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Contents

Executive Summary 5
Market Sizing: Regaining Lost Ground 8
  Global Overview 9
  Millionaires 13
  Outlook 15
Performance Benchmarking: Not Out of the Woods Yet 17
  The Flow of Assets Intensified 17
  Revenues and Margins Continued to Slide 18
  Cost-to-Income Ratios Remained High 20
  The Pressure on Growth and Profitability Will Continue 21
Understanding and Managing ROA 23
  Revenue Drivers of Different Business Models 23
  Strategic and Operating Levers for Improving ROA 25
  The Outlook for ROA 27
Retaining and Winning Back Clients 29
  Assets in Motion 29
  Restating the Value of Private Banks 30
Improving the Client Experience by Enhancing Risk Management 33
  Shortcomings Exposed 33
  Smarter, Stronger Risk Management 34
  Improving the Client Experience 37
For Further Reading 38
Note to the Reader 39
Global wealth staged a remarkable comeback in 2009 after its steep decline in 2008. AuM increased by 11.5 percent to $111.5 trillion, just shy of the year-end peak set in 2007.

- North America posted the greatest absolute gain in wealth at $4.6 trillion, but the largest percentage gain occurred in Asia-Pacific (ex Japan), where wealth increased by nearly 22 percent, or $3.1 trillion.
- Europe remained the wealthiest region, with $37.1 trillion in AuM—or about one-third of the world’s wealth.
- Millionaire households represented less than 1 percent of all households but owned about 38 percent of the world’s wealth, up from about 36 percent in 2008.
  - The number of millionaire households rose by about 14 percent in 2009, to 11.2 million—about where it stood at the end of 2007.
  - The United States had by far the most millionaire households (4.7 million), followed by Japan, China, the United Kingdom, and Germany.
  - The highest millionaire densities are in Singapore, Hong Kong, Switzerland, and the Middle East.

Despite regulatory pressure, offshore wealth grew to $7.4 trillion in 2009, up from $6.8 trillion in 2008, largely driven by the market recovery.

- Switzerland remained the largest offshore center; it accounted for $2.0 trillion, or about 27 percent, of all offshore wealth.
Although undeclared assets account for a declining share of offshore wealth, the push for greater transparency will still dampen growth; some clients—particularly those in North America and Europe—will move their assets out of offshore centers (unless currency instability holds them back).

**Wealth managers must respond to the intensified flow of assets by retaining new clients and winning back clients lost during the crisis.**

Dispite the turnaround in AuM, wealth managers in general continued to face challenging conditions in 2009, including falling revenues and lower revenue margins.

**We expect the bulk of the uprooted assets to remain in play.**

Despite the turnaround in AuM, wealth managers in general continued to face challenging conditions in 2009, including falling revenues and lower revenue margins.

The average revenues of benchmarking participants declined by 7.3 percent, while the average revenue margin, measured by the return on assets (ROA), slipped from 95 basis points to 83 basis points.

Although costs declined in 2009, the average cost-to-income ratio increased to 74.4 percent, up from 72.3 percent in 2008. For some wealth managers, the ratio exceeded 100 percent.

The pressures on growth and profitability will continue, even though global wealth is expected to increase at an average annual rate of nearly 6 percent from year-end 2009 through 2014.

In most regions, wealth managers face the prospect of rising costs, driven by regulatory changes, along with persistently low revenues and ROAs.

Without taking decisive action to counter these pressures, most wealth managers will not be able to return to anywhere near their precrisis performance.

**Wealth managers should explore opportunities to improve their service to certain segments—including women.**

**As a client group, women are both significant and underserved.**

ROA is influenced by strategic and operating levers. The former involve decisions about fundamental aspects of the business, while the latter effect change over shorter periods.

The four most powerful operating levers are pricing, mandate penetration, asset allocation, and portfolio activity.

The impact of each operating lever varies widely across different business models. Model-specific action plans are required.

Wealth managers should explore opportunities to improve their service to certain segments—including women.

**Women control about 27 percent of global wealth, meaning that they decide where it is invested. North America had the highest proportion at 33 percent.**

More than half of the women in a recent BCG survey said that wealth managers could do a better job of addressing and meeting the needs of female clients.

Many wealth managers need a more nuanced approach that is grounded in a simple truth: female clients, in general, want to be treated the same as any client. Most important, they want to be understood rather than prejudged or stereotyped.

At the same time, wealth managers should recognize the sometimes subtle differences in women’s needs and expectations. The right approach will strike a careful balance between responding to the traits shared by many women and developing close relationships based on an understanding of individual clients.

**Wealth managers should reinvigorate risk management, and not simply to weather the next crisis or comply with new regulations: stronger risk management can give rise to better client service.**

For this to happen, wealth managers must recognize that a proliferation of rules can frustrate both frontline staff and clients while leading to a false sense of security.
The best approach to managing risk will be comprehensive and rigorous, but success will be measured as much by the behaviors it encourages as by those it subdues. Risk management must be embedded in front-office sales and client service activities.

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Global wealth staged a comeback in 2009, increasing by 11.5 percent to $111.5 trillion, barely short of the year-end peak set in 2007.1 (See Exhibit 1.) It was a remarkable turnaround, although the recovery in wealth should not be misread as a return to business as usual—client trust and wealth manager performance are still far from precrisis levels. Nevertheless, on the timeline of global wealth, the financial crisis appears as a temporary dip rather than a drawn-out slump.

1. Unless stated otherwise, AuM figures and percentage changes were based on local AuM totals that were converted to U.S. dollars using a constant exchange rate for different years. This approach excludes the effects of fluctuating exchange rates.

**Exhibit 1. Global Wealth Recovered to Its Precrisis Level**


Note: AuM numbers for all years were converted to U.S. dollars at year-end 2009 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of AuM are based on complete, not rounded, numbers. Calculations for 2007 and 2008 are based on the same methodology used for the 2009 calculations. Global wealth is measured by AuM across all households.

1United States and Canada.
2Includes Australia and New Zealand.
3South America, Central America, and Mexico.
The recovery was driven by resurgent financial markets, which accounted for about 70 percent of the $11.5 trillion increase in wealth. The remainder came from increased savings. The weights of these two drivers varied considerably. In North America, for example, higher market values accounted for 90 percent of the growth. In Europe and Asia-Pacific (ex Japan), by contrast, market values and savings accounted for nearly equal contributions to AuM growth.

Global Overview

The recovery took place on a truly global scale, but three regions accounted for 90 percent of the growth: North America, Europe, and Asia-Pacific (ex Japan). North America posted the largest absolute gain in wealth at $4.6 trillion, but the largest percentage gain—and the second largest in absolute terms—occurred in Asia-Pacific (ex Japan), where wealth increased by 22 percent, or $3.1 trillion. With high levels of cash holdings and relatively strong economies, the region was insulated from the worst effects of the crisis and was poised for a quick recovery.

Europe remained the wealthiest region. Its $37.1 trillion in AuM represented one-third of the world’s wealth. It was one of several regions where wealth surpassed its year-end 2007 peak. In fact, wealth remained below its 2007 level only in North America and Japan.

Offshore wealth also recovered in 2009, but at a slower rate than onshore wealth. Most offshore centers continued to face significant regulatory headwinds and uncertainty. (See the sidebar “The Offshore Business Has Recovered—but Challenges Remain.”)

The amount of offshore wealth (defined in this report as assets booked in a country where the investor has no legal residence or tax domicile) grew to $7.4 trillion in 2009, up from $6.8 trillion in 2008. Switzerland remained the largest offshore center; it accounted for $2.0 trillion, or more than 27 percent, of global offshore wealth. (See the exhibit “Offshore Wealth Was Dispersed Across Financial Centers, but Switzerland Remained the Largest.”)

The growth of offshore wealth was driven by resurgent financial markets rather than a strong inflow of assets. In fact, the increase in AuM belies the considerable pressures bearing down on offshore centers. We expect the share of global wealth held offshore to fall from close to 7 percent in 2009 to just over 6 percent in 2014.

The most obvious pressure comes from regulators. The United States, perhaps most notably, has ramped up its monitoring of offshore wealth—but pressure in other markets, especially among other OECD countries, has also increased over the last few years. Although undeclared assets account for a declining share of offshore wealth, the push for greater transparency will still dampen asset growth. Clients from North America and Europe, in particular, are expected to move some of their assets out of traditional offshore centers. These clients accounted for 56 percent of the offshore wealth held in Swiss banks in 2009, for example. Their share is expected to drop to 52 percent by 2014.

Banks based in traditional offshore centers will face a unique set of challenges, some of which may force wealth managers to transform their business models. The scope and severity of the challenges will vary according to two dimensions: the level of serviceability of client wealth and the importance of the private-banking business to the overall institution. (See the exhibit “Banks in Traditional Offshore Centers Face Major Strategic Challenges.”)

To some extent, all banks based in traditional offshore centers will have to adapt their strategies and operating models to respond to new regulatory conditions emerging over the coming months and years. More specifically, they will need to focus on several opportunities that are likely to remain attractive over the medium to long term.

◊ Traditional Markets. The first opportunity involves clients whose offshore wealth has or will become more difficult to service owing to tighter regulations imposed by authorities in North America and Western Europe as well as in emerging markets such as Brazil. Such changes will constrict the flow of offshore wealth, but the existing AuM associated with these markets will continue to generate attractive revenues and profits. This opportu-
The Offshore Business Has Recovered—but Challenges Remain (continued)

Offshore Wealth Was Dispersed Across Financial Centers, but Switzerland Remained the Largest

<table>
<thead>
<tr>
<th>Origin of offshore wealth</th>
<th>Switzerland</th>
<th>United Kingdom, Channel Islands and Dublin</th>
<th>Luxembourg</th>
<th>Caribbean and Panama</th>
<th>Hong Kong and Singapore</th>
<th>United States</th>
<th>Other</th>
<th>Regional total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>0.14</td>
<td>0.22</td>
<td>–</td>
<td>0.31</td>
<td>0.05</td>
<td>0.003</td>
<td>–</td>
<td>0.7</td>
</tr>
<tr>
<td>Europe</td>
<td>0.98</td>
<td>0.76</td>
<td>0.67</td>
<td>0.16</td>
<td>0.09</td>
<td>0.13</td>
<td>0.24</td>
<td>3.0</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>0.21</td>
<td>0.33</td>
<td>0.06</td>
<td>0.11</td>
<td>0.57</td>
<td>0.12</td>
<td>0.06</td>
<td>1.5</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.21</td>
<td>0.06</td>
<td>0.004</td>
<td>0.27</td>
<td>–</td>
<td>0.27</td>
<td>0.01</td>
<td>0.8</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>0.46</td>
<td>0.49</td>
<td>0.04</td>
<td>0.06</td>
<td>0.01</td>
<td>0.04</td>
<td>0.23</td>
<td>1.3</td>
</tr>
<tr>
<td>Booking center total</td>
<td>2.0</td>
<td>1.9</td>
<td>0.8</td>
<td>0.9</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Note: Discrepancies in totals reflect rounding.

...nity is viable only for banks that can provide fully compliant value propositions that are geared toward clients’ fundamental needs. Their offerings should be competitive with the alternatives provided by local onshore banks in clients’ home markets.

◊ **Emerging Markets.** These markets are likely to remain an important source of new offshore wealth in the medium term, with wealthy individuals seeking political and economic stability, confidentiality, and high-quality banking services. Latin America and Asia-Pacific (ex Japan), which accounted for 29 percent of all offshore wealth in 2009, will generate about half of the increase in offshore wealth from year-end 2009 to 2014.

Wealth managers from traditional offshore centers will face considerable competition within emerging markets, which will only intensify as these markets grow. An increasing number of banks are putting these markets at the core of their strategy, and regional offshore centers such as Hong Kong, Singapore, and Dubai are attracting a significant share of offshore wealth, leading to greater competition among offshore booking centers. At the same time, onshore opportunities are becoming more attractive. In Asia-Pacific, Eastern Europe, Latin America, and the Middle East, improvements in political stability, coupled with stronger economies, are making local markets more attractive to wealthy individuals. In addition, local onshore banks in some emerging markets now offer a range of sophisticated banking products.

◊ **Onshore Markets.** Several traditional offshore banks have already increased their onshore presence in foreign markets with the intent of capturing some of the money being repatriated owing to regulatory pressure. This is not a strategy to be taken lightly, especially for small and midsize banks. Entrants sometimes underestimate...
the difficulty and expense of establishing their brand in a new market. Moreover, foreign banks are rarely in a position to contend for the number one spot and will have to settle for a smaller share of wallet. As a result, some banks are narrowing their onshore presence to places where they can establish a strong position.

In order to pursue these opportunities, banks will need to create more flexible operating models. Banks that once depended on a small set of clients will need to broaden their value propositions. (For more on this, see the chapter “Retaining and Winning Back Clients.”) In the wake of the crisis, however, some banks will find it difficult to justify the necessary investments to expand the offering. As a result, consolidation activity may intensify, particularly among smaller offshore banks.

At the same time, offshore banks should not lose sight of their core value propositions. Their status as tax havens is no longer the draw it once was, but banks in offshore centers can continue to attract clients by highlighting their ability to provide high-quality wealth management, along with the political and economic stability of their home markets and their reputation for innovation and expertise.

An offshore bank’s pathway will be determined by its client focus, service model, advisory capabilities, and underlying operating model, along with the intensity of the regulatory and political pressure in its own market as well as in its clients' domiciles. Some banks have already refocused their businesses.
A weak U.S. dollar magnified growth in most regions. In 2009, the U.S. dollar weakened against all major currencies except the Japanese yen. As a result, when wealth was converted to U.S. dollars using varying exchange rates for different years (that is, accounting for currency effects), its growth was higher in most places than when measured using a constant year-end 2009 exchange rate (that is, excluding currency effects).

The currency effect was strongest in the developing markets. In Latin America, wealth grew by 15.6 percent measured at a constant conversion rate—but it grew 28.4 percent including currency effects. (See Exhibit 2.) In Asia-Pacific (ex Japan), the currency effect turned a 21.8 percent growth rate, measured at a constant conversion rate, into an increase of 28.0 percent. By contrast, the weak yen effectively canceled out the 2.6 percent increase in Japanese AuM.

Equities accounted for a higher share of wealth. The amount of global wealth held in equities grew by 32 percent in 2009 to $33.5 trillion. As a result, the share of wealth held in equities increased from about 25 percent in 2008 to about 30 percent in 2009. (See Exhibit 3.) The

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### Exhibit 2. A Weak U.S. Dollar Magnified the Growth of AuM in Most Regions

<table>
<thead>
<tr>
<th>Change in AuM excluding currency effects, (^1)</th>
<th>Growth, (2008–2009) (%)</th>
<th>Compound annual growth rate, excluding currency effects(^1) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>88.1</td>
<td>94.7</td>
</tr>
<tr>
<td></td>
<td>Excluding currency effects(^1)</td>
<td>Including currency effects(^2)</td>
</tr>
<tr>
<td></td>
<td>11.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>15.6</td>
<td>28.4</td>
</tr>
<tr>
<td>North America</td>
<td>13.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Europe</td>
<td>21.8</td>
<td>28.0</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>2.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Japan</td>
<td>14.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Asia-Pacific (ex Japan)</td>
<td>7.7</td>
<td>12.4</td>
</tr>
</tbody>
</table>


Note: Compound annual growth rates are calculated on the basis of year-end values.

\(^1\) Figures for all years were converted from local currencies to U.S. dollars using a constant exchange rate (from year-end 2009).

\(^2\) Figures for each year were converted from local currencies to U.S. dollars at each year’s year-end exchange rate.
gains were driven largely by the appreciation of existing holdings, but AuM also started flowing from safe-haven asset classes back into equities. Still, the amount of wealth held in equities remained well below the 2007 total, when it accounted for about 36 percent of global wealth.

The amount of wealth held in equities grew fastest in the developing markets. In Asia-Pacific (ex Japan) and Latin America, it grew by 56 percent and 52 percent, respectively. North America, however, posted the largest absolute gain in wealth held in equities—$3.6 trillion—and continued to have the highest share of wealth held in equities at 42 percent (although this was below the 2007 level of 47 percent). The product mix had a bearing on revenue pools. (See the sidebar “Revenue Pools Declined Despite the Increase in AuM.”)

While the proportion of wealth held in more conservative asset classes fell, the absolute amounts still grew. AuM held in bonds rose by 4.4 percent to $25.1 trillion, while AuM held in cash and deposits grew by 4.7 percent to $53.0 trillion. In developing markets, where bond yields were particularly attractive, there was double-digit growth in the amount of wealth held in bonds.

Millionaires

Wealth became slightly more concentrated, with non-wealthy households (those with less than $100,000 in AuM) representing about 83 percent of all households and owning about 13 percent of global wealth in 2009, down slightly from about 14 percent in 2008. (See Exhibit 4.) On the other end of the spectrum, households with more than $5 million in wealth—we refer to them as the established wealthy—represented 0.1 percent of households but owned about 21 percent, or $23 trillion, of the world’s wealth, up from 19 percent in 2008.

The percentage of AuM owned by the established wealthy was highest in the Middle East and Africa, where they accounted for one-third of all wealth. In Europe and Japan, by comparison, these households accounted for only 14 percent and 8 percent of AuM, respectively.

Globally, millionaire households, which represented less than 1 percent of all households, owned about 38 percent of total private wealth, up from about 36 percent in 2008. They owned more than half of the wealth in two regions: North America and the Middle East and Africa.
Global revenue pools declined by about 3.5 percent in 2009 to $280 billion. (See the exhibit below.) The change was the result of falling margins rather than declining assets. The change in revenue pools was based on the yearly averages of AuM in 2008 and 2009 from clients with more than $1 million in assets; the averages for each year were similar.

Revenue pools are driven mainly by the total wealth in a market, but they can also be affected by pricing and price realization as well as by changes in the asset and product mix. Accordingly, two markets that have similar levels of wealth could have significantly different revenue pools.

North America had by far the largest revenue pool at $123 billion. Europe and Asia-Pacific (ex Japan) each had revenue pools in excess of $50 billion. Japan had a relatively small revenue pool, as almost 80 percent of its wealth was held by households with less than $1 million in AuM. The two other regions—Latin America and the Middle East and Africa—each had revenue pools of about $10 billion.

Revenue pools were based on average yearly AuM in 2008 and 2009 and exclude revenues from lending businesses. ROA values are annual averages; they were calculated as revenues divided by yearly average assets and liabilities. Revenues are based on AuM owned by clients with at least $1 million. Discrepancies in totals reflect rounding.


Note: Revenue pools were based on average yearly AuM in 2008 and 2009 and exclude revenues from lending businesses. ROA values are annual averages; they were calculated as revenues divided by yearly average assets and liabilities. Revenues are based on AuM owned by clients with at least $1 million. Discrepancies in totals reflect rounding.
The number of millionaire households rose by about 14 percent in 2009, to 11.2 million. The total was close to where it stood at the end of 2007. The growth in millionaire households ranged from 12 percent to 16 percent across all regions. (Note that these growth rates are calculated on the basis of year-end 2009 currency rates.) Within regions, however, there were marked differences. In Japan, the number of millionaires increased by only 6 percent. In the rest of Asia-Pacific, it shot up by 25 percent.

The United States had by far the most millionaire households, followed by Japan, China, the United Kingdom, and Germany. (See Exhibit 5.) But smaller markets had the highest concentrations of millionaire households. In Singapore and Hong Kong, millionaire households accounted for 11.4 percent and 8.8 percent, respectively, of all households. Switzerland had the highest concentration of millionaire households in Europe and the third-highest overall, at 8.4 percent. Three of the six densest millionaire populations were in the Middle East—in Kuwait, Qatar, and the United Arab Emirates. Despite its large population, the United States had the seventh-highest density of millionaire households at 4.1 percent.

**Outlook**

We expect global wealth to grow at an average annual rate of 5.8 percent from year-end 2009 through 2014—much slower than the sharp recovery rate in 2009 and the strong growth from 2004 to 2007, but still higher than the 4.8 percent annual growth rate from year-end 2004 through 2009.

In general, wealth will continue to grow faster in emerging markets. Asia-Pacific (ex Japan) will be the fastest-
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growing region, with its wealth expected to grow at nearly twice the global rate. As a result, the region will increase its share of global wealth from 15 percent in 2009 to almost 20 percent in 2014. Not surprisingly, China and India will be the engines of growth in the region. In each country, wealth is expected to grow at more than three times the global rate from year-end 2009 to 2014. Together, the two countries will account for 75 percent, or nearly $9 trillion, of the increase in AuM in Asia-Pacific (ex Japan) over this period.

Of course, the growth in global wealth will hinge on the performance of the capital markets. In most countries, the majority of the economic indicators are pointing toward a sustained recovery, but its strength is still a matter of debate. Even as a recovery appears to be taking hold in most markets, challenging times are ahead. Global wealth could experience further setbacks over the next several years.

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**Exhibit 5. Smaller Markets Had the Highest Concentrations of Millionaires**

<table>
<thead>
<tr>
<th>Number of millionaire households (thousands)</th>
<th>Proportion of millionaire households by market (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. United States 4,715</td>
<td>1. Singapore 11.4</td>
</tr>
<tr>
<td>2. Japan 1,230</td>
<td>2. Hong Kong 8.8</td>
</tr>
<tr>
<td>3. China 670</td>
<td>3. Switzerland 8.4</td>
</tr>
<tr>
<td>4. United Kingdom 485</td>
<td>4. Kuwait 8.2</td>
</tr>
<tr>
<td>5. Germany 430</td>
<td>5. Qatar 7.4</td>
</tr>
<tr>
<td>6. Italy 300</td>
<td>6. United Arab Emirates 6.2</td>
</tr>
<tr>
<td>7. Switzerland 285</td>
<td>7. United States 4.1</td>
</tr>
<tr>
<td>8. France 280</td>
<td>8. Belgium 3.5</td>
</tr>
<tr>
<td>9. Taiwan 230</td>
<td>9. Israel 3.3</td>
</tr>
<tr>
<td>10. Hong Kong 205</td>
<td>10. Taiwan 3.0</td>
</tr>
</tbody>
</table>

**Source:** BCG Global Wealth Market-Sizing Database, 2010.
Despite the rebound in global AuM, the performance of the wealth management industry slipped in 2009. The average profitability of the 114 participants in our benchmarking survey declined to 22 basis points in 2009 from 27 basis points in 2008, as revenues fell and cost-to-income ratios rose. Many of the underlying drivers of weaker revenue growth, narrower revenue margins, and high costs are likely to persist, which will force wealth managers to develop new strategies for spurring growth and improving profitability.

The Flow of Assets Intensified

Among the participants in our benchmarking survey, AuM increased by an average of 14.3 percent in 2009. (See Exhibit 6.) It was a strong comeback from 2008, when AuM fell by an average of 17.9 percent. The increase was driven by three factors. First and foremost, the resurgence in financial markets led to strong growth in AuM, particularly in North America. For some wealth managers, this was the primary driver of growth.

Second, clients continued moving their assets out of large global institutions, in part because of concerns about stability and performance. In many cases, clients spread those assets across multiple banks. Most of them favored smaller regional institutions—which tend to have a conservative, long-term approach to investing—as well as trusted names that were left largely unmarked by the crisis.

Third, regulatory pressure led to a repatriation of assets from offshore centers to clients’ home markets. (The total amount of offshore wealth actually increased in 2009, but at a slower rate than global AuM.) The flow of assets from offshore centers led to more gains than losses for individual wealth managers. In some regions, onshore banks were the main beneficiaries, but other institutions capitalized on the situation as well. In Switzerland, for example, local banks acquired the branches of foreign banks as the latter withdrew from the market.

The last two trends led to an improvement in net new assets (NNA) for most benchmarking participants. (NNA measures the difference between asset inflows and outflows but excludes the impact of market performance.) Despite this improvement, however, the average increase in NNA for wealth managers in our survey was only 1.5 percent. Relationship managers (RMs), it seems, were able to attract new money, but they also had trouble retaining assets. As a result, most of the inflows were canceled out by persistent outflows. Regulatory pressure was a factor, but outflows were also driven by deep-seated issues concerning confidence, trust, and performance.

NNA was markedly different for onshore and offshore wealth managers. In our survey, for example, European onshore banks achieved a 3.7 percent net inflow in 2009.

2. The benchmarking survey gathered performance data from 114 institutions: 54 from Europe, 12 from Asia-Pacific, 29 from North America, and 19 from Latin America. Profitability was defined as revenues minus costs divided by average client assets and liabilities. Discrepancies between the performance of the benchmarking institutions and the performance of the broader market-sizing group are due to differences in the samples, the geographic partitioning of the samples, and methodology.
Revenues and Margins Continued to Slide

The revenues of benchmarking participants declined by an average of 7.3 percent in 2009, while the average ROA (defined as revenues divided by average client assets and liabilities) fell by 12 basis points to 83 basis points. (See Exhibit 7.) Revenues and margins had begun falling in the second half of 2008. The slide accelerated in the first half of 2009 owing to a combination of weaker price realization and the shift toward simpler products.

Price Realization. Most wealth managers do not have an effective, comprehensive approach to pricing. They tend to generate much lower revenue margins (that is, ROA) when serving wealthier clients (who have more negotiating power) than they do when serving smaller clients. (See Exhibit 8.) As a result, they sometimes pay more attention to smaller clients than they do to larger clients, even though the former usually have less sophisticated needs than the latter.

Some private banks have recognized that wealthier clients are not averse to paying more for better service provided the costs are justified by enhanced levels of advice.

For European offshore banks, on the other hand, outflows were, on average, roughly 20 percent higher than inflows in 2009.3

3. Eighty percent of the European participants provided data on inflows and outflows.
regaining Lost Ground 19

reporting, and wealth planning. These banks target ultra-high-net-worth (UHNW) clients with sophisticated and tailored services, while providing a more standardized level of service to clients who have less wealth. (In most banks, the threshold for being part of the UHNW segment is $20 million in AuM.)

Poor price realization is also a function of a lack of discipline and consistency. Some RMs offer special pricing conditions to their clients even without being asked. Most wealth managers could therefore improve their revenue margins through stricter rules on discounting. (This opportunity is discussed in more detail in the next chapter.)

**Product Mix.** Revenues and ROA were also dragged down by the migration of wealth to simpler, lower-margin products. According to our benchmarking analysis, the proportion of assets held in cash and money market assets grew by 13.5 percentage points from 2007 through 2009. Although equities attracted a growing share of wealth in 2009—and they represented as much as 50 percent of AuM at some benchmarking participants—they still accounted for a smaller share of global wealth than they did before the crisis.

Some of the more lucrative products have yet to stage a comeback. Alternative investments such as structured products were once a revenue driver for many banks but have fallen out of favor since the start of the crisis. They continued to decline, falling to 5.1 percent of AuM in 2009 from 5.4 percent in 2008. Discretionary mandates continued to fade as well, as clients remained wary of
ceding control of their investments to wealth managers. The proportion of AuM held in discretionary mandates fell from 24.0 percent in 2007 to 18.7 percent in 2009. We believe that the demand for discretionary mandates will return once trust has been restored, but wealth managers will need to justify the higher margins associated with such mandates.

In many cases, wealth managers failed to anticipate the increased demand for simpler products. While it would have been hard for banks to maintain ROA in light of the shift to low-margin products, they could have lessened the decline in revenues by reconfiguring the product portfolio and service model to align with the changes in demand.

Few wealth managers achieved good ROAs across multiple segments

Note: Client size is measured by client assets and liabilities. ROA was calculated as revenues divided by yearly average assets and liabilities. To calculate weighted averages, ROAs were weighted by client assets and liabilities.

Cost-to-Income Ratios Remained High

The average costs of benchmarking participants declined by 3.2 percent in 2009 as wealth managers began to see results from their cost-control efforts, particularly in asset and product management but also in central functions. (See Exhibit 9.) Still, the decline was not enough to offset the fall in revenues. As a result, the average cost-to-income ratio of benchmarking participants increased to 74.4 percent, up from 72.3 percent in 2008. For some wealth managers, the ratio exceeded 100 percent.

For many wealth managers, the effort to cut costs was an uphill battle. Changes in regulations necessitated significant investments in products and services, compliance
processes, and risk management, which in turn led to a rise in IT and operating costs. In addition, compensation—one of the largest drivers of cost—increased in some regions. Among benchmarking participants in Europe (other than Switzerland), North America, and Latin America, the average compensation of RMs rose in 2009. RM compensation was down in Asia and Switzerland, but this was a function of market conditions.

Regulatory changes are likely to strain cost-to-income ratios. New regulations will require further changes to—and investments in—the operating model. Many banks, for example, will need to transform their risk-management functions. As a result, cost management will remain a top priority for most wealth managers and will need to encompass all elements of the value chain. (Our last Global Wealth report—Delivering on the Client Promise: Global Wealth 2009—described how wealth managers can moderate the cost base by revisiting their business models.)

The Pressure on Growth and Profitability Will Continue

The recovery in AuM masks significant and lasting challenges to the industry’s profitability. In most regions, wealth managers face the prospect of persistently low revenues and revenue margins, along with stubbornly high costs.
The pressures will be compounded by increased competition. Several large banking groups have signaled their intention to focus more intently on wealth management—and on the UHNW segment in particular. We also expect to see further consolidation in some markets. Despite the challenges facing individual wealth managers, the wealth management sector overall remains relatively stable and, on the whole, attractive to other financial-services institutions.

Unless they take decisive action to counter the pressures that are inflating cost-to-income ratios and constraining growth, most wealth managers will not be able to return to anywhere near the performance they achieved prior to the crisis. Some may not survive.

To help wealth managers develop a comprehensive plan for confronting these issues, the following chapters describe three broad imperatives for spurring growth and improving performance.

- Understand and manage the drivers of ROA that are relevant to the institution’s specific business model
- Develop strategies for retaining and winning back clients, given the volume of assets dislodged by the crisis (and still in play)
- Fundamentally transform risk management
Despite the rise in global wealth in 2009, revenues declined in many regions, as revenue margins—measured by ROA (revenues divided by average client assets and liabilities)—were compressed by a host of factors, including a decline in transactions, tougher price negotiations, and a migration of assets to lower-margin products. To improve ROA, wealth managers should begin by understanding which drivers of revenue are most relevant to their business models.

Revenue Drivers of Different Business Models

Although each wealth manager is unique, most fall into one of seven basic categories. The four main drivers of revenue—administration and asset management fees, commissions, interest income, and miscellaneous charges (for example, for concierge services)—vary among these business models.

- **Traditional onshore private banks** manage wealth, but many also provide loans, mortgages, and payments. The onshore business tends to be competitive, so these banks make an effort to contact clients frequently. Most of their revenues are generated through interest income. The rest comes from fees and commission income.

- **North American private banks** have their roots in providing trust and custody services, but many have expanded their offerings to include loans and mortgages. They are distinguished from other onshore private banks by their high proportion of discretionary mandates and a heavy reliance on fees and interest income; they generate almost no commission income.

- **Traditional offshore private banks** are mainly privately owned, sometimes by families. Their value proposition is based on trust, confidentiality, political or economic security, and tax efficiency. In some regions, these banks have a relatively high proportion of discretionary mandates. Revenues are generated by a fairly even mix of commissions, fees, and interest income.

- **Private-banking units of universal banks** can focus on either onshore or offshore wealth. Their interaction with the investment-banking and asset-management divisions leads to benefits in research and product development and affords access to a comprehensive range of products and services. Revenues are spread evenly across commissions, fees, and interest income.

- **Stockbrokers** focus on executing transactions for self-directed investors, but most are actually full-service brokers and have a broad range of products and services. Their clients generally fall into two categories: affluent, with between $100,000 and $1 million in AuM, and high-net-worth (HNW), with between $1 million and $20 million. Their revenues come mainly from commissions, but they also generate significant fee income.

- **Multifamily offices** target the UHNW segment. Their responsibilities include managing a network of providers, offering specialist advice, and conducting investment management and administration. Their income is generated mainly by asset management fees.

- **External asset managers** focus on HNW clients who want independent advisory and financial-planning services. The client relationship is their sole priority—
they use banks for custody and transaction services so that they can focus on helping clients select the right investment approach or products in a highly bespoke manner. Their income is driven by asset management fees and payments from third-party providers.

Given the differences among these models—in revenue sources, client segments, and asset allocations—it is not surprising to find wide variations in ROA. Whereas multifamily offices typically generate ROAs of 45 basis points, on average (within a range of 35 to 55 basis points), European offshore-focused private banks generally have ROAs of about 100 basis points (within a range of 80 to 110 basis points). (See Exhibit 10.)

Margins also vary among wealth managers with similar business models. ROAs range from 60 to 110 basis points for European onshore private banks, 65 to 110 basis points for North American private banks, 65 to 95 basis points for the private-banking units of universal banks, and 60 to 90 basis points for North American stockbrokers.

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**Exhibit 10. ROA Varies Across Business Models**

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>European onshore institutions</td>
<td>60–110</td>
<td>86</td>
</tr>
<tr>
<td>North American private banks</td>
<td>65–110</td>
<td>88</td>
</tr>
<tr>
<td>European offshore institutions</td>
<td>80–110</td>
<td>100</td>
</tr>
<tr>
<td>Universal banks</td>
<td>65–95</td>
<td>74</td>
</tr>
<tr>
<td>North American brokers</td>
<td>60–90</td>
<td>83</td>
</tr>
<tr>
<td>Multifamily offices</td>
<td>35–55</td>
<td>45</td>
</tr>
<tr>
<td>External asset managers</td>
<td>60–135</td>
<td>90</td>
</tr>
</tbody>
</table>

**Revenue split (%)**

<table>
<thead>
<tr>
<th>Source</th>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>34</td>
<td>29</td>
</tr>
<tr>
<td>Commissions</td>
<td>63</td>
<td>49</td>
</tr>
<tr>
<td>Net interest</td>
<td>45</td>
<td>27</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>23</td>
</tr>
</tbody>
</table>

**AuM by client segment (%)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$5 million</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>$1 million to $5 million</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>&lt;$1 million</td>
<td>26</td>
<td>14</td>
</tr>
</tbody>
</table>

**Asset allocation (%)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>24</td>
<td>17</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td>Managed funds</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Equities</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Bonds</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>26</td>
<td>29</td>
</tr>
</tbody>
</table>

**Loans divided by AuM (%)**

<table>
<thead>
<tr>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>12</td>
<td>55</td>
</tr>
<tr>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

**AuM held in discretionary mandates (%)**

<table>
<thead>
<tr>
<th>Range</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>12</td>
<td>55</td>
</tr>
<tr>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: BCG Wealth-Manager Performance Database, 2010; BCG experience.
Note: All figures were weighted by client assets and liabilities and based on benchmarking data for 2009. The ranges are first-quartile through fourth-quartile ranges. These categories differ from those in Exhibit 7. Because of rounding, percentages may not add to 100.
Strategic and Operating Levers for Improving ROA

ROA is influenced by a mix of strategic and operating levers. (See Exhibit 11.) Strategic levers involve the most fundamental aspects of the business. Which clients should the bank target, and in which markets? Should the bank focus on onshore or offshore wealth? Such decisions set the bank’s direction—and define its brand—over the long term. Operating levers, on the other hand, can effect change over shorter periods. They involve decisions about pricing, mandates, asset allocation, and portfolio activity.

**Strategic Levers.** A wealth manager’s mix of clients has a substantial bearing on its ROA. The definitive trait, not surprisingly, is the client’s AuM. Less wealthy clients can generate ROAs of almost 200 basis points. The wealthiest clients, on the other hand, generate ROAs below 20 basis points, in part because they have far greater negotiating power. ROA is also influenced by other client characteristics, such as whether they are individuals or institutions (including external asset managers). Client investing behavior, too, has an impact on ROA. Self-directed clients generate lower margins compared with clients who delegate investment decisions to the institution through discretionary mandates.

ROA also varies across regions, largely based on market maturity, the amount of competition, and the split between onshore and offshore investing. ROAs tend to be higher in markets where offshore investing is prevalent. In Switzerland, for example, the average ROA was 14 basis points above the average for the rest of Europe. Offshore clients tend to be less concerned with cost and more concerned with security and confidentiality, and they often put their money in discretionary mandates. In addition, competition among offshore banks is typically less intense than it is among onshore banks, which usually face off against retail banks as well.

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**Exhibit 11. ROA Is Influenced by a Mix of Strategic and Operating Levers**

<table>
<thead>
<tr>
<th>Strategic levers</th>
<th>Operating levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client segment</td>
<td>Less wealthy client segments typically generate higher ROAs</td>
</tr>
<tr>
<td>Region</td>
<td>ROA varies according to market maturity and level of competition</td>
</tr>
<tr>
<td>Onshore or offshore focus</td>
<td>Offshore clients tend to generate higher ROAs</td>
</tr>
<tr>
<td>Pricing</td>
<td>Expand priced items</td>
</tr>
<tr>
<td>Mandate penetration</td>
<td>Adjust list prices</td>
</tr>
<tr>
<td></td>
<td>Improve price realization</td>
</tr>
<tr>
<td></td>
<td>Increase mandate penetration</td>
</tr>
<tr>
<td></td>
<td>Develop new and innovative mandates</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>Reallocate assets</td>
</tr>
<tr>
<td>Portfolio activity</td>
<td>Increase share of in-house products†</td>
</tr>
<tr>
<td></td>
<td>Promote preferred third-party providers</td>
</tr>
<tr>
<td></td>
<td>Increase portfolio activity</td>
</tr>
</tbody>
</table>

**Sources:** Interviews with global-wealth experts; BCG experience.

†Only if, from the client’s perspective, the in-house product is superior to an existing third-party product.
Operating Levers. Strategic levers, as important as they are, explain only some of the variation in ROA. Even among banks cut from the same cloth, the differences in ROA can still be astonishing. Among European offshore-focused private banks with a similar client size, ROAs ranged from 77 to 105 basis points. The ROAs of private-banking units of universal banks in Latin America spanned a range of 71 basis points.

These differences can be explained at least in part by how banks employ various operating levers. The four most powerful levers for lifting ROA are pricing, mandate penetration, asset allocation, and portfolio activity. BCG has identified nine high-impact actions associated with these levers.

Pricing

◊ **Expand priced items.** Review and expand the scope of priced products and services, such as fee-based advice, risk management, and concierge services.

◊ **Adjust list prices.** Compare list prices (for example, minimum fees and foreign-exchange margins) with those of key competitors, identify the impact of price increases on ROA, and assess clients’ price sensitivity.

◊ **Improve price realization.** Review the guidelines for discounting, and train RMs to explain the added value of products.

Mandate Penetration

◊ **Increase mandate penetration.** Identify clients who may want to delegate the management of their assets, including self-directors whose portfolios were upended by the crisis.

◊ **Develop new and innovative mandates.** Develop mandates that are simpler, more flexible, and more affordable to cater to price-conscious clients.

Asset Allocation

◊ **Reallocate assets.** Identify clients whose asset allocations are substantially more conservative than their risk profiles.

◊ **Increase the share of in-house products.** On the basis of objective criteria, identify products for which the bank has developed better in-house solutions in comparison with third-party products—and remember that it is important that clients are able to see the advantage as well.

◊ **Promote preferred third-party providers.** Negotiate better fee-sharing arrangements—also known as retrocession agreements—with a small number of established third-party providers. Some of the additional revenues generated can be shared with the client, creating a win-win situation.

Portfolio Activity

◊ **Increase portfolio activity.** Enhance advisory capabilities to give clients the confidence and the options they need to resume or increase their portfolio activity—for example, by providing tailored recommendations.

Wealth managers should be mindful of the impact that these levers could have on client relationships. Some levers, for example, are intended to lift margins by ramping up client activity and promoting certain kinds of products. Wealth managers must understand that any effort to maximize margins at the expense of client-centricity, which holds that wealth managers must always act in the interests of the client, will undermine existing relationships and discourage new clients from coming on board. Implemented in a thoughtful manner, however, the levers will not drive a wedge between the client’s and the bank’s interests. Advisors must not incite trading activity or push certain products simply to boost margins, for example. Their recommendations need to be based on what is best for the client.

The effectiveness of the operating levers varies according to a range of factors, including a wealth manager’s average client size and price sensitivity, the proportion of discretionary mandates, and the overall asset allocation.

◊ **Traditional onshore private banks** can increase the proportion of discretionary mandates by introducing innovative, low-cost solutions. Some fund-based mandates, for example, allow investors to switch risk profiles on a weekly basis at no cost. The reallocation
of assets to less conservative products could also boost margins, given that many clients have a disproportionately high share of cash and money market products relative to their risk profiles. Some clients might even be interested in alternative investments for hedging or speculative reasons. Banks can also improve ROA by increasing portfolio activity and enhancing price realization; during the crisis, many RMs became less assertive when negotiating prices.

◊ **North American private banks** can increase the share of alternative investments in client portfolios, which remains relatively low. Many will also be able to lift margins by improving price realization and adjusting list prices.

◊ **Traditional offshore private banks** should concentrate on retaining the clients gained during the crisis. Their first priority should be to move assets from “nonsticky” investments, like cash and money market products, to innovative mandate solutions that provide country-specific tax optimization (within the boundaries of the law). They can also boost ROA by increasing the share of in-house products and promoting preferred—and carefully vetted—third-party products. As with onshore private banks, they have an opportunity to substantially improve price realization.

◊ **Private-banking units of universal banks** should ensure that their clients have a diversified asset allocation; many clients have a disproportionately high share of conservative products. At the same time, they can promote the advantages of their own products—they know the ins and outs and can assure clients that there are no unexpected counterparty risks. Price realization will also be a powerful lever: during the crisis, aggressive discounts were used to offset the brand damage suffered by many universal banks. In addition, many clients moved away from discretionary mandates. Banks can bring these clients back (and attract new clients) by offering innovative, low-cost solutions.

◊ **Stockbrokers** can boost margins by focusing on preferred funds and alternative investments from third-party providers. To make these products more attractive to clients, brokers will need to stress that each one has gone through a proper due-diligence process and that retrocession agreements will forward at least some of the providers’ payments to the client. Pricing will be even more critical. Brokers continue to broaden their products and services geared toward wealthier clients. As they expand their offerings, brokers should set prices at an adequate level rather than aim low and then raise prices over time—even clients who are less price sensitive will still bristle at a broker’s attempts to ratchet up prices.

◊ **Multifamily offices** should renegotiate asset management fees in light of the requirements imposed by new regulations and the need to improve risk management. They might also consider accepting clients whose AuM is below the entry threshold; typically, the mandate fee for such clients would be higher.

◊ **External asset managers** should focus on reallocation of assets to bring investment portfolios back in line with client risk profiles and objectives. They should also promote products from preferred third-party providers. In addition, they should look for opportunities to adjust list prices and improve price realization by enforcing strict rules on discounts.

Pricing is generally the most effective operating lever, but the impact of each lever varies across business models and will ultimately depend on a wealth manager’s starting position and execution capabilities. (See Exhibit 12.) Many wealth managers, however, should be able to increase ROA by 10 to 15 basis points by utilizing all four levers.

### The Outlook for ROA

ROA levels are almost certain to rise. Their growth will be driven by the increasing risk appetite of investors, which will lead to greater trading activity and a migration of assets away from cash and money management products. In some markets, like Brazil, margins are already approaching precrisis levels.

In most markets, however, ROA will not return to its precrisis peak anytime soon, owing in part to increased competition both from within the industry (many wealth managers will strive to regain market share) and from...
new competitors, such as online wealth managers. The push for transparency will also limit margins. Clients have become more aware of fees and charges. Many are asking their advisors to disclose or even refund payments from product providers. Others have started questioning the value of certain high-margin products and are opting instead for passive investment products, such as ETFs. These trends are part of the new reality in wealth management.

With margin pressure likely to continue for the foreseeable future, wealth managers will need to review the full range of strategic and operating levers. The former requires a comprehensive review of the institution’s strategy and brand. Operating levers, however, can be implemented fairly quickly and, if applied wisely and in alignment with the client’s interests, can produce dramatic changes in ROA.

## Exhibit 12. ROA Is Most Influenced by Pricing

<table>
<thead>
<tr>
<th>Lever</th>
<th>European onshore institutions</th>
<th>North American private banks</th>
<th>European offshore institutions</th>
<th>Universal banks</th>
<th>North American stockbrokers</th>
<th>Multifamily offices</th>
<th>External asset managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Mandate penetration</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Portfolio activity</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
</tbody>
</table>

Estimates of potential improvement (basis points): 
- European onshore institutions: -15, 5–10, 15–20
- North American private banks: -15, -10, <3
- Universal banks: -15
- North American stockbrokers: -10
- Multifamily offices: <3
- External asset managers: -5–10

Impact (basis points): None, 0 to 1, 1 to 2, 2 to 5, More than 5

Sources: Interviews with global-wealth experts; BCG experience.
The financial crisis intensified the flow of assets. Among benchmarking participants, the average inflow rate in 2009 was 14.2 percent of year-end 2008 AuM. The average outflow rate was 12.7 percent.

Since many clients went searching for temporary safe havens during the crisis—assets were put into cash holdings or term deposits in banks backed by government guarantees—we expect the bulk of the uprooted assets to remain in play. This is either an opportunity or a threat, depending on your perspective. Some wealth managers have a chance to win back assets by reaffirming the value they provide to clients. Others have a pressing need to forge closer bonds with newly acquired clients by emphasizing or enhancing their wealth-management capabilities.

To come out ahead, wealth managers first need to understand the reasons why clients shifted their assets, as well as what the future holds for changes in net new assets. Second, and most important, they need to internalize these insights in their business models and their interactions with clients.

**Assets in Motion**

The crisis dislodged a substantial amount of assets. Clients lost faith in the key value proposition of private banks: the ability to provide tailored advice that leads to superior performance. Even long-standing relationships were undone by the crisis, as clients realized that neither they nor their advisors understood some of the investments in their portfolios. The crisis also undermined trust indirectly. Some wealth-management units were part of institutions that were nearly toppled by the crisis, while the press coverage of financial services, in general, turned sharply critical.

In such an environment, it was no surprise to see clients moving their assets. They became far more concerned with preserving wealth than growing it, so their criteria for choosing a wealth manager changed dramatically. Complex products, of course, were less of a draw. In fact, an estimated 60 to 80 percent of the assets displaced by the crisis were put into cash or money management products.

International universal banks experienced the largest outflows. Their compensation systems, along with their shareholders’ focus on short-term results, encouraged a myopic view of performance. Their reputations were also compromised by the substantial losses stemming from investment banking and proprietary trading. The problems gave rise to concerns about bank solvency, which prompted many clients to move their assets.

Most of the inflows went to wealth managers perceived to be safe—in a measured rather than a timid way. Clients sought out wealth managers that had long-term investment horizons, particularly those that had been confident enough to avoid questionable high-risk products during the boom. This group included large standalone wealth managers and niche pure-play institutions.

We estimate that half of the assets relocated to perceived safe havens are parked there only temporarily. Asset flows, in general, were the result of clients moving assets away from a wealth manager; in general, it was aversions rather than preferences that set assets in motion. Assets that were shifted to state-guaranteed retail banks, and to savings banks in particular, should be considered more fluid than most.
Restating the Value of Private Banks

Wealth managers should expect tough competition for newly acquired or recently decamped assets. Staying on the plus side of the flow of assets is one of the few ways to compensate for the somewhat low growth in AuM accruing to private banks. Over the next year or two, the competitive dynamics of some markets may be determined largely by the ability of wealth managers to prevent outflows and recapture assets.

To retain or win back clients, wealth managers need to concentrate on their strengths across the core elements of the business, including their client-service models, product offerings, and brand positioning. The imperatives vary across three broad types of wealth manager.

Private-Banking Units of International Universal Banks. Universal banks that were scarred by the crisis need to rebuild their reputations and regain clients’ trust. They should be open and frank about their shortcomings and what they have done in response, particularly to improve risk management. Examples include stricter controls on RMs, more intensive monitoring of client portfolios, and compensation systems that reward long-term performance. (These actions are detailed in the next chapter.)

But this is not just about atonement. Wealth management arms of global banks should also play to their strengths. They should emphasize the breadth of the group’s businesses—which typically include asset management, investment banking, and corporate banking—and their ability to provide sophisticated offerings, such as access to third-party providers and tailored services for different client segments. UHNW clients, in particular, might value these banks’ global presence and capabilities.

Traditional Private Banks. Many of these banks had a net inflow of assets, owing to their fairly conservative investment strategies. They can retain these assets by providing holistic advice, which includes both wealth and succession planning, and by stressing their commitment to superior client service and the stability that comes from having a well-established group of highly qualified partners.

Traditional private banks should set their sights on becoming the primary advisor for HNW and UHNW clients. But differentiating themselves from other private banks may not be easy—many of their direct competitors will have the same mix of core capabilities. As a result, these banks should be extremely proactive in reaching out to newly acquired clients. The best offense may be a good defense.

Retail Banks. These banks also had a net inflow of assets but for far different reasons. A large share of their new assets came from affluent clients, mainly because their value propositions revolved around a different kind of service. Wealthier clients from the HNW and UHNW segments also shifted assets to retail banks, but most have already moved their wealth back to traditional private banks.

Retail banks attracted assets on the basis of their perceived safety, relatively low and easy-to-understand pricing, simple and transparent product offerings, accessible and sophisticated trading platforms, and fast and reliable execution. These capabilities may help them retain a portion of their new assets—for some clients, execution matters more than advice—but many clients have become more interested in traditional wealth-management services. Retail banks that have a foundation of basic wealth-management capabilities should consider developing these services, but only to the extent that the investment would not impair overall profitability. Retail banks that lack such a foundation will find it prohibitively expensive to build the business from scratch.

Each of the three types of bank will have its own set of priorities for retaining and winning back clients, but several imperatives are common throughout the industry.

- **Restate the value of the offering.** The crisis prompted many clients to question banks’ ability to generate value for them. Banks therefore have to make their value proposition plain to clients—abstractions will not suffice. One bank recently launched a training program that teaches its RMs to know and describe to clients several ways in which the bank generates value for them and therefore why its fees are justified.

- **Refocus the business on core capabilities.** Few wealth managers can excel across all client segments, products, and markets. Wealth managers can best differentiate themselves by narrowing their value proposition...
to what they do best and targeting specific client segments (defined perhaps by wealth or investment style) and discrete subsegments (such as entrepreneurs).

Communication needs to be both ongoing and honest. Wealth managers should be as straightforward about their limitations—in terms of their access to certain products or markets, or their risk exposure—as they are about their strengths.

Stay focused on client needs. As trite as it sounds, this imperative remains the definitive factor of success for wealth managers—and it has not become any easier. The crisis changed client behavior profoundly. Wealth managers should expect equally dramatic changes as clients regain confidence. Their investment preferences will evolve, as will their expectations. Many will want their advisors to adopt a more active, holistic approach to managing their wealth. Clients may ask more questions, and most will demand more transparency. They may not embrace overly complex products in the short to medium term, but they will want more sophisticated services, particularly for managing risk. Wealth managers cannot overstate the importance of client service. One bank has even established a chief client officer at the executive board level to keep the company focused on client needs.

Explore opportunities to improve service to certain groups—including women. Female clients are a significant segment—they control about 27 percent of global AuM, meaning that they decide where it is invested. (See the sidebar “Upgrading the Client Experience for Women.”) They are also underserved, according to a recent BCG survey.

Reaffirm the role of the RM. Just as client needs have changed as a result of the crisis, so must the role of the RM. Clients are going to expect their RMs to know the details about investments, explain them clearly, and be prepared to have a true dialogue about the right investment strategy. They want tailored advice, rather than formulaic or—worse yet—generic “answers.” Wealth managers have a responsibility to train and equip their RMs to fulfill these expectations. Among other things, they should ensure that frontline staff can call on product experts when necessary.

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**Upgrading the Client Experience for Women**

Women control more than a quarter of global AuM, meaning that they decide where it is invested. (See the exhibit “Women Control 27 Percent of Global Wealth.”) As significant as this group is, however, the needs and expectations of many female clients are going unmet by wealth managers.

More than half of the women in a recent BCG survey feel that wealth managers could do a better job of meeting the needs of female clients. Nearly a quarter think that wealth managers could significantly improve how they serve women. The global survey of women, conducted in early 2010, had close to 500 respondents, each with at least $250,000 in bankable assets. It was accompanied by more than 70 interviews with wealthy clients, wealth managers, and private-banking experts. (The findings will be featured in a separate publication later this summer.)

Even wealth managers that recognize the opportunity to target women often underestimate the complexity of reaching female clients. Their overtures, which include repackaged products and targeted marketing, sometimes smack of special treatment. Many of the women we surveyed, however, told us they do not want special attention, much less any kind of “women-labeled” product, pitch, or promotion that comes across as superficial or patronizing.

Wealth managers need a more nuanced approach that is grounded in a simple truth: most female clients want to be treated the same as any client. They want objective advice and clear recommendations that suit their goals and risk profiles. Most important, they want to be understood rather than prejudged and stereotyped.

For many female clients, apparently, this would be a big step forward. Respondents to our survey said that wealth managers sometimes assume they have a low risk tolerance and thus provide a narrow range of products. Others said that their wealth managers do not pay enough attention to circumstances that can radically change their priorities. A woman’s investment needs and risk profile can be affected by marriage or divorce, the birth of a child, or the death of a spouse. The same is true of men, of course, but the reality is that women are more likely to
Upgrading the Client Experience for Women (continued)

have their financial priorities rearranged by such events. Women were also far more critical of the demeanor of their RMs; some told us that their advisors do not take them seriously.

Private banks can address these problems by responding to the sometimes subtle differences in women’s needs and expectations. The right approach will strike a careful balance between recognizing the traits shared by many women and developing close relationships based on a gender-neutral understanding of clients as individuals.

◊ Advice. Many women told us that their gender should have no bearing on how their wealth manager treats them. “I am not sure that I want any specific ‘women-focused’ services,” remarked one woman, “but I do want to be taken seriously and have products and services that meet my needs.” Research shows, however, that most female clients do share certain characteristics. For instance, they tend to focus more on long-term objectives: wealth is “a means of life planning rather than a goal in itself,” according to one survey respondent. As a result, most are more interested in the big-picture view than in the technical aspects of specific products. At the same time, however, RMs must not be captive to stereo-
types. Not all women are risk averse, and most care as much about investment performance as men do.

◊ Communication. Advisors should recognize that communication plays a significant role in a woman’s satisfaction with her bank. It is also one of the most frequently cited grievances. Women want their advisors to be responsive and proactive in addressing their investment needs: their advisors need to be good listeners. Women also want their advisors to be empathetic, which is critical to establishing a close relationship and building loyalty.

To improve their service to women, banks first need to recognize that this group is important—in terms of the wealth it controls—and distinct. They should then develop deeper insights into women’s needs and expectations, as well as the drivers of dissatisfaction that are unique to this group.

The adjustments to the service model are likely to be subtle rather than sweeping, but they can still have a substantial impact on client satisfaction. One European bank, for example, redefined its approach to serving women by involving a wealth planner early in the relationship. This helps ensure that the planner understands the client and her needs and is able to provide holistic advice.

Women Control 27 Percent of Global Wealth

<table>
<thead>
<tr>
<th>Region</th>
<th>AuM controlled by women, 2009 (%)</th>
<th>AuM controlled by women (trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>33</td>
<td>$11.6</td>
</tr>
<tr>
<td>Australia and New Zealand (ex Japan)</td>
<td>31</td>
<td>$0.7</td>
</tr>
<tr>
<td>Asia (ex Japan)</td>
<td>29</td>
<td>$4.3</td>
</tr>
<tr>
<td>Western Europe</td>
<td>26</td>
<td>$9.2</td>
</tr>
<tr>
<td>Middle East</td>
<td>22</td>
<td>$0.7</td>
</tr>
<tr>
<td>Russia</td>
<td>21</td>
<td>$0.2</td>
</tr>
<tr>
<td>Eastern Europe (ex Russia)</td>
<td>19</td>
<td>$0.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>18</td>
<td>$0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>14</td>
<td>$2.1</td>
</tr>
<tr>
<td>Africa</td>
<td>11</td>
<td>$0.1</td>
</tr>
<tr>
<td>Global</td>
<td>27</td>
<td>$29.6</td>
</tr>
</tbody>
</table>

Note: AuM controlled by women is wealth that is invested on the basis of decisions made by women.
Despite its low profile in many institutions, risk management played a decisive role in how wealth managers fared during the crisis. Strong risk-management capabilities helped some wealth managers gain market share. Many more, however, lost significant amounts of money for both their clients and themselves owing, in part, to a lack of adequate safeguards. Most important, they lost their clients’ trust, primarily because they underestimated the risk of noncompliance—with both internal and external rules—and its ripple effect on their reputation, an invaluable asset in its own right.

Wealth managers should embrace the opportunity to revitalize risk management—and not only as a way to weather the next crisis and comply with stricter regulations. Better risk management can give rise to disciplines that have an overwhelmingly positive effect on how wealth managers interact with clients. It can be an important differentiator in a crowded market, bolstering a wealth manager’s ability to attract and retain clients.

Shortcomings Exposed

Wealth managers are dealing with sharp questions about their ability to manage risks. The problems highlighted by the crisis ranged from the negligent to the criminal. In some cases, wealth managers waived their own guidelines—for example, on credit limits—when long-term client relationships were at stake. Others refrained from telling clients about potential counterparty risks simply to avoid delivering bad news.

There was also, at times, an alarming disconnect between advisors and clients. Some wealth managers failed to conduct proper know-your-client profiling, or pushed products that were an obvious mismatch with the client’s risk profile. In addition, transactions were executed without the client’s explicit consent, and some advisors neglected to review portfolio performance with their clients, even as losses mounted.

Many of these problems stemmed, at least in part, from risk management systems that were overwhelmed and underappreciated. These systems struggled to keep up with the proliferation of financial instruments and the precrisis expansion into new markets, client segments, and businesses. Many wealth managers also failed to conduct due diligence on investments. Few ever stopped to think, “This looks too good to be true. Where’s the catch?”

The lack of vigilance was reflected on the front line. Advisors had only a superficial understanding of some products, which made it impossible to decipher their risks, explain them to clients, and ensure their suitability to a client’s profile. During the boom, however, these core tenets of wealth management were trumped by the push for high returns and new assets, often because compensation systems rewarded this behavior. Banks were also emboldened by their shareholders’ focus on short-term profits and by implicit and explicit government guarantees.

Some firms did more than overlook the fundamentals of wealth management. In a few firms, RMs helped clients falsify tax returns, and some were complicit in the use of offshore accounts and structures to hide undeclared assets. These wealth managers failed to understand that their affiliation with such activities would inevitably damage their reputation.
Risk management cannot bear all of the blame for problems such as flawed incentive systems, the greed of a small number of managers, and the lack of product knowledge among frontline staff. It is evident, however, that anemic risk management increased wealth managers’ exposure to practices and products that endangered not only client investments but also assets as elemental as brand reputations, client relationships, and the image of an entire industry.

Smarter, Stronger Risk Management

Wealth managers face myriad risks. (See Exhibit 13.) The two most critical, in the wake of the crisis, are compliance risk and reputational risk. Compliance risk is a type of operating risk. It can be split into external risks, such as the risk of not adhering to anti-money-laundering guidelines or the Markets in Financial Instruments Directive adopted by the European Commission, and internal risks, such as the risk of ignoring investment restrictions. Reputational risk can arise as a consequence of operating, market, credit, or liquidity risks.

To manage these risks, many wealth managers will need to make improvements ranging from the thematic to the operational. At a high level, the risk management function needs to be imbued with values such as integrity, independence, and critical judgment—values the bank’s leadership must “live.” At a more practical level, the function—in close collaboration with the business—needs to design processes for managing risks throughout the business.

Given the scope of this transformation, wealth managers will need to set up a change program staffed by a team that includes senior executives, risk managers (who should be risk experts as well as generalists, with a good understanding of the business), and people who run the business. Five core elements—governance, products, advice, incentives, and infrastructure—should guide the team as they design initiatives to improve risk management. Some initiatives may affect the business model in ways that typically fall outside the purview of risk management, but they are nonetheless critical and should therefore be considered within the scope of the transformation program.

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Exhibit 13. Reputational Risks Can Arise from a Range of Problems

<table>
<thead>
<tr>
<th>Risk factors in wealth management</th>
<th>Impact on reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating risk</td>
<td>Can lead to failures, which are of high public interest and create major brand damage</td>
</tr>
<tr>
<td>Compliance risk</td>
<td></td>
</tr>
<tr>
<td>Processes and systems</td>
<td></td>
</tr>
<tr>
<td>Human factors (fraud and theft)</td>
<td></td>
</tr>
<tr>
<td>External events (business risk)</td>
<td></td>
</tr>
<tr>
<td>Market risk</td>
<td>Can affect investment performance and position in rankings</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
</tr>
<tr>
<td>Equity position risk</td>
<td></td>
</tr>
<tr>
<td>Foreign-exchange risk</td>
<td></td>
</tr>
<tr>
<td>Commodities risk</td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td>Could harm solvency of the entire bank and thus damage credibility as wealth managers</td>
</tr>
<tr>
<td>Loan default risk</td>
<td></td>
</tr>
<tr>
<td>Counterparty risk</td>
<td></td>
</tr>
<tr>
<td>Issuer risk</td>
<td></td>
</tr>
<tr>
<td>Country and transfer risk</td>
<td></td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>A weak liquidity position would undermine credibility as wealth managers and safe havens</td>
</tr>
<tr>
<td>Market liquidity risk</td>
<td></td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
</tr>
<tr>
<td>Conditional liquidity risk</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Interviews with global-wealth experts; BCG experience.
Governance. All wealth managers should establish an independent, authoritative risk-management function, which should be led by a chief risk officer who serves on the executive committee and has veto power over certain investment decisions. The function should be charged with designing, implementing, and controlling the institution’s risk-management processes, structures, and policies. But it should also be willing to delegate responsibilities, while ensuring that the right people are adequately trained.

- The front office is the first line of defense. It should have primary responsibility for controlling risks, since frontline staff should have the most detailed knowledge about specific transactions, products, and practices.

- The risk management function is the second line of defense. Its setup will depend on a wealth manager’s business model. Most notably, wealth managers that are part of larger banks will need to have functions that are capable of monitoring other parts of the business and deciding who has responsibility for managing different risks.

- The internal audit function is the third line of defense. It must be independent and staffed with critical thinkers who have a good business sense and are relentless in their enforcement of risk management policies—they must be willing to impose strong penalties for transgressions.

The risk management function should also take a big-picture view. Among other things, risk managers should develop, update, and run worst-case scenarios and share the findings with the business, so that together they can develop contingency plans for dealing with certain events.

As important as strong governance is, wealth managers should not fall into the trap of thinking that an empowered risk-management function is sufficient for avoiding trouble. The concept of managing risk needs to permeate the organization in order to create what is often called a risk culture. Throughout the organization, people should feel responsible for challenging decisions that might contravene risk tolerances and policies. They should also have the situational awareness to identify the warning signs of emerging threats.

A risk culture can be a force multiplier for the risk management function, but it cannot take root without the sustained and visible commitment of leaders both in the business and on the board of directors. It should also be supported by well-established escalation processes and adequate training throughout the organization.

Products. A range of measures is required to ensure that RMs understand and vet the products they put in front of clients—and that they align their recommendations with the client’s risk profile. This is critical to managing reputational risks.

- Sourcing. Wealth managers should not rely solely on rating agencies when assessing third-party products. They should also conduct proper due diligence, including a compliance check against any legal or regulatory obligations and an assessment of credit, market, counterparty, and liquidity risks.

- Classification. Products should be classified according to their general risk and return characteristics on the basis of, among other things, their historical volatility, upside and downside potential, and worst-case scenarios. It should be clear, too, whether the risks would be borne by the investor or the institution, taking into account reputational risks.

- Training. RMs should be well versed in product characteristics, especially their risk profiles. To a much greater degree than before the crisis, clients will demand clear explanations of how certain products work. In this context, wealth managers should consider limiting the number of markets covered by individual advisors. RMs could then focus on a narrower range of products and services that are relevant to specific markets and client segments and thus develop deeper expertise and a better appreciation of certain risks.

- Monitoring. Product units must continuously check the performance of both in-house and third-party products against their expected risk-return profiles, and monitor changes in underlying positions and risks. Frontline staff should be informed of material changes
in order to keep their clients up-to-date and propose appropriate changes to the product portfolio.

**Advice.** To manage both compliance and reputational risks, wealth managers must ensure that sound risk-management practices are embedded in each of the four steps of the advisory process.

- **Client Profiling.** Managing risk in the advisory process starts with a seemingly simple axiom: know your client. Wealth managers should push their frontline staff to develop a more intimate knowledge of clients (both personally and financially), including their level of financial expertise and their overall goals and ambitions. This is actually a complex task; the client’s situation and risk profile are subject to change.

- **Asset Allocation.** RMs can mitigate reputational risks by aligning clients’ asset allocations with their risk profiles—and by managing their expectations. To avoid surprises, they should clearly explain the risks associated with investments, including the ramifications of worst-case scenarios.

- **Execution.** There are two overriding concerns during execution. First, transactions should never be executed without client consent and the appropriate documentation. For discretionary mandates, investments must align with the client’s overarching objectives. Second, clients should be required to sign a disclaimer when buying products that do not match their risk profiles.

- **Monitoring.** Frontline staff should inform their clients about any mismatches that arise between asset allocations and risk profiles, along with any developments that could indirectly affect their portfolios (for example, the decline of a counterparty’s rating). From time to time, RMs should also explain how different macro-economic scenarios might affect a client’s wealth and outline the steps they could take to counteract certain risks.

The success of this approach will hinge on training, but IT systems can also help by making certain steps compulsory. In addition, wealth managers should keep their customer-relationship-management (CRM) systems up-to-date to help RMs identify mismatches between risk profiles and asset allocations. The risk management function should also monitor the advisory process to check that certain steps are repeated periodically. It could track the frequency of client contacts, for example.

Wealth managers can also mitigate reputational, operating, and market risks by giving independent portfolio analysts a clear mandate to monitor client portfolios and provide recommendations or even instructions to RMs. This will help ensure that the wealth manager always acts in the client’s best interests.

**Incentives.** A mix of immediate and deferred compensation can motivate RMs to create wealth for clients over the long term rather than generate profits over the short term. Likewise, incentives should underscore the importance of relationships rather than reinforce a product-push mentality. This can be accomplished by increasing the share of fixed compensation and making client satisfaction part of the bonus calculation.

Incentives should also encourage RMs to adhere to risk management guidelines, even if that means saying no to a client. Frontline staff are often tempted to bend the rules for the sake of preserving an important relationship. One private-banking executive remarked that it can be “very difficult to be emotionless in an emotional business” and hold the line on, say, a credit limit. Incentive systems should have a qualitative component that reflects an RM’s overall business conduct and stresses the importance of complying with internal rules and guidelines.

**Infrastructure.** Risk-management IT systems must be less reactive and more forward-looking. For this to happen, wealth managers may need to adopt a “less is more” attitude. Instead of vacuuming up data from far and wide, these systems should focus on the most relevant information—a flood of information can actually stymie analysis and allow risks to go undetected.

At the same time, however, risk-management IT systems need to be updated regularly to keep pace with changes in the business, such as product developments. This is essential to ensuring that frontline staff have access to time-
ly, accurate data and can respond quickly to market developments.

Mathematical models are still useful, provided they reflect the real world. In the aftermath of the crisis, for example, it was reported that some models were not programmed to assess the impact of a nationwide decline in house prices—because such a scenario seemed unfathomable. It is critical, however, that models be used to inform, not supplant, the judgment of risk managers. There is no substitute for the intuition of an experienced professional.

**Improving the Client Experience**

From a business perspective, the pressure to strengthen risk management might be hard to see in a positive light. For most wealth managers, it will require substantial investment in new processes and capabilities. This, in turn, may lead to consolidation among smaller players. Even among larger wealth managers, the downside is easy to imagine. The client experience could be encumbered by more rules and restrictions, along with a barrage of questions and forms. Moreover, some banks may be forced to retreat from certain regions, client segments, and businesses (such as offshore banking or proprietary trading).

But the push for better risk management does not have to be a burden. In fact, it can actually lead to a more effective, client-oriented organization. If wealth managers enhance their practices along each of the five core dimensions—governance, products, advice, incentives, and infrastructure—RMs will be able to demystify products, client needs will become the overriding priority for advisors, and incentives will harmonize both the client’s and the bank’s long-term well-being.

For this to happen, wealth managers must recognize that stricter risk management is not necessarily better risk management. A proliferation of rules can frustrate both frontline staff and clients and lead to a false sense of security. Overreacting, in other words, could be as damaging to the business as treading too softly. The best solution will no doubt be comprehensive and rigorous, but it will avoid the indiscriminate use of controls, and its success will be measured as much by the behaviors it encourages as by those it subdues.

Despite all the adversity created by the crisis, wealth management has remained a relatively stable and attractive business—mainly because it continues to be indispensable. Many people lost confidence in financial institutions, but few have acquired the expertise, inclination, or time to manage their own wealth. And while the crisis sapped some of the demand for active and involved advice, the effect was largely temporary. Assets are growing again and are even flowing from basic to more sophisticated investments, albeit at varying rates in different regions.

Still, it is easy to overstate the significance of the turnaround in AuM. Indicators of an economic recovery, encouraging as they are, have done little to dispel the uncertainty and skepticism hanging over financial markets—and boardrooms. In a recent BCG survey of 440 executives in the seven largest economies of the developed world, half of the respondents expected to see an L-shaped recovery. Emerging markets have taken a characteristic lead in the return to robust growth, but we believe that many developed economies face a prolonged period of slower economic growth.

It is not surprising, then, that wealth managers’ performance seems decoupled from the turnaround in global wealth—AuM provides only a foundation for, not a guarantee of, better performance. To capitalize on the momentum of the nascent and somewhat fragile recovery, wealth managers need to improve their revenue margins and risk-management functions while making a concerted effort to attract and retain clients. Attention to fundamentals, rather than the supposed buoyancy of rising wealth, will ultimately set the best wealth managers apart from the crowd.

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A White Paper by The Boston Consulting Group, March 2010

A White Paper by The Boston Consulting Group, March 2010

**After the Storm: Creating Value in Banking 2010**  
A report by The Boston Consulting Group, February 2010

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A White Paper by The Boston Consulting Group, January 2010

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