide risk management. Wealth managers will also place greater emphasis on quantifying risk and aligning it to business objectives, as well as having a more integrated risk management framework.

**Figure 6.1**

What are the top risk areas facing your organization now and in the next two years?



***“Regulation is pervasive, and handling it properly is becoming ever more expensive—it is the fastest growing part of our cost base.”***

- Director, EMEA, Wealth Manager

### ***Anticipating future regulatory requirements is key***

During the last few years, regulators have introduced a large number of national, regional and global rules. Many of these regulatory frameworks are not yet completed, with changing definitions and dissemination of additional rules by executive order or other administrative publication. To understand respondents' priorities, we asked them to identify the top regulatory and compliance issues influencing their compliance agendas. They indicated a shift from compliance and loss prevention to value at risk focus over the coming years.

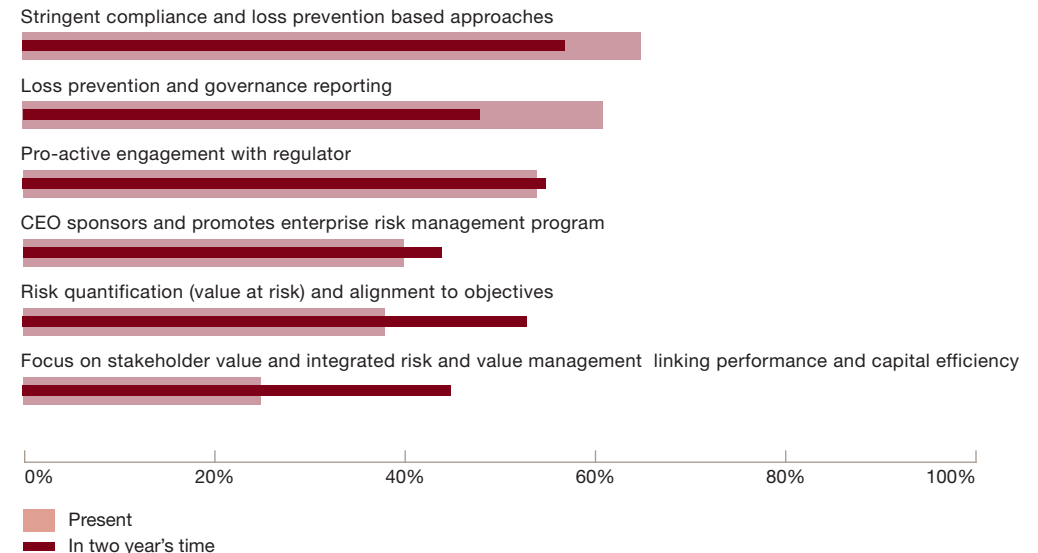
The pace and complexity of regulatory change has increased to the point where the ability to anticipate and manage increasing regulatory compliance is the top regulatory and compliance issue. This is causing expansion of operational and technology budgets and needs the attention of senior management.

Senior executives are focusing on the appropriateness of advice and product suitability, both of which are key parts of the emerging consumer protection agenda. At the same time, they are concentrating on anti-money-laundering issues, following a number of high-profile regulatory interventions, the consequences of which are still unfolding. FATCA and related treaty evolution is further a priority. Enhanced client privacy and data protection and MiFid II are also now rising up the senior management agenda.

When we asked respondents how concerned they are about different specific pieces of regulation, they reported high levels of concern in six specific areas. Cross-border firms identify managing tax information exchange risks, tax amnesties and double-taxation agreements as their significant concerns. Both offshore and onshore firms identify client privacy and data protection, professionalism/training and competence requirements for their people, and the commission and retrocession ban (or cap) issues as high on the agenda.

**Figure 6.2**

Which of the following best describes your organisation's current approach to risk management, and what approach do you expect to be taking in 2 years?



### **Anxiety about managing the impact of regulation and cost of compliance**

Respondents expressed concerns over their effectiveness in managing the impact of regulation. They are anxious about how to identify and address regulatory issues, including both the precise implications of regulations and how to build the infrastructure they need in order to comply in time.

The increasing burden of risk and regulation compliance continues to have a material effect on the costs of wealth managers. Currently it is 5% of revenues and respondents expect this level to increase to 7% in the next two years.

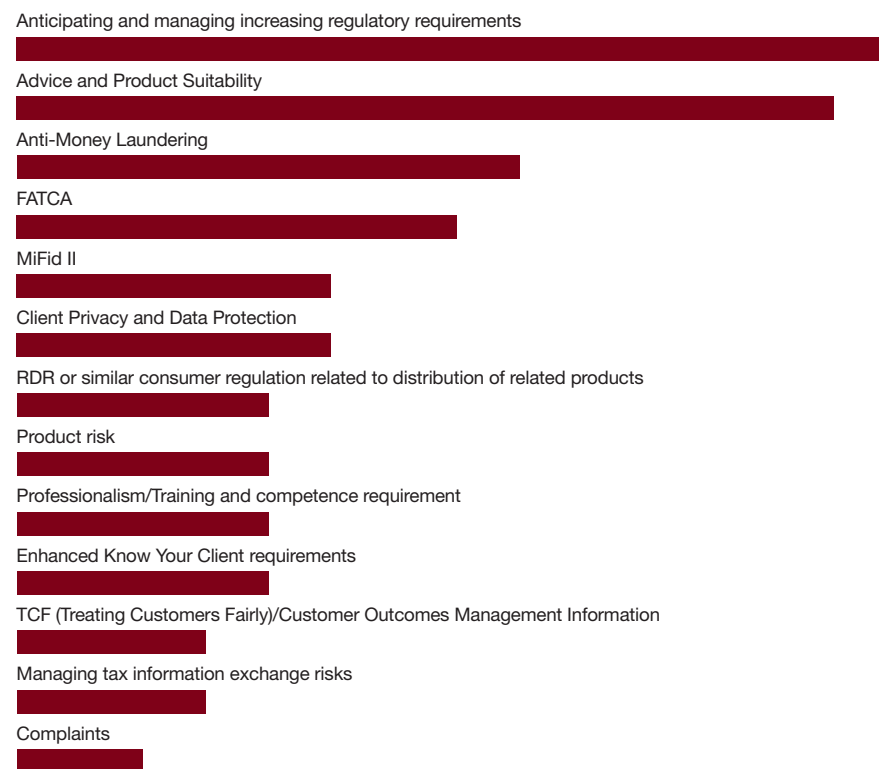
### **Strengthening controls**

To understand where respondents are focussing their energies, in response to these regulatory challenges, we asked them to rank in order of importance the actions they are taking to comply with regulations.

Respondents are concentrating on several activities simultaneously, improving operational controls across the business. In the front office, respondents are strengthening procedures and are also improving CRM training, seeking to raise the quality of dialogue with clients around suitability and appropriateness and then documenting and archiving the results. And they are coupling this initiative with enhancing product and service controls. All of this is leading to increased challenges for both CRMs and compliance staff. Given the quantity and complexity of the current and planned regulations, wealth managers are using advanced technology and surveillance tools to make change possible. New opportunities and demands linked to digital communities are reinforcing this trend towards greater use of technology.

**Figure 6.3**

What are the top regulatory and compliance issues for your organisation currently?  
Please indicate your level of concern in these areas.



## PwC viewpoint

### Agile management of regulation

*Regulation now plays a greater role in driving commercial choices concerning where to concentrate activities across the client distribution, proposition, and products and servicing models.*

Wealth managers require a new approach to deal with more complex and uncertain regulation, which is having a greater influence than ever on the sector. Clients, capital and commercial sustainability are all affected.

The web of regulatory change is complex, involving global, regional and national changes in regulations. Regulators are concentrating on themes such as the client protection agenda and industry sustainability—for example, the setting up of the new FCA and PRA regulators in the UK and FSOC in the US, and the Asian regulators' (MAS and HKMA) greater attention to recovery and resolution plans.

The shape and profile of policy has changed from the recent past. Regulators are pushing to create a better financial industry with one that delivers better client outcomes and embeds sustainability in its operating practices, taking into account the current low interest rate environment.

This drive means that wealth managers must pay greater attention to their core business practices, such as which clients they service, how they service them, how they verify the sources of their wealth, how they minimise conflicts of interests and how they evidence these compliance activities to the regulators and authorities.

The main areas of regulatory attention are:

- Capital and sustainability regulations covering Basel 3/ CRD 4 and for larger institutions the TBTF recovery and resolution and ring fencing issues, which are leading to reorganisations and resolution plans in the larger groups.

- Client protection placing greater importance on suitability and client risk assessments, raising the bar in terms of the quality of advice to clients. Also, there is a focus on pricing transparency through addressing retrocessions. Both of these regulatory initiatives have impacted wealth managers' commercial models. Furthermore, KYC and AML regulations have been strengthened. In terms of training, in some markets, the regulator has sought to raise the level of CRM qualifications and introduced accreditation.

- Product management regulations are leading to major changes. In Europe these regulations include: AIFMD plus UCITS IV, V and VI, and MIFID II. They include requirements for controlling and capping remuneration of certain staff.

- Tax transparency, where a combination of tax authorities and regulators has worked to address tax evasion through introducing FATCA, double-taxation treaties and disclosure facilities. Meanwhile, some countries are experimenting with financial transactions taxes.

Across the industry, dealing with continuing uncertainty about the details of current and future regulations and their business impacts is a challenge. Regulation now plays a greater role in driving commercial choices concerning where to concentrate activities across the client distribution, proposition, and products and servicing model.

Wealth managers will need a forward looking and aligned approach to better managing the regulatory agenda, including an understanding of the regulatory direction of

travel, and a more integrated and aligned method of evaluating regulatory impacts. Importantly, this should include testing what clients will value and be willing to pay for in post regulatory propositions. Wealth managers need to develop strategies that embrace the spirit of the regulation, deliver good client outcomes and which can be implemented into operations, backed by governance and evidence.

Such an approach will be particularly essential for cross border players in order to avoid them having to deal individually with multiple regulations that converge on the same thematic requirements in multiple markets but which have different detailed rules. For cross-border players, the challenge is complex as it often spans multiple geographic markets, client segments, propositions and operating models.

In future in some markets and regions, the introduction of new regulations on conduct, culture and compensation reform will further affect how wealth managers are led and managed.

As regulation continues to reshape the industry, successful players will reposition their business models to better adapt to the regulations. They will develop much stronger capabilities in regulatory impact insight, develop more proactive regulator relationships and become more adept at building compliance into operational processes, systems and critical behaviours. What's more, they will develop the ability to implement new regulations more quickly, supported by the most appropriate level of governance and management information to give assurance and proof of compliance.

## **PwC viewpoint**

Data protection and cybercrime: future wealth management success relies on building digital trust

*Recent high-profile security breaches, and media commentary surrounding cyber attacks, have generated fear and uncertainty.*

Throughout the wealth management industry, digital transformation is now occurring at an unprecedented rate. Digital networks are entirely dependent upon connectivity, and the ability to share information in a secure and responsible manner.

Recent high-profile security breaches, and media commentary surrounding cyber attacks, have generated fear and uncertainty, eroding stakeholder trust. There are now higher expectations about security of information and protection of privacy among clients, employees, suppliers and regulators when using digital channels.

For private banks and wealth managers, information security and privacy protection are particularly important areas to engender digital trust. Risks include those that originate from within the organisations themselves. For example, employees with lack of appropriate training and awareness about cyber security may disclose sensitive data on social networks, which could subsequently be exploited by cyber criminals, or click on sites that hackers use to infiltrate corporate networks.

Even though many organisations have invested in strengthening their security arrangements, cyber attacks are on the rise across the board, and becoming more sophisticated and broader in terms of potential impact (e.g. denial-of-service attacks). This makes it more difficult to detect and to protect the organisation against a number of key threats, including financial, competitive and ultimately reputational damage.

### **A different approach is now required**

Despite increased spending on cyber security, organisations are still suffering security breaches, many of which are caused by basic failures in security hygiene. These include incidents such as infections by malicious software, which could have been prevented through proper adherence to effective policies and procedures.

To optimise their digital investments and build digital trust, wealth managers must be clear about who is responsible for cyber security and the support they require. They need to be confident that cyber security strategies are aligned with their business objectives, that operational and risk management personnel share a common understanding of what information is critical to the business and attractive to adversaries, and that resources are deployed to protect what matters most.

As CRMs and clients adapt to more digital interactions, it will be critical that top management and technology compliance have an aligned and robust approach to cyber security and privacy protection including the appropriate governance structure and process. Boards need to make sure that they have the resources to monitor the environment, adapt to changes and respond effectively when breaches occur in order to manage their reputational risks.

This requires that security plans and protocols be well documented and continually reviewed. More than periodic reviews are required. Authorization surveillance and network traffic monitoring capabilities should be in place to protect networks and infrastructure from assault. Controls and reviews on what is being sent outside of an organisation is often critical as this is often how breaches or weaknesses are detected by hackers.

Similarly “clean room” standards of no zip drives, or copy capability for critical client data need to be in place and enforced. Training should reinforce these policies and procedures. Real time network monitoring tools should block and identify violations of privacy as well as intrusion. Ongoing penetration testing and reviews of gaps in firewall barriers is vital.

Once seen as just an IT compliance activity, cyber security and privacy protection is now a C-Suite issue. Traditional approaches to cyber security are no longer appropriate. Treating all information as equal and protecting it that way is both inefficient and ineffective. To build digital trust and ensure confidence in their cyber security strategy, wealth managers must take a different approach.

# Background to the 2013 Survey

*Pervasive regulatory pressures are driving cultural change.*

*The quest for operational efficiency and differentiation through technology continues.*

*Traditional approaches to product and service provision are changing.*

*Understanding the client's perspective of value is only getting tougher.*

## **Industry strategic priorities**

*Achieving excellence in client experience*

*Managing the speed and the effectiveness of change*

The 2013 survey gathered insights and perspectives on critical aspects of the challenges confronting participants, with a host of different operating models and businesses across all segments of global wealth management.

Participants' combined responses yield a fascinating self portrait of global wealth management both now and into the coming years.

PwC's 2013 Global Private Banking and Wealth Management Survey, as in years past, reflects the changing industry landscape and adds our own point of view to provide the global wealth management community with an independent framework, to guide further analysis and thought around how to evolve business today to better serve the needs of clients tomorrow.

*See inside panel for full survey details* ➔

### **North America**

Bahamas

Bermuda

Canada

Cayman Islands

Mexico

United States

2013  
participating  
countries

***Europe***

- Austria
- Belgium
- Finland
- France
- Germany
- Gibraltar
- Greece
- Guernsey
- Isle of Man
- Italy
- Jersey
- Liechtenstein
- Luxembourg
- Monaco
- Netherlands
- Poland
- Portugal
- Russia
- Spain
- Sweden
- Switzerland
- Ukraine
- United Kingdom

***Middle East***

- Kuwait
- Saudi Arabia
- United Arab Emirates

***Asia/Pacific***

- Australia
- China
- Hong Kong
- India
- Indonesia
- Japan
- Malaysia
- New Zealand
- Singapore
- Taiwan
- Thailand

***South America***

- Brazil
- Chile
- Uruguay

***Africa***

- Kenya
- Mauritius
- Nigeria
- South Africa

# Background to the 2013 Survey

The 2013 Global Private Banking and Wealth Management Survey is a comprehensive assessment of the dimensions of change in the wealth and private banking industry.

The Survey encompasses all aspects of private banking and wealth management and focuses on wealth at every level from a holistic perspective of what is shaping the industry as well as how it impacts those serving the wealthy.

This broad approach has provided us with a substantial range of insights from private banks, wealth managers, family offices, trust companies, insurance firms, asset servicers, private client groups at broker-dealers, universal banks, and other service providers.

As in prior years, we also surveyed a number of wealthy individuals and families worldwide and captured their observations.

Our multi-disciplinary, structured approach to analysing the complex respondent data enabled PwC to develop a non-linear perspective and look at wealth management from business executives' perspective. This encompassed far more than just analysing data and involved reflecting on the very nature of change and its characteristics and consequences for the wealth marketplace.

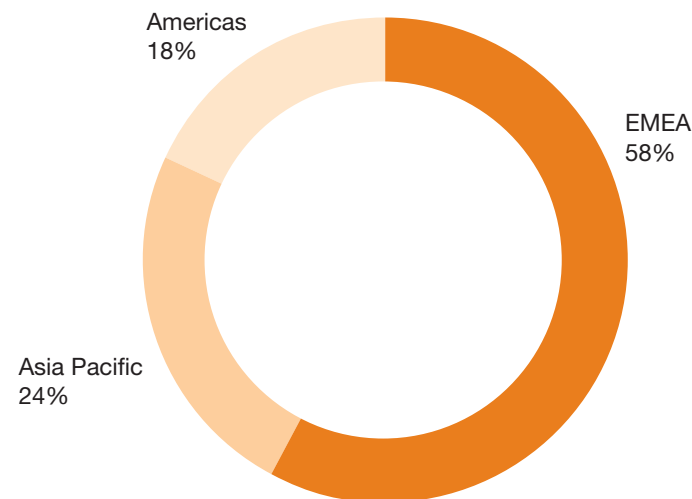
We tried to provide the thinking that a busy executive needs to chart the course of their business.

As in prior years, the 2013 Global Private Banking and Wealth Management Survey is open to all members of the community. There is no charge for participation, other than the time it takes an organisation to respond. No person or organisation sponsors the Survey. All information is administered and retained in a highly secure and non-attributable manner. Again this year, we were pleased by the number of direct requests for participation.

Each survey builds on our prior work which gives us a unique year-on-year perspective across a common set of indices. This is enhanced with a substantial refresh and revision process which helps us update our approach, refine content and capture nuances in the market and evolution of the private banking and wealth management space.

## Territory breakdown

What is the primary location for which you are responding?





## Participation

In 2011, we offered the survey in Mandarin Chinese and were delighted at the extent of the results. In 2013, we therefore additionally offered the survey in French, German, Portuguese and Spanish for the first time. More broadly, in this survey we focused heavily on emerging markets with many countries participating. Overall participation in these markets expanded significantly compared to 2011, including India, Brazil and China.

This year 200 participants from 51 countries participated in the survey. These respondents serve the high-net-worth community at every level across a broad product and service spectrum. Operationally, they represent a mix of domestic, regional, onshore and offshore business models, all focused on helping their clients manage wealth for the near- and long-term.

This year we also interviewed senior level executives all around the globe to capture their personal opinions on key issues, and trends facing their businesses. We are appreciative to these executives for their time and support of our Global Private Banking and Wealth Management Survey.

## Integrity and structure of the survey

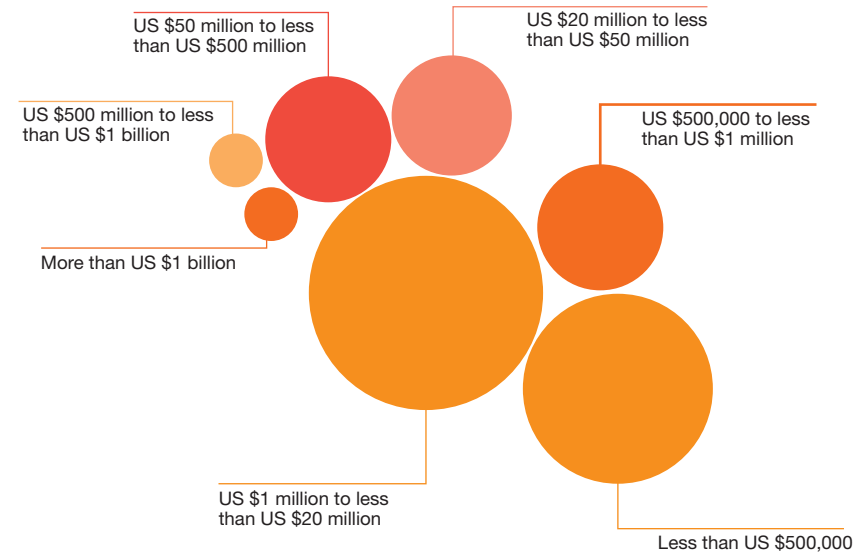
A key differentiator of our survey was the structure and format of the questions and the branching and routing capability of the on-line survey navigation and routing tool.

In addition, we provided on-line help, FAQs and drop down definitions throughout the survey to make sure that all respondents were operating with a common basis of understanding. Significant improvements were made in the use of web-enabled structuring increased accuracy and led to a higher degree of participation by respondents and a better overall quality of response.

Respondents shared their perceptions around the concentration of wealth in their businesses.

## Concentration of wealth

Based on respondents' answers to the survey, we analysed how they saw concentrations of wealth in their business.



### How we categorised wealth

Our survey continues to use the wealth management segment pyramid we have used for many years.

We also survey assets under management and assets under administration, to garner a more complete perspective on the services and relationships private banks and wealth managers bring to market.

### Continued information and insights

This report marks the first release from our 2013 Global Private Banking and Wealth Management Survey. We plan to publish additional supplements, in both print and digital versions, that will focus on specific topics in greater depth together with more detailed data analytics.

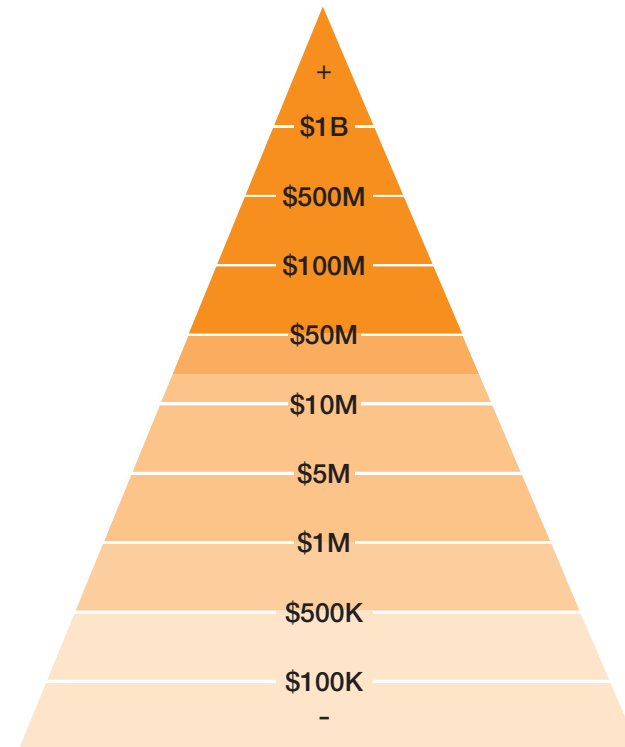
All participants in the survey will receive analysis in return for providing their valuable time to complete the survey questionnaire.

PwC can make further detailed analysis available including non-attributable industry comparisons and benchmarking covering: type of organisation, size, geographic reach and service offerings, tailored to specific request.

Survey releases and additional information and materials will be made available on the web at [www.pwc.com/wealth](http://www.pwc.com/wealth).

### Wealth pyramid

In our analysis we are utilising tiers of wealth currently in use by wealth managers and private banks globally



Improved tiers of wealth

## PwC's specialist, industry-leading International Survey Unit (ISU)

The ISU led the design, development and administration of the questions and the analysis of the data for the PwC Global Private Banking and Wealth Management Survey.

With more than 150 quantitative and qualitative analysts, PwC UK's ISU is an industry-leading team, which conducts global market research on behalf of PwC and also major global institutions and governments. For the 2013 survey, the ISU provided 24x7 multi-lingual support for all our respondents and operated in a highly secure ISO standard environment, governed by the Market Research Code of Conduct. The ISU is critical to our commitment that all respondent identification and information is kept confidential and that analysis is conducted on a non-attributable basis within strict guidelines and a rigorous analytical framework.

The ISU is also key in supporting the quality of the survey analysis and has constantly worked to improve and enhance the survey, improving the ease of operations and enhancing the accuracy of the underlying data.

### International Survey Unit, PwC UK

#### World-class research capability

- 150 research consultants
- 200+ multi-lingual interviewers
- Globally centralized operations
- Multi-channel execution (Face-to-face, phone, online)

#### Global, cost-effective coverage

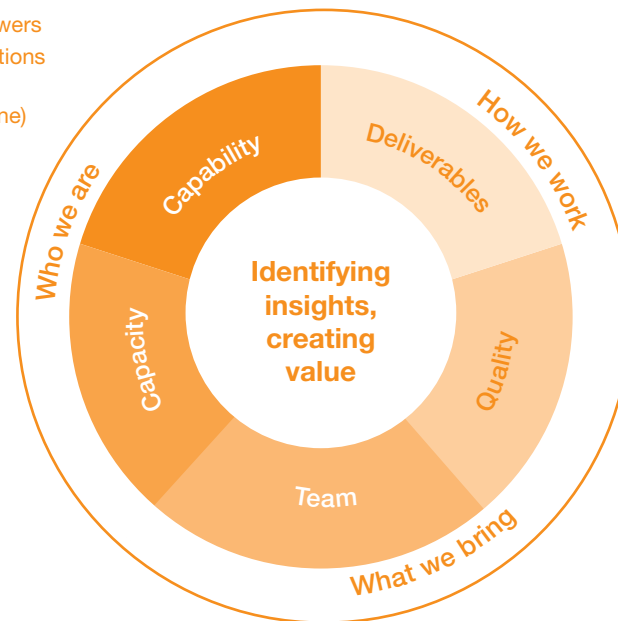
- Over 100 countries
- Over 40 languages
- Specialised, fast-track e-survey capability
- Highly secure and controlled data processing environment

#### Insight, analytics and reporting

- Statistical and commercial analysis
- Automated reporting outputs
- Business to business dedicated team
- Full service in-house research provision

#### Highest standards of quality

- Market research code of conduct
- Accredited under the Interviewer Quality Control Scheme (IQCS)
- ISO/IEC27002:2005 IT security
- ISO27001 certified



#### Research professionals

- Global centre of excellence for market research within PwC
- One of the top research providers to global 100 companies

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# PwC services for private banks and wealth managers

## Strategy and Performance

- Strategic analysis business options
- Corporate finance, valuations, integration and transaction support
- Market entry analysis
- Client segmentation analysis
- Sustainability
- Revenue growth strategy
- Client insight surveying
- Sales channel growth strategy
- Loyalty management

## Human Resources

- Talent management strategy
- Reward and compensation
- Incentives strategy
- International mobility and tax compliance
- CRM training – technical and core skills
- Employee satisfaction surveys
- HR benchmarking
- Workforce restructuring

## Operations

- Cost reduction and operational effectiveness
- Operating model design and transformation
- Controls optimisation
- Offshoring, outsourcing and shared services support
- Post-merger integration services
- Process re-engineering
- Business model transformation
- On boarding /Conversion support
- Project management and support

## Technology

- IT strategy and architecture
- IT cost and value management
- Technology innovation
- Technology sourcing
- Cloud computing technologies
- Data and analytics
- Data architecture, governance and quality
- IT service management
- Application services
- Infrastructure services

## Regulation and Compliance

- Regulatory risk assessments
- Conduct and suitability
- Anti-money laundering (AML)
- Client asset support
- Compliance remediation
- Compliance function effectiveness
- Regulatory support/Impact analysis and compliance
- Asset management regulation
- FATCA

## Risk Management

- Client data security
- Cyber security
- Treasury, market, credit and operational risk management
- Product risk appetite and assessment
- Compliance and regulation
- Capital risk management
- Forensic services

## Taxation

- Private client services
- Corporate structuring
- Structured finance and complex transactional support
- Tax strategy and compliance
- HR and employment-related tax
- Expatriate taxation
- Product design and launch
- Family office support
- Client tax reporting

## Assurance

- External audit services
- Internal audit
- Accounting advice
- Controls assurance
- Controls reporting
- Governance advice
- Corporate reporting
- Project assurance
- Data assurance
- IT audit support



