Global Wealth 2013

Maintaining Momentum in a Complex World

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MAINTAINING MOMENTUM IN A COMPLEX WORLD

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INTRODUCTION

THE GLOBAL WEALTH-MANAGEMENT INDUSTRY is becoming increasingly complex. With the mature economies of the "old world" and the developing economies of the "new world" moving at different speeds, wealth managers in different regions are grappling with complicated sets of problems. In essence, the core challenge in the old world is how to make the most of the modest growth that is expected in traditional markets, while players in the new world are trying to capture a substantial share of the wealth that is being created in rapidly developing economies. Diverse strategies will be required on either side of the divide to succeed—and to maintain the overall momentum that the industry realized in 2012.

At the same time, regardless of their home market or principal region of activity, wealth managers globally still have much in common. All must find ways to gather new assets, generate new revenues, manage costs, maximize IT capability, comply with regulators, and find winning investment solutions that lead to deep and long-standing client relationships. Indeed, the battle for success in this increasingly complex industry landscape will intensify throughout the rest of the decade.

In *Maintaining Momentum in a Complex World: Global Wealth 2013*, which is The Boston Consulting Group's thirteenth annual report on the global wealth-management industry, we explore the current size of the market, the present state of offshore banking, and the performance of leading institutions in a wide range of categories. We also thoroughly assess the key trends that are shaping the industry landscape, as well as outline steps that wealth managers must take to position themselves advantageously. Our goal, as always, is to present a clear and complete portrait of today's wealth-management industry, as well as to offer thought-provoking analysis of issues that will affect all types of wealth managers as they pursue their growth ambitions in the coming years.

MARKET SIZING

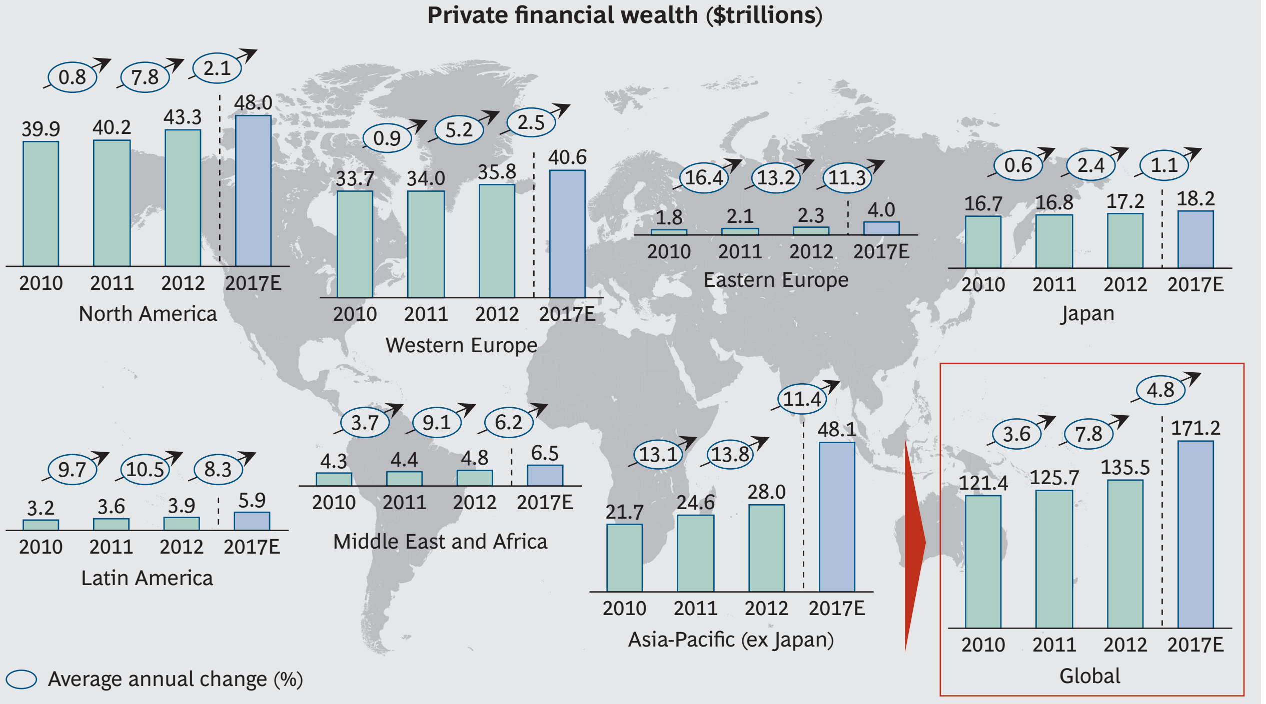
A REBOUND YEAR

GLOBAL PRIVATE FINANCIAL WEALTH grew by 7.8 percent in 2012 to reach a total of $135.5 trillion.[1] (See Exhibit 1.) The rise was stronger than in either 2011 or 2010, when global wealth grew by 3.6 percent and 7.3 percent, respectively.

Global Overview

The growth of private wealth varied considerably by region in 2012, as in previous years, once again highlighting the differences in how the year's economic forces affected the traditional, mature economies of the "old

Exhibit 1 | The Growth of Global Wealth Accelerated in 2012



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: Private financial-wealth numbers for all years were converted to U.S. dollars at year-end 2012 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers. Calculations for 2010 and 2011 are based on the same methodology used for the 2012 calculations. Global wealth is measured by financial wealth across all private households. Countries included in each region can be found in the report.

world" and the rapidly developing economies (RDEs) of the "new world." Wealth increased measurably in the old-world regions of North America, Western Europe, and Japan, while stronger, double-digit growth characterized the new-world regions of Asia-Pacific (excluding Japan), Eastern Europe, and Latin America. Wealth in the Middle East and Africa (MEA) saw near-double-digit growth.

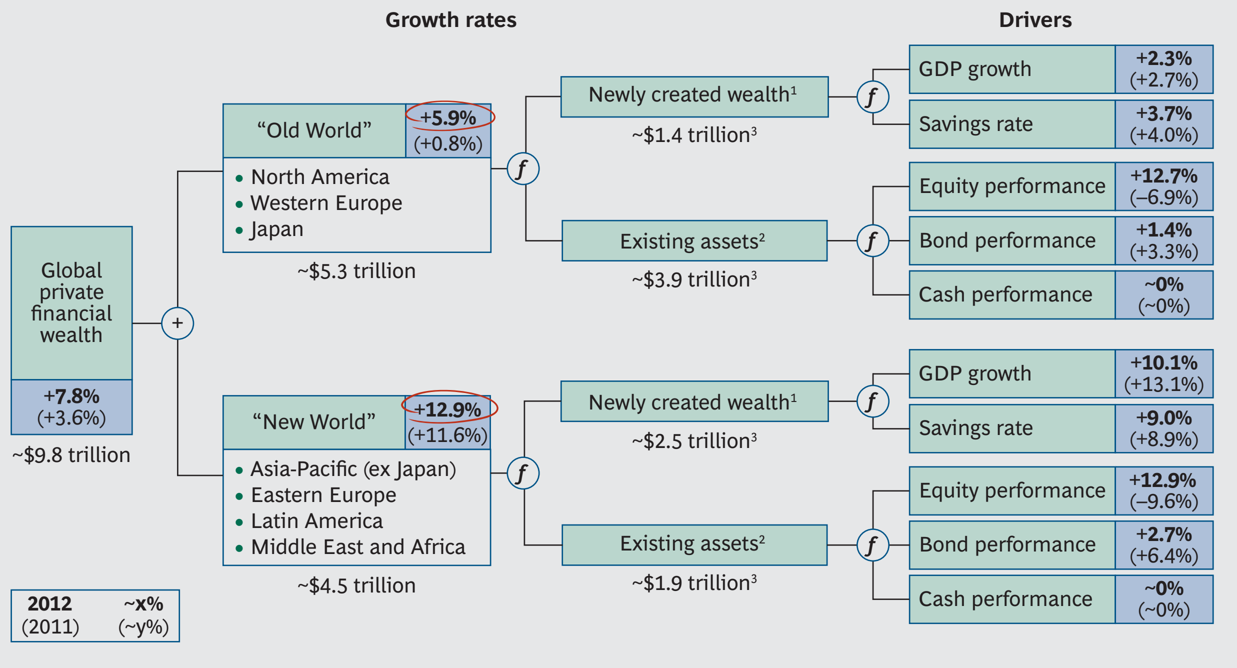
> The principal driver of the rise in wealth was the strong rebound in equity markets.

Overall, private wealth grew by 5.9 percent in the old world in 2012 (representing just over half of the total increase in global wealth), compared with 12.9 percent growth in the new world. (See Exhibit 2.) In terms of newly created wealth—stemming primarily from rises in gross domestic product (GDP), income, and savings rather than from returns on existing wealth—the old world accounted for roughly one-third of the increase in global wealth, with the new world accounting for roughly two-thirds.

North America and Western Europe remained the wealthiest regions in 2012, with total private wealth of $43.3 trillion and $35.8 trillion, respectively. Asia-Pacific (excluding Japan) was the third-largest market, with wealth of $28.0 trillion. Growth in overall wealth in 2012 amounted to nearly $10 trillion, from $125.7 trillion in 2011 to $135.5 trillion in 2012.

Unlike in 2011, the principal driver of the rise in global private wealth in 2012 was the strong rebound in equity markets in most countries, particularly during the second half of the year. In 2012, the S&P 500 rose by 13.4 percent, the Nikkei 225 by 22.9 percent, and the Euro Stoxx 50 by 13.8 percent. Strong stock returns allowed existing assets to contribute far more than usual to the overall growth in wealth, particularly in mature markets. Only a few countries suffered equity

Exhibit 2 | "New World" Wealth Grew at Double the Rate of "Old World" Wealth in 2012



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: All growth rates are nominal, including GDP growth rates. Average asset performance and macro data are weighted by GDP and reflect domestic trends. All numbers are rounded and may not sum to totals. Countries included in each region can be found in the report.
[1]New private financial wealth, generated primarily through savings.
[2]Growth in asset values.
[3]Estimated.

market losses, among them European countries such as Spain and Slovakia and MEA countries such as Qatar, Morocco, and Bahrain. The drivers of stronger equity markets included generally supportive monetary policies by central banks (notably in Europe with regard to the euro) and a measure of economic clarity after national elections in countries such as the U.S., Japan, China, France, and Russia.

The proportion of assets held in equities gained 1.5 percentage points to reach 33.9 percent globally in 2012—still 4.8 percentage points below the precrisis level of 38.7 percent. The amount of private wealth held in equities grew globally by 12.6 percent in 2012 to $45.9 trillion, compared with 3.5 percent growth in bonds (to $27.6 trillion) and 5.7 percent growth in cash and deposits (to $60.8 trillion).[2] Currency fluctuations had only a minor impact on the change in wealth as measured in U.S. dollars.

Growth in private wealth was also strongly driven by savings as a percentage of GDP. This effect was especially noticeable in the new world, where savings rates are high. Additionally, high nominal GDP growth rates in RDEs, particularly in India (12.8 percent) and China (11.4 percent), stimulated wealth creation. The BRIC countries as a whole achieved average nominal GDP growth of 10.8 percent in 2012.

Looking ahead, global private wealth is projected to post a compound annual growth rate (CAGR) of 4.8 percent over the next five years to reach $171.2 trillion by the end of 2017. Wealth will continue to grow more rapidly in the new world—at a projected CAGR of 10.5 percent over the next five years compared with 2.1 percent in the old world—driven mainly by high savings rates and continued strong GDP growth in RDEs. The share of private wealth held in the old world will shrink from 71 percent in 2012 to a projected 62 percent by the end of 2017, with the share held in the new world rising from 29 percent to a projected 38 percent.

Overall, the Asia-Pacific region (excluding Japan)—and especially its new wealth—will account for the bulk of the increase in global wealth through 2017. (See Exhibit 3.) In fact, the projected growth in wealth in the new world through 2017 will be driven primarily by new wealth creation. By contrast, projected growth in the old world—where both GDP growth and savings rates are projected to be lower than in the new world—will depend more on the returns on existing assets. Globally, new wealth creation will account for approximately 80 percent of the total growth in wealth through 2017, assuming moderate asset returns.

Wealth managers in the old world will largely be playing a "share stealing" game.

As a result, wealth managers in the old world will largely be playing a "share stealing" game for existing wealth in which both an institution's starting position and its ability to retain clients will be critical. In the new world, where aggressive market entrants can grow rapidly, the emphasis will be on capturing a significant slice of the new wealth that is being created.

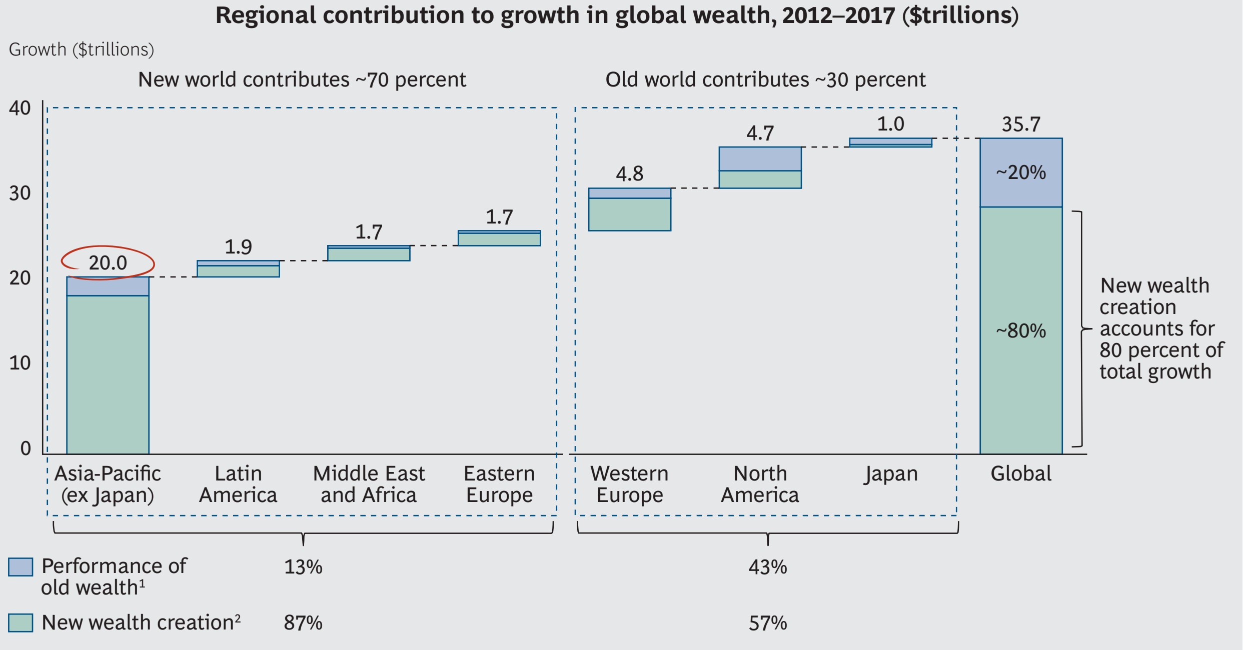
Millionaires

The total number of millionaire households reached 13.8 million globally in 2012, or 0.9 percent of all households. The U.S. had the largest number of millionaire households (5.9 million), followed by Japan (1.5 million) and China (1.3 million). (See Exhibit 4.) China should surpass Japan in 2013.

The highest density of millionaires was in Qatar, where 143 out of every 1,000 households had private wealth of at least $1 million, followed by Switzerland (116), Kuwait (115), Hong Kong (94), and Singapore (82).[3] The U.S. had the largest number of billionaires in 2012, but the highest *density* of billionaire households was in Hong Kong (15.1 per million), followed by Switzerland (9.4 per million).

More broadly, the wealthy will continue to get wealthier globally. Over the next five

Exhibit 3 | Asia-Pacific and Its New Wealth Will Account for the Bulk of Global Growth Through 2017



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: Global private financial wealth is based on complete (not rounded) numbers. Private financial-wealth numbers for all years were converted to U.S. dollars at year-end 2012 exchange rates to exclude the effect of currency fluctuations. The proportions of old-wealth performance versus new-wealth creation are estimates.
[1]Growth in asset values, assuming moderate returns on assets.
[2]New private financial wealth, generated primarily through savings.

Exhibit 4 | The United States, Japan, and China Had the Most Millionaires in 2012

	Millionaire households				Ultra-high-net-worth (UHNW) households (more than $100 million in private financial wealth)			
	Number of millionaire households (thousands) 2012		Proportion of millionaire households (%) 2012		Number of UHNW households 2012		Proportion of UHNW households (per 100,000 households) 2012	
1	(1) United States	5,876	(1) Qatar	14.3	(1) United States	3,016	(1) Hong Kong	13
2	(2) Japan	1,460	(3) Switzerland	11.6	(2) United Kingdom	1,001	(2) Switzerland	10
3	(3) China	1,304	(2) Kuwait	11.5	(3) China	851	(3) Austria	9
4	(4) United Kingdom	509	(4) Hong Kong	9.4	(4) Germany	680	(4) Qatar	8
5	(5) Switzerland	395	(5) Singapore[1]	8.2	(5) Canada	476	(5) Norway	8
6	(6) Canada	373	(7) United States	4.9	(6) Italy	381	(6) Singapore[1]	7
7	(7) Germany	362	(6) Bahrain	4.9	(7) France	371	(7) Kuwait	7
8	(8) Taiwan	312	(9) Taiwan	4.0	(9) Turkey	357	(8) Israel	4
9	(9) Italy	274	(8) UAE	4.0	(8) Switzerland	339	(10) Belgium	4
10	(10) France	256	(10) Israel	3.8	(11) Russia	328	(9) United Kingdom	4
11	(11) Hong Kong	231	(11) Oman	3.3	(12) Hong Kong	323	(12) New Zealand	4
12	(12) Netherlands	191	(12) Belgium	3.2	(10) Austria	314	(11) Canada	4
13	(13) Russia	180	(13) Canada	2.8	(14) Brazil	236	(14) Sweden	3
14	(14) Australia	178	(14) Japan	2.6	(13) Australia	231	(15) Denmark	3
15	(15) India	164	(16) Netherlands	2.6	(16) Indonesia	221	(13) UAE	3

Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: Numbers in parentheses are 2011 rankings, determined on the basis of year-end 2012 exchange rates to exclude the effect of currency fluctuations. UAE is United Arab Emirates.
[1]Singapore figures have been restated owing to changes in the methodology applied for the estimate of wealth held in equities and cash at the end of 2012.

years, global wealth among households with $5 million to $100 million in wealth will grow by a projected CAGR of 8.0 percent, compared with 9.2 percent for the ultra-high-net-worth (UHNW) segment (households with more than $100 million in wealth). (See Exhibit 5.) UHNW households held $7.5 trillion, or 5.5 percent of global private wealth, in 2012—an increase of 0.2 percentage points over 2011—and will hold an estimated $11.6 trillion (6.8 percent of global private wealth) at the end of 2017.

UHNW households held $7.5 trillion (5.5 percent) of global private wealth in 2012.

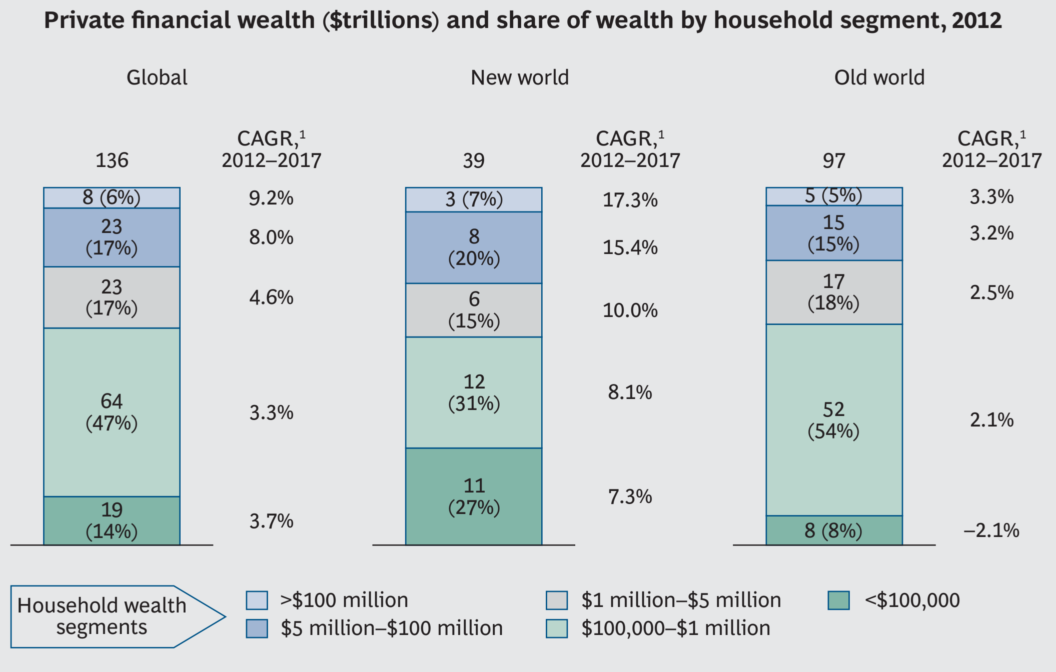
All segments below the $5 million mark will grow at significantly lower rates, and all segments in the old world will grow at lower rates than those in the new world.

Regional Variation

As in previous years, the dynamics of growth in private wealth varied widely across all regions in 2012, and RDEs continued to gain importance. For example, of the BRIC nations, only China was among the top 15 wealthiest countries in 2007. In 2012, China was joined by India. In 2017, China is projected to be ranked second, with India ranked ninth and Russia eleventh. (See Exhibit 6.) By contrast, some old-world countries are losing ground. Switzerland, for example, dropped to thirteenth place in 2012 from eleventh in 2007, and is projected to fall to fifteenth in 2017.

North America.[4] Despite concerns about consumer confidence stemming from the so-called fiscal cliff in the U.S., private wealth in North America rose by 7.8 percent in 2012 to $43.3 trillion. The amount of wealth held in equities grew by 12.5 percent—driven by a strong stock market and relatively solid nominal GDP growth of 4 percent—compared with increases of 2.8 percent for bonds and 5.7 percent for cash and deposits. Private

Exhibit 5 | UHNW Households Will Post the Strongest Growth over the Next Five Years



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: Private financial-wealth numbers for all years were converted to U.S. dollars at year-end 2012 exchange rates to exclude the effect of currency fluctuations. All numbers are rounded and may not sum to totals. Countries included in each region can be found in the report.
[1]Projected compound annual growth rate for year-end 2012 through 2017.

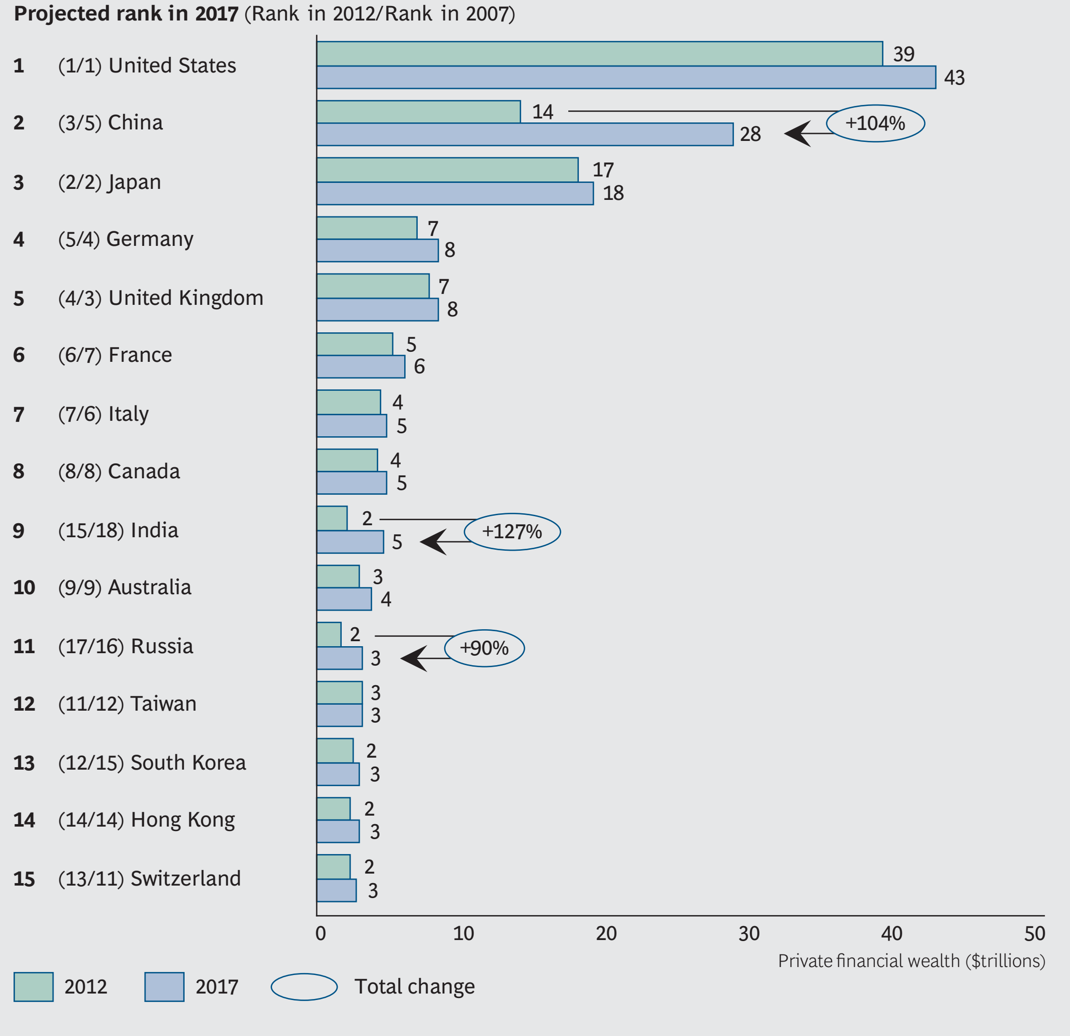
wealth in the U.S. rose by 8.1 percent, far above the 2011 level of 0.5 percent.

With a projected CAGR of 2.1 percent, private wealth in North America will grow to an estimated $48.0 trillion by the end of 2017. In stark contrast with the Asia-Pacific region (excluding Japan), however, less than half of this growth will come from new wealth.

The generally positive market sentiment can be attributed to a somewhat stabilized economic outlook in the U.S., as well as to the continued monetary stimulus provided by the Fed in the form of the third round of quantitative easing. The U.S. savings rate was relatively low, making growth in private wealth more dependent on equity returns, especially compared with RDEs.

Western Europe.[5] Private wealth in Western Europe rose by 5.2 percent to $35.8 trillion in 2012. The amount of wealth held in equities rose by 11.3 percent, bolstered by overall stock-market strength, compared with rises of 1.5 percent for bonds and 3.5 percent for cash and deposits. This strength contrasted with low nominal GDP growth, which varied significantly across countries. For example, the economic growth of France (1.6 percent), Germany (2.0 percent), and the U.K. (1.7 percent) was modest, while Italy (0.9 per-

Exhibit 6 | China Will Soon Become the Second-Wealthiest Nation



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: All rankings were determined on the basis of year-end 2012 exchange rates to exclude the effect of currency fluctuations. Calculations for 2007 and 2017 were based on the same methodology used for the 2012 calculations. All numbers are rounded and may not sum to totals.

cent), Portugal (–3.9 percent), and Spain (0.6 percent) fared even worse. The growth in wealth was generally higher in northern Europe than in southern Europe.

Some equity markets in Western Europe performed negatively in the first half of the year, owing to rising economic uncertainty linked partly to the Greek elections. But they rallied in the second half after the head of the European Central Bank (ECB), Mario Draghi, committed to doing "whatever it takes" to save the euro, and the ECB launched the outright monetary transactions initiative.

With a projected CAGR of 2.5 percent, private wealth in Western Europe will grow to an estimated $40.6 trillion by the end of 2017.

The growth in wealth was higher in northern Europe than in southern Europe.

Japan. Japan achieved a modest increase of 2.4 percent in private wealth in 2012 to reach $17.2 trillion—but the rate of increase was nonetheless the highest since 2007. Private wealth held in equities grew by 6.5 percent, helped by rising Japanese stocks and generally positive equity sentiment globally, as well as by the depreciation of the yen and the election of a new Japanese president apparently dedicated to fighting deflation in the country—an initiative viewed favorably by investors. Wealth held in bonds fell by 6.5 percent, while wealth held in cash and deposits rose by 1.5 percent. The weakening yen, which fell by 8.1 percent in 2012 against the U.S. dollar, aided the important Japanese export sector, but GDP was flat.

With a projected CAGR of 1.1 percent, private wealth in Japan will grow to an estimated $18.2 trillion by the end of 2017. This growth will be driven mainly by returns on existing wealth. The share of total wealth held by households with less than $1 million was 78 percent in 2012, a high level compared with all other regions.

Asia-Pacific (excluding Japan).[6] Asia-Pacific (excluding Japan) was the fastest-growing global region in terms of private wealth in 2012, posting an increase of 13.8 percent to reach $28.0 trillion. Strong GDP growth in India and China was the principal driver of this expansion, aided by high savings rates. The amount of wealth held in equities (including alternative investments) rose by 21.9 percent, driven largely by improving economic data for China in the second half of the year. Wealth held in bonds rose by 10.6 percent, and wealth held in cash and deposits rose by 10.4 percent. The strongest growth in the region was in the higher wealth bands, with the share of total wealth held by millionaire households reaching nearly 40 percent in 2012.

With a projected CAGR of 11.4 percent, the region will see its private wealth grow to an estimated $48.1 trillion by the end of 2017—just surpassing North America as the world's wealthiest region—driven strongly by new wealth creation.

Eastern Europe.[7] Eastern Europe's private wealth rose by 13.2 percent to $2.3 trillion in 2012, underpinned by strong GDP growth in Russia. As in many other regions, the growth in private wealth was supported by generally rising stock markets. Private wealth held in equities rose by 17.7 percent in 2012, compared with increases of 13.0 percent in bonds and 11.6 percent in cash and deposits.

With a projected CAGR of 11.3 percent, private wealth in Eastern Europe will grow to an estimated $4.0 trillion by the end of 2017—more than double the 2010 level but still small compared with Western Europe. The increase will be driven principally by new wealth creation.

Latin America.[8] Latin America achieved double-digit growth in 2012, with total wealth rising by 10.5 percent to $3.9 trillion. Major factors were robust GDP growth in the region as well as the equity market recovery. Private wealth held in equities rose by 20.5 percent in 2012, compared with increases of 11.1 percent in bonds and 8.0 percent in cash and deposits. With a projected CAGR of 8.3 percent, private wealth in Latin America will grow to an estimated $5.9 trillion by the end of 2017.

One overarching trend in Latin America is that the wealth management market is becoming far more competitive than in previous years. There are several reasons for this. First, offshore offerings in the region are becoming more sophisticated as international offshore players enter the market and develop an onshore presence. (See the sidebar "Trends in Offshore Wealth.") Other

TRENDS IN OFFSHORE WEALTH

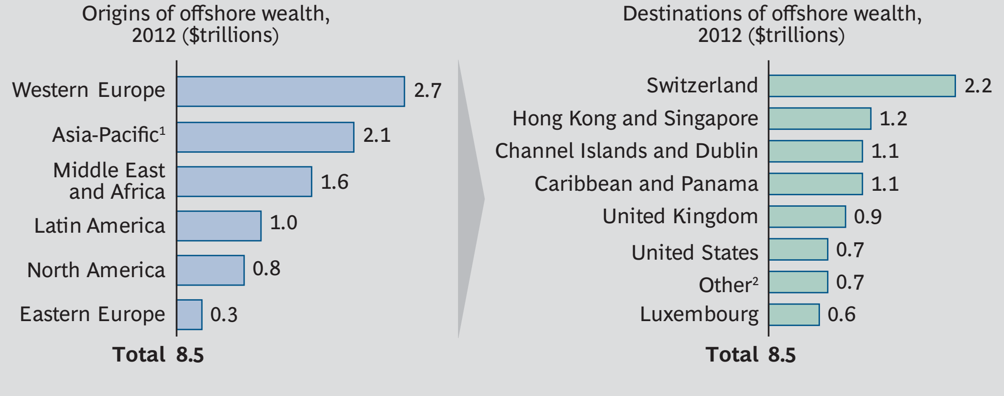
Offshore wealth, defined as assets booked in a country where the investor has no legal residence or tax domicile, rose by 6.1 percent in 2012 to $8.5 trillion, with Western Europe the predominant source and Switzerland the most popular destination. (See the exhibit below.) Despite this increase, stronger growth in onshore wealth led to a slight decline—to 6.3 percent from 6.4 percent, compared with 2011—in offshore wealth's share of global private wealth. Offshore wealth is projected to increase moderately over the next five years, reaching $11.2 trillion by the end of 2017.

The offshore model remains viable because wealth management clients—particularly those in the high-net-worth (HNW) segment (with at least $1 million in wealth) and the ultra-high-net-worth (UHNW) segment (with more than $100 million)—will continue to seek diversification, along with broad private-banking capabilities, specialized expertise, high-quality service, discretion, and domiciles with relatively high levels of economic and political stability. In fact, some wealth that had previously been repatriated, notably by investors based in Western European countries, has partly flowed back offshore owing to the highly differentiated value propositions that offshore domiciles can provide.

Challenges for Offshore Centers

The evolving investment needs of the wealthy—and their ongoing interest in diversifying offshore—do not, however, change the fact that offshore wealth management as an industry remains under intense and increasing pressure, particularly from tax authorities in the U.S. and Western Europe. In challenging fiscal times, it is not surprising to see governments placing perceived tax havens under a regulatory microscope and seeking to obtain information on depositors in the hope of minimizing tax evasion and maximizing tax revenues. Indeed, many

Switzerland Was the Top Destination for Offshore Wealth in 2012



Source: BCG Global Wealth Market-Sizing Database, 2013.
Note: Discrepancies in totals reflect rounding. Offshore wealth is defined as assets booked in a country where the investor has no legal residence or tax domicile.
[1]Including Japan.
[2]Includes Dubai and Monaco.

TRENDS IN OFFSHORE WEALTH (continued)

European countries have agreed to share citizens' bank-account and tax data, and U.S. tax authorities, through the Foreign Account Tax Compliance Act (FATCA), have become much more aggressive in tracking the foreign accounts of U.S. citizens.

It is against this backdrop that offshore centers must position themselves not only as possessing skills and expertise that cannot easily be found onshore but also as embracing full transparency and integrity. Larger centers such as Singapore are already touting their reputations as trusted financial centers—for example, by revising tax treaties with other countries—and smaller offshore centers may need to make similar moves.

It is also important to note that sophisticated onshore-banking offerings are improving, particularly in RDEs. Local institutions are improving their private-banking capabilities, and international players are strengthening their presence in these markets. Such developments can potentially favor a trend toward onshore solutions for RDE-based investors. Also, as political and economic stability increases in some parts of the developing world, fewer investors may seek offshore solutions for security reasons.

UHNW and HNW client segments hold the bulk of today's offshore money. And although these segments will invest part of their new money onshore, they will continue to seek diversified solutions, ensuring that some new wealth will continue to flow offshore. There is limited offshore growth potential from other wealth segments, which for the most part will seek improved onshore-banking offerings.

Sources and Destinations of New Offshore Wealth

Since existing wealth in offshore centers will likely remain fairly static in the coming years, the battle for leadership in offshore centers will largely be determined by the ability to attract new offshore wealth. Over the next five years, projected offshore wealth created globally will come largely from investors in Asia-Pacific ($1.4 trillion), Latin America ($0.5 trillion), the Middle East and Africa (MEA, $0.5 trillion), and Eastern Europe ($0.2 trillion).

Asia-Pacific offshore centers such as Singapore and Hong Kong are expected to receive most of the newly created wealth in the region that finds its way offshore. Similarly, offshore centers in the Caribbean region will benefit most from new offshore wealth created in Latin America, as will Miami-based U.S. and Latin American banks. European offshore centers are expected to profit most from offshore wealth created in Eastern Europe and MEA.

Overall, Asia-Pacific offshore centers will become more prominent. They are projected to hold roughly 18 percent of global offshore wealth by the end of 2017, compared with 15 percent in 2012, with European offshore centers dropping slightly from 58 percent to about 55 percent—still more than half the global total. The share of offshore centers in the U.S. and the Caribbean region will remain steady at around 20 percent, since they are expected to attract a fair share of new offshore wealth as well.

Switzerland is expected to remain the largest single offshore center globally, with about 25 percent of total offshore wealth by the end of 2017, compared with 26 percent in 2012. Singapore, in second place, is expected to increase its share from 10 percent to around 12 percent.

In order to become or remain leading offshore players, private banks will have to adjust to the current trends by building local presences, developing more sophisticated offerings, and adapting to regulatory requirements. They must also focus on the regions where the most new offshore wealth will be created—and they must be ultratransparent. Last but not least, they must focus on the UHNW and HNW segments, which will be the primary sources of new offshore wealth.

new players are breaking into the market as well, such as asset managers that are moving into the wealth management space and universal banks that are developing new wealth-management products. Family offices are deepening their own offerings. Overall, the global relevance of regional Latin American players is increasing.

Middle East and Africa.[9] Despite the Arab Spring and tensions in Syria, private wealth in the MEA region grew by 9.1 percent to reach $4.8 trillion in 2012. Wealth held in equities in the MEA region grew by 18.3 percent (although significant country differences existed), compared with increases of 9.2 percent in bonds and 5.2 percent in cash and deposits. Equity markets in the region posted sharply different results: for example, the Moroccan equity index fell by 15.1 percent, while the Egyptian equity market rebounded by 50.8 percent.

With a projected CAGR of 6.2 percent, private wealth in the Middle East and Africa will grow to an estimated $6.5 trillion by the end of 2017, with most of the increase coming from new wealth creation linked to strong GDP expansion in oil-rich countries.

Notes

1. Private financial wealth includes cash and deposits, money market funds, listed securities held directly or indirectly through managed investments, and other onshore and offshore assets. It excludes investors' own businesses, residences, or luxury goods. Global wealth reflects total financial assets across all households. Unless stated otherwise, wealth figures and percentage changes are based on local totals that were converted to U.S. dollars using year-end 2012 exchange rates for all years in order to exclude the effect of fluctuating exchange rates.
2. Does not include wealth of $1.2 trillion held in alternative investments in Asia-Pacific (excluding Japan).
3. Singapore figures have been restated owing to changes in the methodology applied for the estimate of wealth held in equities and cash at the end of 2012.
4. United States and Canada.
5. Germany, France, United Kingdom, Ireland, Italy, Spain, Portugal, Switzerland, Austria, Netherlands, Belgium, Norway, Sweden, Finland, Denmark, and Greece.
6. Taiwan, China, Australia, South Korea, Hong Kong, India, Singapore, Indonesia, Thailand, Malaysia, New Zealand, Philippines, and Pakistan.
7. Russia, Poland, Czech Republic, Hungary, and Slovakia.
8. Mexico, Brazil, Venezuela, Colombia, Argentina, Chile, Peru, and Uruguay.
9. Saudi Arabia, United Arab Emirates, Israel, Turkey, South Africa, Kuwait, Iran, Egypt, Algeria, Qatar, Oman, Morocco, Lebanon, Bahrain, Tunisia, Syria, Yemen, and Jordan.

WEALTH MANAGER BENCHMARKING

IN PURSUIT OF PRECRISIS PERFORMANCE

In order to understand how wealth managers fared in 2012, BCG benchmarked the performance of more than 130 institutions—either pure private banks or wealth management units of large universal-banking groups—from Western Europe, Eastern Europe, Asia-Pacific, North America, Latin America, and the Middle East. Our analysis focused primarily on the most meaningful levers in private banking: asset growth, revenues, and costs. We also examined relationship manager (RM) performance, as well as other aspects of the industry.

Overall, 2012 was a strong year. While wealth managers are still in pursuit of precrisis performance levels, there was ample good news in 2012, evidenced by key performance indicators. (See Exhibit 7.)

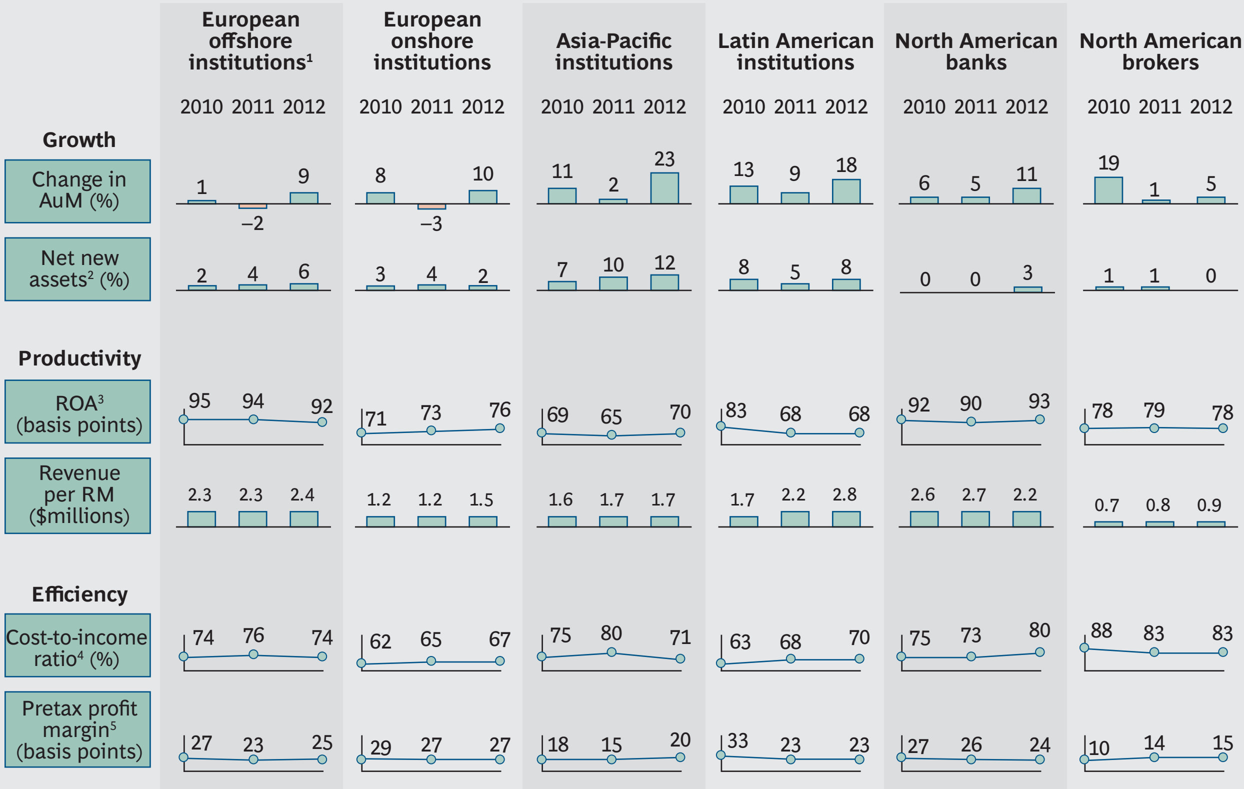
AuM Growth. Globally, in 2012, wealth managers achieved growth in assets under management (AuM) of 13 percent over the previous year. The Asia-Pacific region accounted for the strongest growth (23 percent), followed by Latin America (18 percent). EU onshore and offshore institutions, as well as North American banks, achieved AuM growth of around 10 percent. The growth was driven largely by the rebound in many equity markets during the second half of the year, but also by the generation of net new assets (NNA).

Indeed, the rate of NNA generation—which measures the difference between asset inflows and outflows in comparison with the asset base at the beginning of the period—increased slightly to 6 percent in 2012, up from 4 percent in 2011. In step with AuM growth, the highest NNA growth was observed in RDEs—12 percent in Asia-Pacific and 8 percent in Latin America.

> While wealth managers are still in pursuit of precrisis performance levels, there was ample good news in 2012.

ROA. Wealth managers' return on assets (ROA) reached a global average of 81 basis points in 2012. Increases in ROA were observed at European onshore institutions, Asia-Pacific institutions, and North American banks. The highest performance was achieved by North American banks (93 basis points), and the lowest by Latin American institutions (68 basis points). Wealth managers in Asia-Pacific showed significant improvement, raising ROA from 65 basis points in 2011 to 70 basis points in 2012. ROA from serving lower-AuM wealth bands was generally higher than that originating from higher wealth bands.

EXHIBIT 7 | KPIs Indicate a Strong Year Overall in 2012



Source: BCG Wealth-Manager Performance Databases, 2011–2013.
Note: This analysis is based in U.S. dollars for all institutions. AuM is assets under management. Averages are weighted by CAL (client assets and liabilities). Figures for 2010 and 2011 may deviate from those in previous reports because the sample size has increased. All numbers are rounded.
¹Primarily private banks from Switzerland.
²Relative to year-end 2011 AuM.
³Revenues divided by yearly average CAL.
⁴Cost-to-income ratios of large institutions are likely to be understated because they often do not fully allocate costs to their private-banking operations.
⁵Revenues less total costs from private banking, divided by average CAL.

Frontline Excellence. Cost management initiatives undertaken by many banks led to overall improved productivity. This was most notable for EU offshore and onshore institutions, with the former increasing client assets and liabilities (CAL) per RM from $242 million in 2011 to $268 million in 2012, and the latter increasing CAL per RM from $171 million in 2011 to $212 million in 2012. Revenues per RM increased in step, reflecting ongoing efforts to improve frontline efficiency.

With regard to compensation at the institutions in our sample, pay and performance were still not always fully aligned, but compensation ratios (measured by employee remuneration as a percentage of revenues) appeared to be stabilizing at around 40 percent.

Cost-to-Income Ratio (CIR). In most cases, costs did not increase commensurately with revenues in 2012, indicating that wealth managers are placing an increased emphasis on cost containment. Among our benchmarking participants, EU onshore institutions posted the lowest average cost-to-income ratio (67 percent), and North American players posted the highest (around 80 percent). Wealth managers in Asia-Pacific showed the largest improvement in CIR (from 80 basis points in 2011 to 71 basis points in 2012), supported by strong asset growth and corresponding revenue growth.

Pretax Profit Margins. Pretax profit margins varied across regions. Average margins improved significantly for players in Asia-Pacific (20 basis points in 2012 versus 15 basis points in 2011). All other regions showed only a slight change, if any, from the previous year.

The performance landscape is very heterogeneous, with some players achieving high margins, and others—in the same regions and business environments—struggling to make any money at all. (See Exhibit 8.) Top-quartile performance of around 30 to 45 basis points for the various regions showed that wealth managers can be successful anywhere with the right business model.

> Top performers are managing to adapt their business models to the "new new normal" environment.

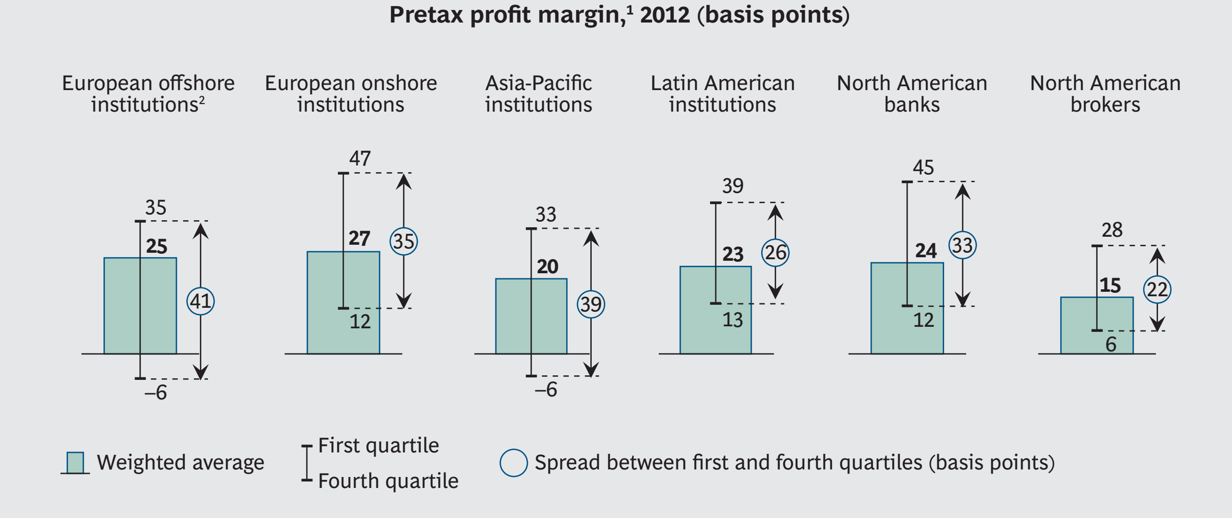
Globally, pretax profit margins averaged 4 basis points for the worst-performing quartile and 38 basis points for the best-performing quartile, with a global average of 23 basis points. Regionally, European onshore institutions had the highest average at 27 basis points, while European offshore institutions had the largest spread between the best and worst quartiles. The wide variation in spreads by region indicated considerable potential for improvement by most players.

Institutions in the top performance range are clearly doing much better at meeting challenges related to revenues, costs, and regulatory constraints. Most important, these leading performers have managed to achieve a high ROA relative to their peers. They also benefit from first-rate frontline efficiency, with high revenues per RM.

Broadly speaking, the top performers are managing to adapt their business models in a holistic manner to what we call the "new new normal" environment—five years after the financial crisis first took hold. They are reducing complexity in client segments and product portfolios, driving topline improvements, enhancing sales effectiveness, right-sizing the organization, and carefully managing costs. By contrast, many underperforming players have held onto more traditional business models that are no longer as robust as they once were.

Overall, 2012 was a favorable year for wealth managers. Yet when viewed against 2007—the industry's last upbeat year, before the height of the financial crisis—the current business environment has clearly undergone a structural change.

Exhibit 8 | Pretax Profit Margins Varied by Region



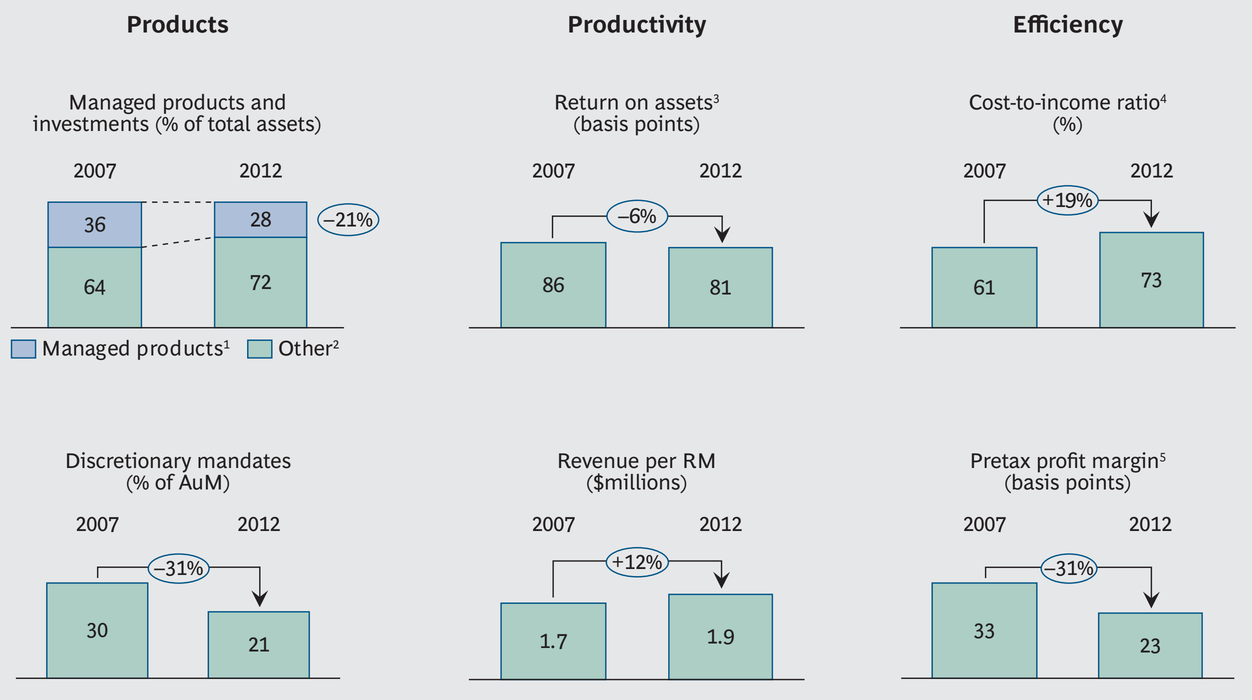
Source: BCG Wealth-Manager Performance Database, 2013.
Note: This analysis is based in U.S. dollars. Averages are weighted by CAL (client assets and liabilities). All numbers are rounded.
[1]Revenues less total costs from private banking, divided by average CAL.
[2]Primarily private banks from Switzerland.

For example, the share of high-margin investment products in client portfolios has declined by 21 percent among the participants in our benchmarking analysis, indicating that clients' trust in managed-product solutions, which were the hardest hit during the crisis, has not returned. (See Exhibit 9.) Such caution can also be witnessed in the decline in the share of discretionary mandates from 30 percent of AuM in 2007 to 21 percent in 2012. Clients are clearly demanding more transparency and greater control over their own investments. Other factors that are denting revenues include new regulations aimed at boosting price transparency.

At the same time, the cost side has been under duress over the past five years because of regulatory requirements and the subsequent rise in back-office costs. Cost-to-income ratios have increased by 19 percent since 2007. Many wealth managers have tried to cope with these developments by striving for greater frontline efficiency. Indeed, many RMs now manage larger books than in the precrisis years. Revenue per RM has increased, despite declining ROAs. Generally speaking, the cost structure of private wealth managers is trending toward rising back-office costs and declining front-office costs.

The net result of the industry's dynamics has been far lower pretax profit margins—23 basis points in 2012 compared with 33 basis points in 2007. With this lower level of performance not expected to reverse itself in the short to medium term, wealth managers must adapt to the "new new normal" climate and build successful and sustainable operating models.

Exhibit 9 | Since 2007, the Business Climate in Wealth Management Has Undergone a Structural Change



Source: BCG Wealth-Manager Performance Databases, 2008–2013.
Note: This analysis is based in U.S. dollars. Averages are weighted by CAL (2007 CAL for 2007 KPIs, average 2011 and 2012 CAL for 2012 KPIs). CAL is client assets and liabilities. Brokers were excluded from 2007 figures, from discretionary mandates, and from product asset allocation. All numbers are rounded.
[1]Mutual funds, hedge funds, money market funds, private equity funds, and structured products.
[2]Direct equities, fixed income, and cash.
[3]Revenues divided by yearly average CAL.
[4]Cost-to-income ratios of large institutions are likely to be understated as they often do not fully allocate costs to their private-banking operations.
[5]Revenues less total costs from private banking, divided by average CAL.

WEALTH MANAGEMENT IN 2020

A CALL TO ACTION

ACHIEVING PROFITABLE GROWTH is the clear goal of wealth-management institutions. But as the industry becomes more and more complex, the fundamentals of asset gathering, client service, and multinational operations are shifting, as are many other elements of the wealth management landscape. Institutions need to be aware of all important trends and use them to their advantage as they forge their strategies for the future. As outlined below, there are specific action steps that wealth managers can take to position themselves optimally.

Key Trends Shaping the Landscape

We have identified key trends that will shape the wealth management industry for the rest of the decade. We see these forces as part of three broad groups: market landscape trends, client trends, and business economics trends.

Market Landscape Trends. First and foremost, *wealth creation and profit pools are evolving*. Private wealth will grow at significantly higher rates in Asia-Pacific and other emerging markets than in developed markets, and entrepreneurial activity will be the primary source of wealth creation. Governments and regulators in Asia-Pacific will seek to strengthen their capital markets, driving the emergence of new investors and fueling the rise of Asia-Pacific–based asset managers. In mature Western markets, the concentration of wealth in the UHNW segment will further accelerate, while in the HNW segment, "Generation X" will outpace the baby-boom generation with respect to money in motion.

In the HNW segment, "Generation X" will outpace the baby-boom generation with respect to money in motion.

Moreover, *as a capital-light business, asset gathering will become more competitive*. In developed markets, some regional and local universal banks will need to protect their HNW franchises in order to survive. The formation of mainly U.S.-based "superproducers"—those institutions with the largest product offering—is likely to continue, and such players will have a competitive edge in their home markets as well as in high-growth areas such as passive and specialty products. The few global investment banks that remain intact will continue to push their asset-gathering businesses—mainly to defend product revenues and finance capital requirements. Established wealth managers in developed Western markets will need to invent new growth engines as their traditional advantages fade. In emerging markets, incumbents will use distribution and regulatory advantages to capture the newly created wealth of the emerging upper-middle class.

In addition, *traditional boundaries between wealth management, asset management, and investment banking will break down.* Recognizing the value of "owning" end-investor relationships, global asset-management superproducers will add distribution to their activities, targeting global UHNW clients. Such players will increasingly engage in direct relationships with securities issuers and build in-house trading platforms to internalize flows. Some wealth managers will internalize product development in asset classes that constitute critical elements of multiasset solutions—or when a clear benefit is attainable from closer oversight of performance and risk. Wealth managers with scale will engage in merchant-banking types of activities, including increasing their loan books, in order to build deep relationships with entrepreneur families in rapidly developing economies.

In the Asia-Pacific region, wealth managers will look to enhance their business models. Wealth managers are working to convert the rapid wealth creation in this region into profitable and sustainable business. We expect to see structural changes in the Asia-Pacific market as wealth managers move to scale up and institutionalize their businesses to enhance client service, increase stability, and boost profitability. A greater degree of front-office excellence—characterized by higher productivity, better teaming, a more consistent customer experience, the leveraging of commercial and investment bank referrals, and cross-selling—will raise currently low penetration rates and increase ROA. In addition, we expect to see family offices flourish as the regional industry matures and UHNW families undergo the transition of wealth from first-generation to second- and third-generation business owners.

Finally, *digitization will require that technology play a more active role in the business.* The ongoing development of the digital world is already providing clients with new sources of information and diminishing the traditional information-giving role of relationship managers. Social media are influencing the issues of trust and transparency. Web-based technologies are providing new ways to interact with clients and deliver advice. Emerging technologies for data analytics offer new ways to generate proprietary insights on huge data sets in order to serve client needs. Leveraging these trends will require significant investments in IT and superior IT-delivery capabilities.

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Client Trends. It has become increasingly clear that *traditional value propositions are fading.* The basics of client trust were transformed in the aftermath of the 2008–2009 financial crisis, and the ubiquity of blogs and social media have raised the bar for wealth manager transparency and probity. Yet despite the lingering effects of the crisis, the risk appetite of investors in both developed and emerging markets will gradually return over the medium to long term—just as the perceived value of traditional advice is declining. New sources of value will spring from deeper insight into highly diverse customer needs, truly objective expert advice, and global investment solutions that deliver the client's target outcome. First-rate execution capabilities, access to global investment opportunities, increased transparency, and innovative pricing models will be required in order to attract and retain high-value clients.

At the same time, *the nature of client interaction will change with Generation Y.* The traditional model of face-to-face client interaction will be challenged with the emergence of Generation Y, particularly in the U.S. market. Born between approximately 1980 and 2000 and having come of age in the online era, this generation is more accustomed to communicating through video calls or text messages. Wealth managers have to build up these capabilities and adapt their front offices not only to offer these services but also to excel in them and to benefit from possible cost reductions.

Business Economics Trends. It has also become clear that *regulation will add costs and complexity.* Political pressure to create a level global playing field—from both a regulatory and tax viewpoint—will increase. New regulatory frameworks combined with additional new banking regulations and customer protection measures will create barriers in some local markets, adding complexity and costs for multinational players.

Wealthy individuals are becomingly increasingly diverse in their backgrounds, financial needs, and investment behavior.

In addition, *European players will have to adapt as retrocession payments wind down.* Regulations in Europe have banned or are expected to ban retrocession payments on investment products, threatening to hit the top line of wealth managers. In order to replace these lost revenues, wealth managers have to take action by adjusting their pricing models (perhaps by introducing comprehensive advisory fees), finding replacement income from asset managers (such as by charging shelf fees), and shifting the product mix toward in-house offerings.

Finally, *overall pressure on margins will continue.* Factors such as the shift of wealth creation to structurally lower-margin regions and segments, altered client behaviors, new value propositions, regulatory restrictions, and intensified competition will put pressure on margins. Both cost-to-serve and cost-to-income ratios will follow an upward trajectory. Structurally, we expect a sustained shift of profit pools from producers (asset managers) to distributors (wealth managers).

Critical Steps to Success

In a simplified representation of the value chain, we believe that there are critical steps that wealth managers must take if they hope to achieve or maintain a leadership position throughout the remainder of the decade. While these steps are not necessarily linked to the specific trends described above, the actions we recommend reflect our view of what the top priorities of wealth managers should be, given current market dynamics.

Build a presence in high-growth markets and client segments. Winning globally in wealth management will not be possible without a leading presence in Asia-Pacific and other emerging markets. Such a presence will enable wealth managers both to attract international business and to capture local clients, especially in the upper HNW segments. Indeed, a leading global position in the UHNW segment will be required, including a presence in the U.S. market—the largest and (in many aspects) most advanced and innovative for the UHNW segment. Successful wealth managers will also wisely retrench from segments and markets in which they cannot build a profitable and unique value proposition.

Offer segment-specific value propositions. Wealthy individuals are becoming increasingly diverse in their backgrounds, financial needs, and investment behavior. Winning in wealth management will require developing a deeper level of customer insight than in the past, along with more granular segmentation and tailored value propositions. An understanding of exactly what each client expects from a wealth manager—compared with what the client expects from a universal bank or other provider of financial services—will be paramount. Global wealth managers will be challenged to develop strong value propositions in multiple markets and segments while at the same time maintaining scale and avoiding excess complexity.

Develop technology- and big-data-enabled distribution. With the 24-7 barrage of investment information that modern technology has brought, wealth managers will lose much of their traditional edge as providers of market intelligence. Important customer groups, be they in emerging markets or "Generation Xers" in mature markets, will be heavy adopters of mobile technology and social media. The winners in wealth management will use technology and big data to deliver greater transparency and better decision-support tools to their clients—and also to establish more collaborative relationships between advisors and clients. Leading players will leverage technology to predict customers' channel and product preferences, and use social media to help build a new bridge of trust to clients. Advice will move increasingly to digital platforms.

Achieve leadership in investment solutions. True excellence in delivering investment solutions will be the core of the value proposition for successful wealth managers. Indeed, although many organizations will be able to offer multiple investment strategies and styles, few will offer the kind of unbiased expert advice that delivers the desired outcome within the exact context that the client seeks. At the same time, wealth managers will need to define the sweet spot of their internal investment-management capabilities. Key choices will include whether, for example, liquid core-asset classes will define this spot or whether such asset classes should be managed for scale because they are, in essence, just underlying components of broader solutions. For global wealth managers, especially those operating outside their home markets and in the upper HNW and UHNW segments, the latter approach is more promising because it is more differentiating.

Drive excellence in execution of transactions and financing. Excellence in executing capital markets transactions—such as block trades, FX trades, or private placements—as well as in financing real estate investments will become crucial for wealth managers. Only a very few institutions will be able to combine such capabilities with a large franchise of wealthy clients. The challenge will be to use the capabilities of the affiliated investment bank effectively. We expect that in regions with high GDP growth, highly regionalized and integrated merchant-banking models that combine corporate finance and wealth management will be dominant. In developed Western markets with more established UHNW businesses and high penetration of family offices, the more traditional collaboration models of wealth managers and investment banks will be more effective.

Attain top performance in advisory and specialist services. The perceived value of advice and the role of client advisors will change. This is an issue not just of front-office configuration or training but also of altering the traditional roles of client advisors and product specialists, as well as their collaboration models. Wealth managers obviously need to make true experts available to their clients as much as possible, especially in the UHNW segment—but the way these experts are deployed will be particularly important. Winning wealth managers will increasingly use digital technology to connect experts with advisors internally and with clients on a continuous and real-time basis. Top clients may even be integrated into the internal process for developing house views, strategies, and solutions.

The perceived value of advice and the role of client advisors will change.

Continue to enhance booking-center capabilities in multiple locations. The ability to manage multiple booking centers will remain at the core of leading wealth managers' value propositions, especially in the UHNW segment. Indeed, since global wealth managers will operate mainly outside their home markets, they will achieve differentiation largely by their ability to provide clients with truly global investment solutions. This ability will need to be complemented by deep expertise on the most advantageous booking center from a tax and diversification perspective. While the need for multiple booking centers is not new in the industry, it will increasingly become a source of competitive advantage.

Embed operational excellence into the organization. With pressure on the economics of wealth managers remaining high, cost-to-income ratios on the order of 60 percent will be an ambitious target. Swiss wealth managers, for their part, face severe cost challenges in their traditional core businesses. Business model complexity, which is unavoidable with multiple booking centers, will add to cost pressures, as will regulation. Against this backdrop, a persistent effort to "industrialize" operations—leveraging demand management, consolidating locations, near-shoring and offshoring, outsourcing, and front-to-back lean process transformation—will be needed. The winners in wealth management will aspire to deeply embed industrialization into their culture. This is a particular challenge in a business environment that is traditionally focused on the top line.

Enable IT to support business agility and innovation. There will be no lack of challenges for IT. Advisors and product managers will need scalable big-data capabilities to deliver segment-specific value propositions. IT will have to provide up-to-date functionality and support the latest end-user computing tools for new distribution models. Time-to-market with a flexible configuration of standard and sophisticated products will need to be faster. Integration periods for highly specialized vendor modules in core banking systems that process new regulations will need to be shortened. Execution platforms will need permanent upgrading. At the same time, successful wealth managers will persistently focus on trying to avoid excess complexity in IT, and on ensuring the alignment of IT with business systems and goals.

Embrace client centricity. Client-centric wealth management aims to build a sustainable and valuable relationship with each client on the basis of deep trust in the institution, a comprehensive understanding of the client, and a sustained focus on meeting the client's needs. Value propositions are based on core capabilities, a readiness to learn from clients, and an ability to translate knowledge into improved offerings. Technology will be a key enabler, and operational processes will be redesigned around client expectations. The ability to orchestrate multiple experts and service functions seamlessly, focusing not only on clear allocations of roles and responsibilities but also on incentives that align the long-term interests of the client and the institution, will be crucial. The winners will constantly strive to improve every aspect of the operating and organizational models from the client's perspective. This goal will affect key choices for organization, such as where to globalize or regionalize structures, where to place client-segment and product development responsibilities, and how to align industrialized operations with distribution and manufacturing.

FOR FURTHER READING

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

Survival of the Fittest: Global Capital Markets 2013
A report by The Boston Consulting Group, April 2013

Big Data: The Next Big Thing for Insurers?
An article by The Boston Consulting Group, March 2013

Distribution 2020: The Next Big Journey for Retail Banks
A Focus by The Boston Consulting Group, March 2013

Committing to Customers in the "New New Normal": Operational Excellence in Retail Banking
A Focus by The Boston Consulting Group, February 2013

The New Challenge for Hedge Funds: Operational Excellence
An article by The Boston Consulting Group, January 2013

An Inflection Point in Global Banking: Risk Report 2012–2013
A report by The Boston Consulting Group, December 2012

Capturing Growth in Adverse Times: Global Asset Management 2012
A report by The Boston Consulting Group, September 2012

The Battle to Regain Strength: Global Wealth 2012
A report by The Boston Consulting Group, May 2012

Tough Decisions and New Directions: Global Capital Markets 2012
A report by The Boston Consulting Group, April 2012

NOTE TO THE READER

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