scorpiopartnership
what wealth needs next

The Scorpio Partnership Private Banking Benchmark 2013

Global KPI analysis

July 2013

Section one:
The KPI Benchmark

The global wealth KPI source

In brief

The Scorpio Partnership Global Private Banking Benchmark 2013 is the latest industry wide key performance indicator assessment of the global wealth management sector from leading wealth management strategist, Scorpio Partnership.

The report provides a detailed industry analysis based on results from 209 private banks around the world who manage a total of USD14.74 trillion of client assets. The report estimates the total of client assets managed by the industry is USD18.5 trillion. The report is compiled by an experienced team of consultants and analysts who are constantly engaged with the international private banking market. The report itself includes analysis of more than 18,000 data points on the private banking industry's key performance indicators.

The report itself includes analysis on more than 18,000 KPI data points using Scorpio Partnership's unrivalled historical database.

The Private Banking Benchmark 2013 is therefore essential reading for private banking management, private banking strategy teams and financial analysts as well as service providers to the private banking market including asset managers, investment banks, trust companies and specialist professionals such as lawyers, accountants and consultants.

The Scorpio Partnership Global Private Banking Benchmark 2013 includes:

- Key performance indicators based on USD14.74 trillion of assets under management representing 80% of all assets managed by the industry
- Performance comparison of pure play and diversified business models across a number of KPIs
- Regional analysis of AUM across a representative sample of banks with combined AUM of USD1.1 trillion
- Comprehensive analysis of income and expenses including examination of distribution and margin data
- Market size and market share analysis considering total HNW wealth, bankable HNW wealth, the size of the total private banking market, and the market share of the benchmark banks

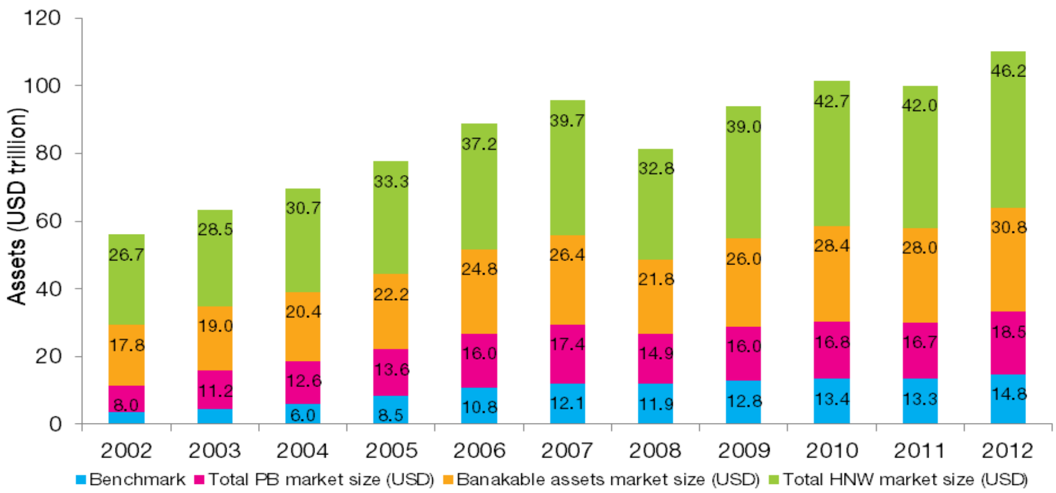
KEY FINDINGS FROM THE PRIVATE BANKING BENCHMARK 2013

The Global Private Banking Benchmark is now widely considered the litmus test for the industry's state of health in business model terms. Tracking more than 200 financial institutions for 12 years now, the Benchmark has seen the rises and falls of the industry. In this latest assessment, we find that wealth managers witnessed acceleration of new inflows in 2012; on average firms posted a percentage change in net new money (NNM) of 23.7% over the 12 month period under review.

This sharp uptick is a turnaround for the private banking industry which has struggled to attract convincing levels of new client assets since the financial crisis. Private banks have bounced back from the nadir of 2011, during which the average percentage change in NNM had fallen to -27.9%.

During the same period under review, asset under management (AUM) growth was strong with an average percentage change among wealth managers of 8.7% from 2011. With this growth, the wealth management industry now manages a total of USD18.5 trillion, up from USD16.7 trillion in the previous year [Figure 1]. The growth was fuelled by strong industry NNM as well as strong performance in the markets leading to an overall rise in AUM.

Figure 1: Estimate of global private banking penetration



Source: Scorpio Partnership analysis
Note: Total HNW financial assets from the Capgemini and RBC Wealth Management 2013 World Wealth Report

However, while there is strong news on inflows, this top line success did not translate to the bottom line. Pre-tax profits were solid across the industry, but the average percentage change on profits was 5.3% for 2012, compared to 12.3% for 2011. Cost management is a key factor here. The private banking industry's operating costs are continuing to creep up. The industry needs to focus on working out its efficiency points and optimising them. The analysis of the data shows there are still signs of weakness in the model for many operators.

KPIs for the international wealth management industry	Average percentage change	
	2012	**2011**
Assets under management (AUM)	8.7%	0.70%
Net new money	23.7%	-27.9%
Income	2.3%	-3.2%
Expenses	2.0%	3.2%
Ordinary profits	5.3%	12.3%
Average gross margin on AUM	116.0bps	115.6bps

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Benchmark report	Standard Benchmark Centre (data tables)	Custom Benchmark Centre (bespoke analysis of 10 competitors)
Top 20 by AUM	Top 50 AUM	Income
Aggregated KPIs	Top 50 NNM	Income breakdown
Transparency table	Top 50 Profits	Expenses
	Top 50 Cost income	Expenses breakdown
		Deposits to AUM/ Loans to AUM
		Gross margin on banking/ managed assets
		Gross margin on managed assets
		Adjusted gross margin on AUM
Pricing		
Soft copy single user: £2,500	*Standard benchmark centre: £2,500*	*Custom benchmark centre £5,000*
Soft copy multi user including Standard Benchmark data tables: £5,000		
Soft copy multi-user including Standard Benchmark data tables and Custom Benchmark centre: £7,500		

Note 1: Multi-User = Distributed to 4 or more individuals

Please note all prices exclude VAT

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SAMPLE INSIGHT: THE TOP 20 BY ASSETS UNDER MANAGEMENT

All of the top 20 wealth management firms grew their assets under management in 2012. UBS notably returned to the top of the table reporting growth of 9.7%, in US dollar terms, or USD150.5 billion. Its assets under management were USD1.705.0 trillion at year end.

UBS's return to the top of the league was partly facilitated by the comparatively modest growth of 5.9% of Bank of America, which fell back to the number two spot. Bank of America, which is in the process of selling its non-US based Merrill Lynch International Wealth Management business to Julius Bär, saw assets under management growth held back by its significant exposure to the US market.

Looking across the top 20, a significant number reported double digit growth in assets under management for 2012, in US dollar terms. In fact, the average percentage growth across these banks was well ahead of the average at 10.9% growth. By comparison, across the Benchmark as a whole, the average percentage change in assets under management stood at 8.7%.

Pictet, Citi Private Bank and Lombard Odier reported particularly strong organic growth in assets under management at 22.9%, 20.2% and 16.0% respectively, in US dollar terms. However, it should be noted that these Swiss banks are reporting for a 15-month period due to changes in their operating structure.

Santander also stands out for particularly strong growth in assets under management, reported at 66.2%. This growth has seen Santander return the top 20 for the first time since 2010. It has been driven by a combination of its move to absorb Banesto and Banif, market performance and a significant presence in Latin America, which has experienced substantial economic growth.

Figure 1: Top 20 global private banks by AUM (in US dollars)

Ranking	Institution	AUM (USD bn)	Growth 2012	Reporting currency	Ranking move
1	UBS	1,705.0	9.7%	CHF	+1
2	Bank of America*	1,673.5	5.9%	USD	-1
3	Wells Fargo*	1,400.0	7.7%	USD	-
4	Morgan Stanley	1,308.00	7.3%	USD	-
5	Credit Suisse	854.6	6.9%	CHF	-
6	Royal Bank of Canada	628.5	9.6%	CAD	-
7	HSBC	398.0	5.6%	USD	-
8	Deutsche Bank	387.3	11.1%	EUR	-
9	BNP Paribas	346.9	9.7%	EUR	-
10	Pictet**	322.2	22.9%	CHF	+1
11	JPMorgan	318.0	9.3%	USD	-1
12	Citi Private Bank	250.00	20.2%	USD	+1
13	Goldman Sachs	240.00	5.7%	USD	-1
14	ABN AMRO	212.7	12.0%	EUR	-
15	Barclays	201.4	10.3%	GBP	-
16	Julius Bär	200.8	12.3%	CHF	-
17	Northern Trust	197.7	13.8%	USD	-
18	BNY Mellon	179.0	6.6%	USD	-
19	Lombard Odier**	175.5	16.0%	CHF	+1
20	Santander	172.7	66.2%	USD	+3

* Figures for Bank of America include its Global & Wealth Management division, which includes Merrill Lynch International Wealth Management, US Trust, Bank of America Private Wealth Management and its Retirement Services business. Wells Fargo has also included Retirement Services within its data.

**The results for Pictet relate to the 15-month period from 31 December 2011 – 31 March 2013. All other firms quoted provided figures for the 12-month period to 31 December 2012.

SAMPLE INSIGHT: BUSINESS MODELS IN A FRAGMENTED INDUSTRY

In recent years, the changing pressures on the financial sector have put increased focus on the question of how wealth managers can operate efficiently in their chosen markets. The question is not an easy one, reflecting issues of size, scale and strategic focus and how these factors can be harnessed profitably for businesses and their clients.

Size, for example, brings with it reach and global recognition. A diversified business, meanwhile, offers a wider product palette and creates internal operating efficiencies. Equally though, a focused strategy can command the margin stability of a genuine specialist.

In this report, we analyse the results of a sample of global wealth management providers from 2007 to the last annual reporting period in 2012. The analysis shows that diversified firms and pure players have had distinctly different fortunes during this period. In turn, this underscores that in the fragmented global wealth management landscape there are two principal *modus operandi*.

Diversified firms are those for which wealth management is an operating division of a larger financial services business. In addition to providing financial advice and investment services to high-net-worth and ultra-high-net-worth clients, they can draw on the expertise of other divisions within the group for corporate, investment or retail banking, or wider asset management capabilities.

Pure players, by contrast, simply offer private banking and private client asset management services to wealthy clients.

An analysis of cost-income ratios of the wealth management firms in the Benchmark highlights the extent of divergence of these business models in the last five years. Put simply, this is the percentage level of costs carried by a business against the income it receives.

In 2007, there was just a four-percentage point difference in cost-income ratios between the two business models. Since then, the gap has widened considerably.

Cost-income ratios have, in fact, risen significantly across both business models. However, diversified firms have been more effective at managing their costs-income ratios. By contrast, pure players have faced a steady worsening of this key measure.

From a low in 2007 of 66%, cost-income ratios for pure players leapt up during 2008 to 88%, an increase of almost one third. Since then, the figure has remained stubbornly high, reflecting a combination of increased regulation, complex financial markets and personnel costs which have conspired to ensure that entering 2013, cost-income ratios for pure players remain at 88%, still well above pre-crisis territory.

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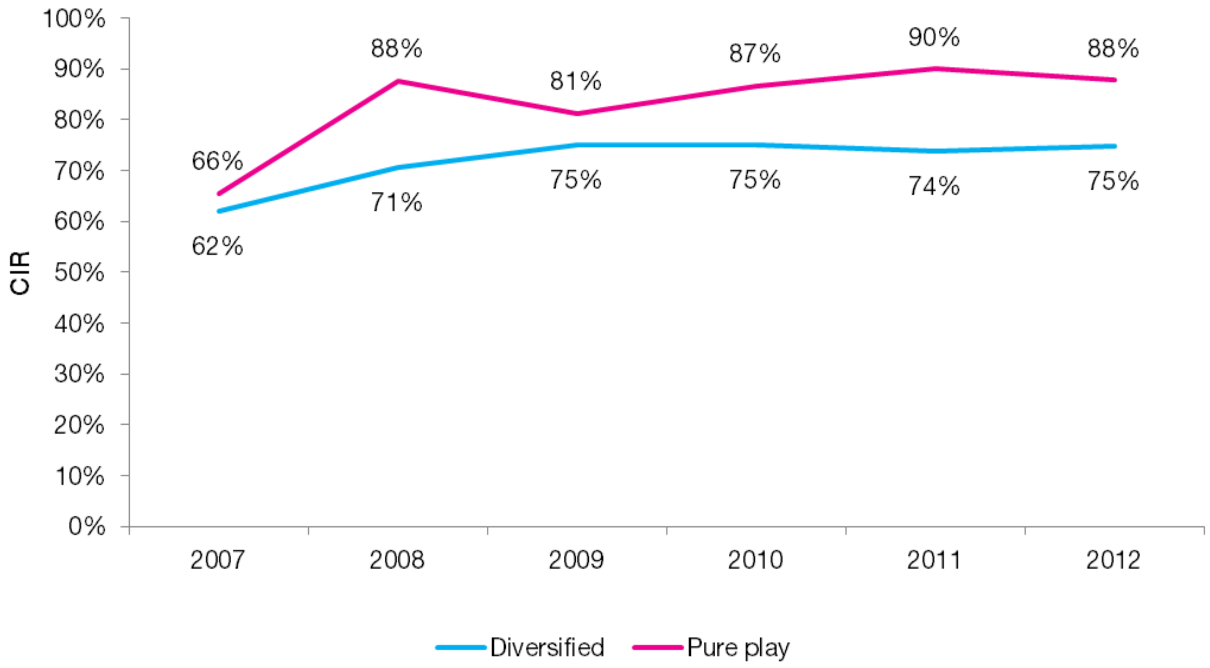
Figure 2: Cost-income ratio 2007-2012 – diversified firms vs. pure play firms



Diversified models also saw a sharp increase in their cost-income ratios at the start of the financial crisis, stabilising in the mid-70% range from 2009.

Since then, diversified firms have benefitted from the flexibility of their business model, allowing them to adapt their business and product proposition according to market conditions.

Diversified models are also able to benefit from wider economies of scale. For example, they can leverage centralised portfolio management functions or tap into retail banking networks to build presence in growth markets. Judging by other key performance indicators, this has not had any significant impact on their ability to attract and retain clients and their wealth.

The industry as a whole, however, is being pressured by the increasing weight of regulation. This has forced costs up for both diversified and pure player models and is occurring across a number of major wealth markets. Key regulatory changes relate to the Retail Distribution Review in the UK, FATCA and Dodd-Frank in the US, MiFID II across Europe, and the pressure that has been applied to Switzerland's banking secrecy by global and supranational bodies.

Whether it is knowing your client, anti-money-laundering regulations, the appropriateness of investments for client profiles or a myriad of other issues, the trend in wealth management is towards greater compliance and risk management is only likely to push costs higher. While diversified banks have been able to lean on large teams of compliance staff, smaller pure players have had to gear up to manage regulatory risk, or opt instead to pull out of specific markets or client sectors.

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