

GLOBAL WEALTH 2015

WINNING THE GROWTH GAME



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INTRODUCTION

THE WEALTH MANAGEMENT INDUSTRY has arrived at an inflection point. While one group of players seems to be guarding the status quo, another group is seizing the moment. These proactive institutions are doing more than their competitors to raise their game in ways that will ensure profitability and market-leading positions over the next five years and beyond.

Given the current market dynamics, we have placed special emphasis in this year's Global Wealth report on what the most successful players in today's wealth-management industry are doing right. Using data gathered from benchmarking studies carried out over the past three years, we have identified those organizations whose performance has consistently surpassed that of their peers. For example, although robust asset performance drove growth for most players in 2014, some institutions were able to gain higher revenues per relationship manager, acquire greater amounts of new assets, and achieve leading revenue and cost margins. What drives such significant differences?

On the basis of both our benchmarking and our extensive experience working with wealth managers globally, we have observed five common characteristics that winning organizations possess, which we will discuss in detail:

- Segment-specific value propositions and coverage models
- Rigorous price realization in target client segments
- A differentiated advisory offering
- A focus on front-office excellence
- The ability to measure and manage profitability

This year's report also contains some of our traditional features—particularly a comprehensive, global market-sizing that includes regional breakdowns—and for the first time pays special attention to the investments that wealth managers are making in their own businesses in their quest to achieve excellence and stay ahead of their rivals. Are most institutions focusing on strengthening existing businesses—or on discovering new horizons to explore? Are they more concerned with the next 12 months or the next two to five years? The answers to such questions will help determine who the winners will be in the run-up to 2020.

Overall, the journey to achieving consistent success remains a difficult one. The traditional challenges are still there: how to attract new assets, generate new revenues, manage costs, maximize IT capabilities, find investment strategies that foster client loyalty, and navigate a complex and ever-evolving regulatory environment. There are many fresh challenges as well, including raising digital capabilities and coping with potentially disruptive new business models. There are no easy solutions—but successful, proactive players are finding the right balance.

Our goal in *Winning the Growth Game: Global Wealth 2015*, which is The Boston Consulting Group's fifteenth annual report on the global wealth-management industry, is to present a clear and complete portrait of the business, as well as to offer thought-provoking analysis of issues that will affect all types of players as they pursue their growth and profitability ambitions in the years to come. Originally released in June 2015, the report has been updated to reflect both a revision of input sources for private wealth assets and the addition of 30 countries to our database, which now covers markets representing more than 99 percent of global GDP.

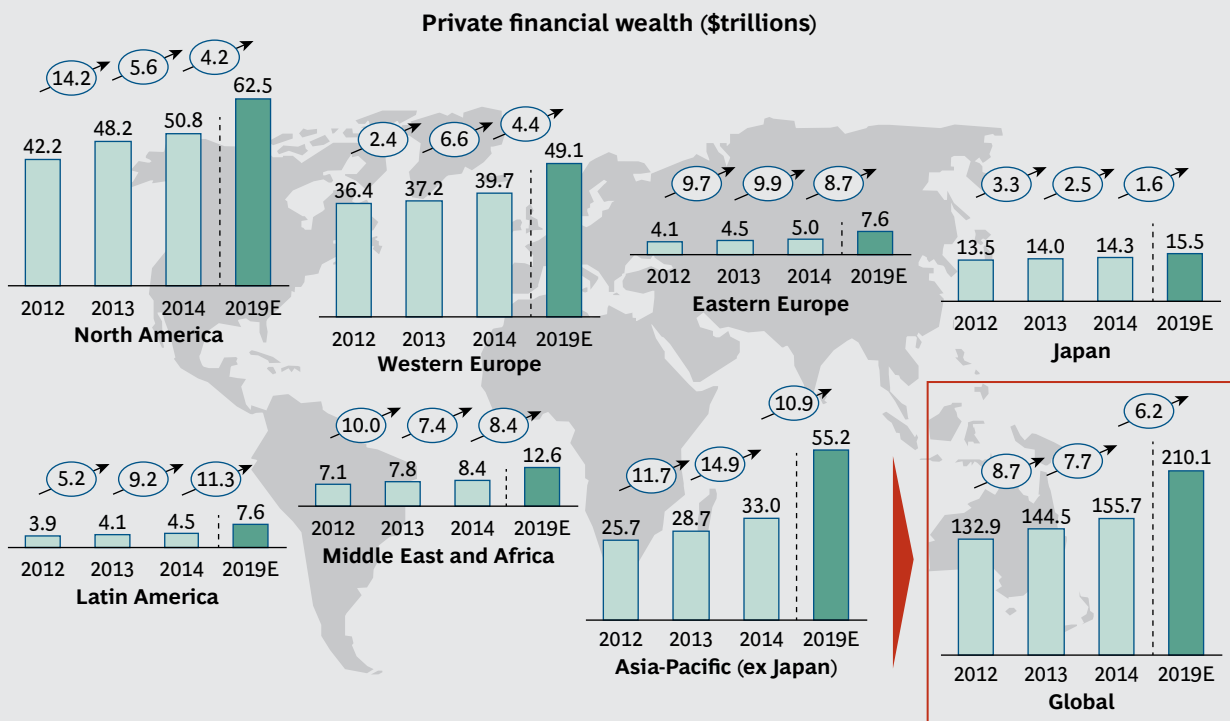
GLOBAL WEALTH MARKETS

THE GROWTH CONTINUES

GLOBAL PRIVATE FINANCIAL WEALTH grew by nearly 8 percent in 2014 to reach a total of \$156 trillion.¹ (See Exhibit 1.) The rise was slightly less than a year earlier, when

global wealth rose by almost 9 percent. Market expansion was driven by both the performance of existing assets and the creation of new wealth. Overall, the ongoing

EXHIBIT 1 | Global Wealth Continued to Grow Strongly in 2014



Source: BCG Global Wealth Market-Sizing Database, 2015.

Note: Private financial wealth is measured across all private households. All growth rates are nominal. With the exception of Argentina, numbers for all years were converted to U.S. dollars at average 2014 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers. Calculations for all years are based on the same methodology. For further details, please refer to the Methodology section of this report.

economic recovery and accommodating monetary policies resulted in strong stock and bond performance, while rising income and consumption led to strong GDP growth, particularly in RDEs.

Global and Regional Overview

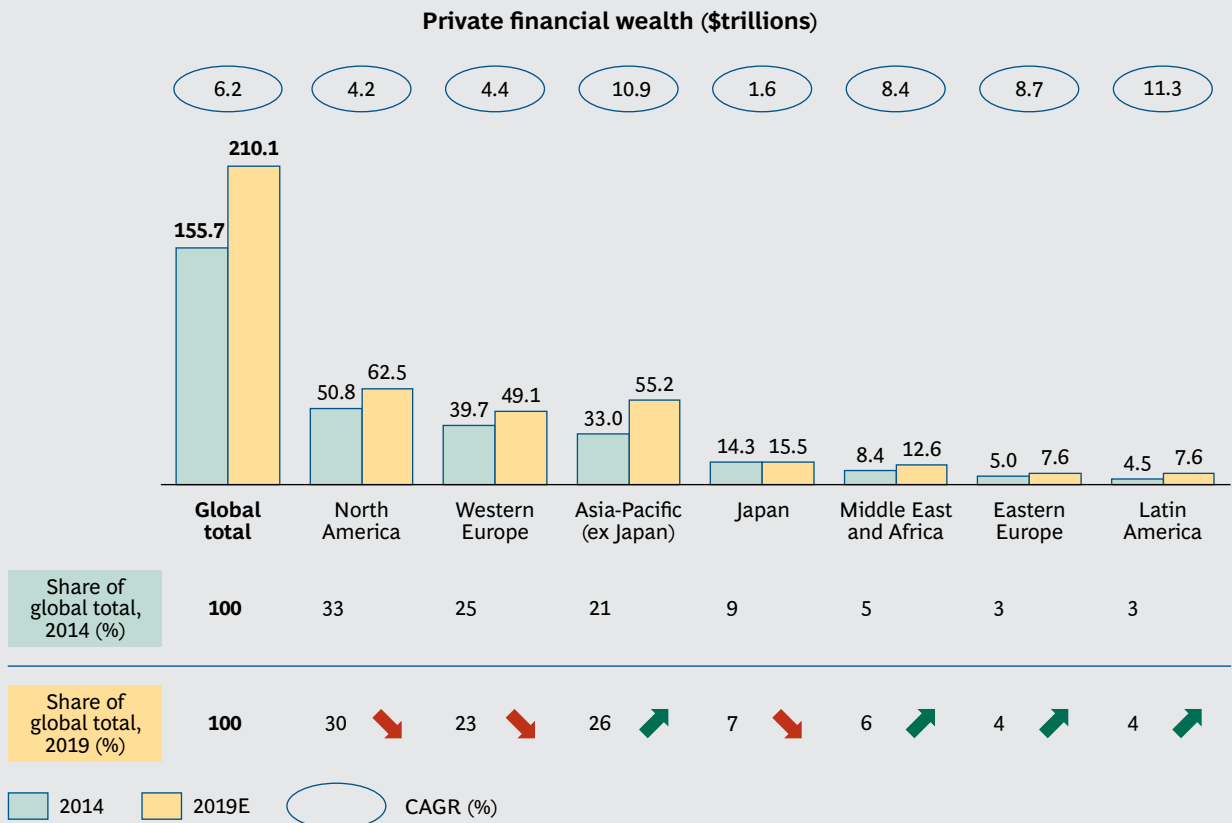
North America, with \$51 trillion in private wealth, remained the world’s wealthiest region in 2014. Western Europe, at \$40 trillion, maintained its status as the second-wealthiest region, with Asia-Pacific (excluding Japan) in third place at \$33 trillion. With a projected \$55 trillion in 2019, Asia-Pacific (excluding Japan) is expected to surpass Western Europe (a projected \$49 trillion) and to close in on North America (a projected \$62 trillion). The share of global financial wealth held in Asia-Pacific (excluding Japan) is projected to increase from 21

percent in 2014 to 26 percent in 2019. (See Exhibit 2.)

Over the next five years, total private wealth globally is projected to post a compound annual growth rate (CAGR) of 6 percent to reach an estimated \$210 trillion in 2019.

From a regional perspective, it’s clear that the growth of private wealth continued in most markets in 2014, but at significantly different rates. A strong “old world” versus “new world” dynamic was observed, with the new world growing at a far more rapid pace. Asia-Pacific (excluding Japan) remained the fastest-growing region in 2014 and the only region to grow by double digits (15 percent). The other regions of the new world—Eastern Europe, Latin America, and the Middle East and Africa—grew in the high single digits. By contrast, growth rates in all “old world”

EXHIBIT 2 | Asia-Pacific (Excluding Japan) Is Projected to Hold More Than a Quarter of Global Wealth in 2019



Source: BCG Global Wealth Market-Sizing Database, 2015.

Note: Private financial wealth is measured across all private households. All growth rates are nominal. With the exception of Argentina, numbers for all years were converted to U.S. dollars at average 2014 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers, although regional wealth shares are rounded and may not sum to 100 percent. Calculations for all years are based on the same methodology. For details, please refer to the Methodology section of the report.

regions remained in the middle or low single digits, led by Western Europe and North America (with Japan lagging somewhat behind).

North America.² Private wealth in North America grew by roughly 6 percent to \$51 trillion in 2014, with the U.S. (\$46 trillion) accounting for the bulk of the regional total and representing 30 percent of the global total. The U.S. remained the wealthiest individual country, ahead of both China and Japan. Canada (\$5 trillion) was also in the top ten countries (ranked eighth). With a projected CAGR of 4 percent, private wealth in North America will expand to an estimated \$62 trillion in 2019.

Western Europe.³ Western Europe's 7 percent growth rate brought private wealth to \$40 trillion in 2014. Some countries posted double-digit growth, among them Sweden (13 percent), the U.K. (11 percent), the Netherlands (11 percent), and Denmark (10 percent). With a projected CAGR of 4 percent, Western European private wealth will reach an estimated \$49 trillion in 2019.

Eastern Europe.⁴ Private wealth in Eastern Europe grew by just under 10 percent to \$5 trillion in 2014, driven mainly by Russia's 25 percent growth to \$2 trillion (representing 41 percent of the region's private wealth). With the exception of Romania, where wealth grew by 19 percent, growth in the region's other countries remained in single digits. With a projected CAGR of 9 percent, private wealth in Eastern Europe will approach \$8 trillion in 2019.

Asia-Pacific (excluding Japan).⁵ Private wealth in Asia-Pacific (excluding Japan) expanded by a steep 15 percent in 2014 (compared with less than 12 percent the previous year) to reach \$33 trillion. This powerful performance enabled the region to narrow the gap with Western Europe. With a projected CAGR of nearly 11 percent, private wealth in Asia-Pacific (excluding Japan) will rise to an estimated \$55 trillion in 2019. This pace should enable the region to overtake Western Europe and further narrow the gap with the world's largest pool of private wealth, North America.

Japan. Japan's private wealth achieved comparatively low growth of less than 3 percent in 2014 to reach just over \$14 trillion. With a projected CAGR of under 2 percent, the lowest of all regions, private wealth in Japan will reach an estimated \$15 trillion in 2019, well behind North America, Asia-Pacific (excluding Japan), and Western Europe.

More than half of private wealth growth in 2014 was generated by the market performance of existing assets.

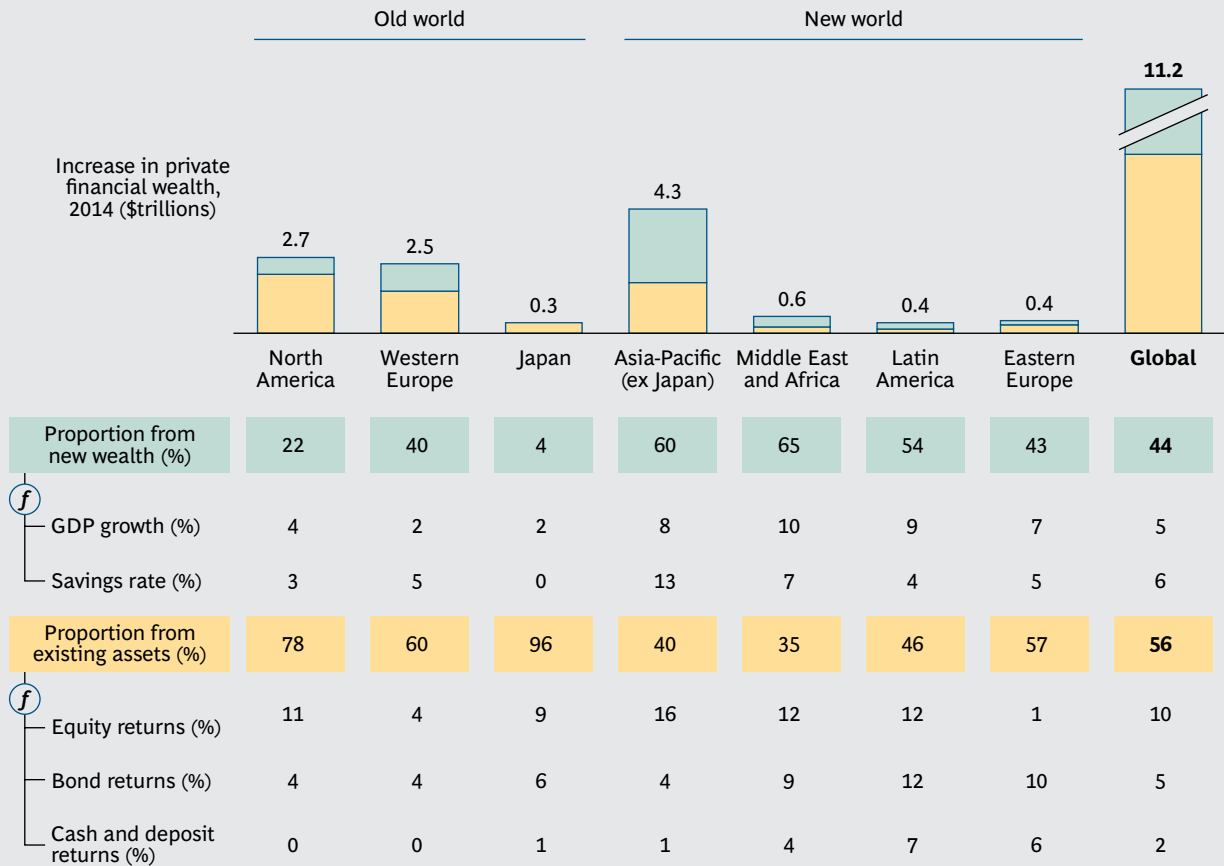
Latin America.⁶ Private wealth in Latin America achieved high single-digit growth in 2014, rising by 9 percent to well over \$4 trillion. Strong growth was observed in Mexico and Chile (both 15 percent), as well as in Colombia and Brazil (both 10 percent). Brazil, the region's largest market, held \$1.4 trillion in private wealth. With a projected CAGR of more than 11 percent, the highest of all regions, Latin America's private wealth will approach an estimated \$8 trillion in 2019, on par with Eastern Europe.

Middle East and Africa (MEA).⁷ Private wealth in the MEA region increased by more than 7 percent to surpass \$8 trillion in 2014. With a projected CAGR of 8 percent, the region's private wealth will rise to nearly \$13 trillion in 2019, with Saudi Arabia (\$2 trillion), Nigeria (\$1 trillion), Israel (\$1 trillion), Iran (\$1 trillion), and the United Arab Emirates (\$1 trillion) as the largest markets.

Principal Drivers of Wealth Growth

Globally, more than half (\$6 trillion, or 56 percent) of private wealth growth in 2014 was generated by the market performance of existing assets, with the balance (\$5 trillion, or 44 percent) generated by newly created wealth. (See Exhibit 3.) Asia-Pacific (excluding Japan), the MEA region, Latin America, and North America saw significant rises in equi-

EXHIBIT 3 | Existing Assets Drove More Than Half of Wealth Growth in 2014



Source: BCG Global Wealth Market-Sizing Database, 2015.

Note: All growth rates are nominal. Regional averages for GDP growth and savings rates are weighted by GDP. Regional averages for performance include existing onshore and offshore assets and are weighted across countries by GDP. For further details, please refer to the Methodology section of this report.

ties, while Eastern Europe and Latin America experienced double-digit growth in bonds. Extraordinary market gains were seen in China and India, driven mainly by investments in local equities.

Newly created wealth dominated in “new world” regions, where macroeconomic performance tended to be significantly stronger than in the old world, continuing the trend of recent years. For example, GDP growth in most Western European countries was low—2 percent on average, with Ireland the top performer at 6 percent—as questions about the future of Greece lingered and signs of economic recovery in countries such as Italy and Spain remained weak. By contrast, Eastern European countries and other new-world nations posted strong upper-single-digit or even double-digit GDP growth.

In the years ahead, solid market performance across all regions—combined with robust GDP growth and high savings rates in the new world, especially in Asia-Pacific (excluding Japan)—will continue to drive the expansion of global wealth. A more detailed regional review follows.

North America. Driven by solid equity-market performance, the growth of existing North American private wealth was substantial, accounting for 78 percent of the region’s overall growth in 2014. The remaining 22 percent can be attributed to the region’s GDP growth (4 percent), which helped to create new wealth. In the U.S., growth came more from equities (which rose by 10 percent) than from other asset classes. By comparison, the increase in Canadian private wealth was driven by strong gains in both equities (15 percent) and bonds (11 percent).

Western Europe. The expansion in Western European private wealth was supported mainly by modest gains in bonds, driven in part by the European Central Bank's revised monetary policy. Macroeconomic performance was generally low, although countries outside the euro zone showed moderate rises in GDP, including the U.K. (5 percent), Norway (3 percent), and Switzerland (2 percent). Within the euro zone, GDP growth was generally slower. Most countries in Western Europe saw appreciable equity-market performance, such as Denmark (12 percent) and Italy (11 percent). Two countries that endured substantial difficulties in 2013, Spain and Portugal, saw private wealth rebound in 2014 with growth of 4 percent, driven largely by a rising bond market (up 6 percent in Spain and 5 percent in Portugal). Growth in private wealth was strongest in countries with a relatively high share of bonds, such as Denmark (wealth growth of 10 percent, bond share of 45 percent) and Italy (wealth growth of 6 percent, bond share of 48 percent).

Eastern Europe. Growth in Eastern Europe was driven mainly by Russia, which holds more than one-third of the region's private wealth. Institutional and business reforms in Eastern Europe, overall GDP growth of 7 percent, and bond returns of 10 percent all contributed to the region's overall increase in private wealth of nearly 10 percent. Across all Eastern European countries, as in Western Europe, wealth held in bonds performed more robustly (10 percent) than that held in equities (1 percent) or in cash and deposits (6 percent).

Asia-Pacific (excluding Japan). Private-wealth growth in this region was driven heavily by the continued economic expansion of two of its largest economies, China and India. Overall, solid economic output across the region enabled the population to accumulate significant amounts of new wealth, which accounted for 60 percent of total wealth growth, compared with 40 percent from market performance. Equity markets rose by 16 percent, followed by bond markets (4 percent) and cash and deposits (1 percent).

Japan. In light of the weakening yen (down 8 percent in 2014 against the U.S. dollar,

following a decline of 18 percent in 2013), growth in private wealth in dollar terms was lower than in previous years. That said, the weaker yen continued to support the Japanese export sector, leading to an increase in GDP growth to 2 percent in 2014 (up from 1 percent in both 2012 and 2013). Japanese stock markets rose by 9 percent in 2014, while the bond market grew by 6 percent. With only 4 percent of wealth growth originating from newly created wealth, Japan is relying far more on the market performance of existing assets than are most other countries.

Growth in Eastern Europe was driven mainly by Russia, which holds more than one-third of the region's private wealth.

Latin America. Growth dynamics in Latin America's economies were divergent, with varying impacts from lower oil and commodity prices depending on importing versus exporting behavior. Private wealth in Mexico and Brazil, the region's largest economies, as well as in Chile and Colombia, showed strong growth in 2014, while wealth developed more moderately in some of the smaller markets. Mexico's double-digit expansion was driven especially by the performance of wealth held in bonds and in equities (both 7 percent), as well as in part by solid GDP growth (6 percent). Brazil's private-wealth expansion was driven mainly by improved performance in bonds (up 9 percent) in a country in which 46 percent of private wealth was held in bonds. The overall region's bond and equity markets both rose by 12 percent, with the value of cash and deposits rising by 7 percent. Relative to other regions, Latin America had the third-highest proportion of newly created wealth (54 percent) in 2014, compared with a global average of 44 percent.

Middle East and Africa. The MEA region had the highest proportion of newly created wealth (65 percent), with the balance attrib-

utable to the market performance of existing assets. Solid savings rates and continued GDP rises in oil-rich countries such as Saudi Arabia (GDP growth of 11 percent), Kuwait (11 percent), Nigeria (11 percent), and the United Arab Emirates (11 percent) contributed to the newly created wealth, while existing asset performance was solid despite the region's political instability.

Wealth managers must strengthen their asset-gathering and client acquisition capabilities.

Overall, across all regions, the drivers of wealth growth will have significant implications for wealth managers in the years ahead. For example, to capture newly created wealth that is driven mainly by GDP growth and savings rates, wealth managers must strengthen their asset-gathering and client acquisition capabilities through differentiated offerings, tailoring them to specific regions and client segments. To maximize the performance of existing assets, the focus will be on more creative investment strategies and product offerings, also customized by region and client segment. Moreover, following the high currency fluctuations in 2014, currency exposure will be a key consideration for future investment strategies.

Wealth Distribution

Private wealth held by ultra-high-net-worth (UHNW) households (those with above \$100 million) grew by a strong 11 percent in 2014. Overall growth in this segment was driven primarily by households from lower wealth segments moving up, while average wealth per household decreased (by nearly 8 percent).

UHNW households held more than \$10 trillion (about 7 percent) of global private wealth in 2014, a slight increase over 2013, and will be the fastest-growing segment through 2019. (See Exhibit 4.) At a projected CAGR of just over 14 percent over the next

five years, private wealth held by the UHNW segment will grow to an estimated \$20 trillion in 2019, with the number of UHNW households projected to grow at a CAGR of 21 percent. With such a large number of households entering this segment, the average wealth per household is projected to decline at a CAGR of 2 percent.

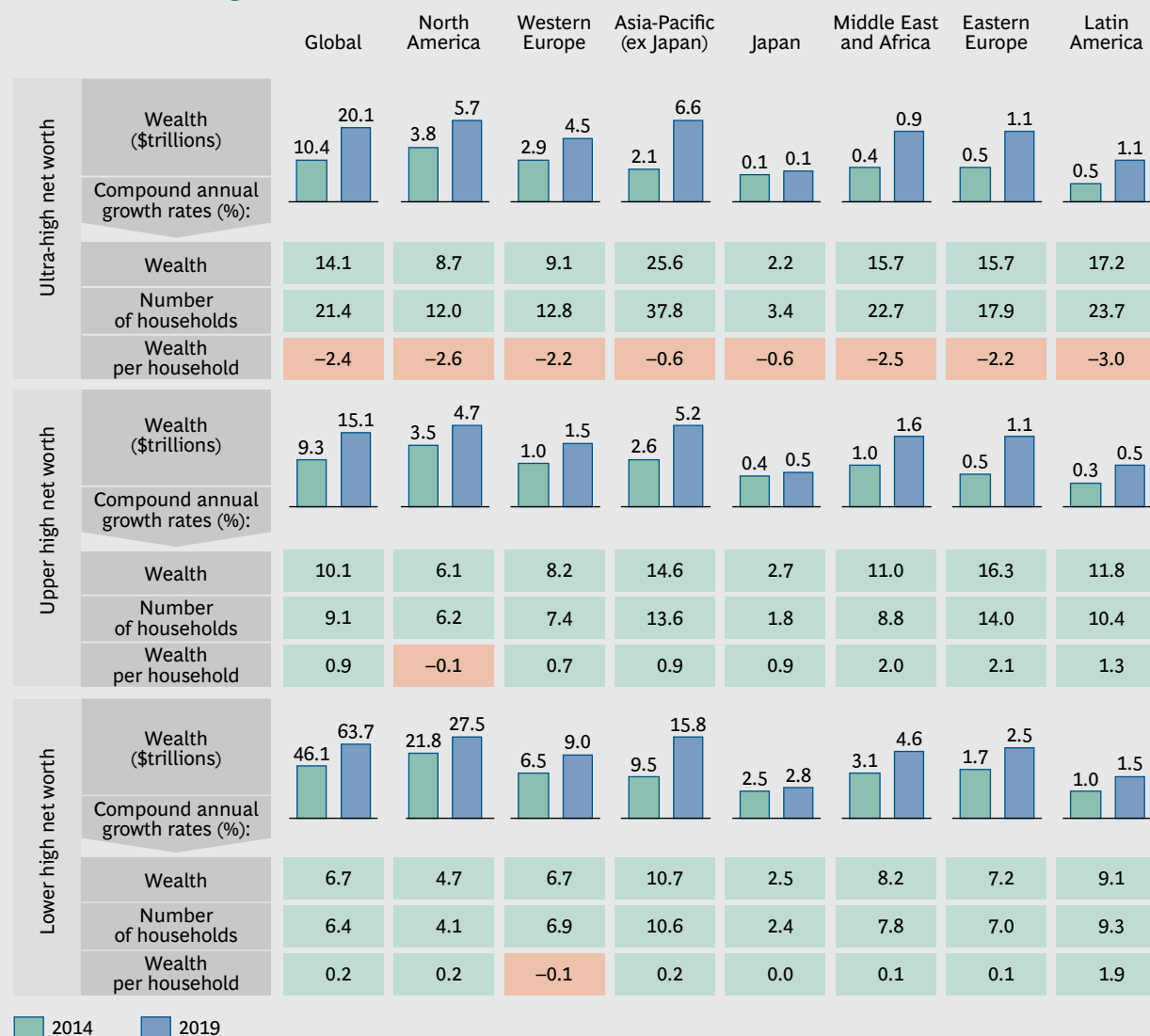
Private wealth held by the upper high-net-worth (HNW) segment (those with between \$20 million and \$100 million) rose by a healthy 23 percent in 2014 to more than \$9 trillion. With a projected CAGR of 10 percent over the next five years, this segment is expected to surpass \$15 trillion in private wealth in 2019. This growth will be triggered by both a large number of new households entering the segment (a projected CAGR of 9 percent) and growth in average wealth per household (a CAGR of 1 percent).

Private wealth held by the lower HNW segment (those with between \$1 million and \$20 million) is expected to grow at a slightly lower rate (7 percent) over the next five years. Average wealth per household is expected to post only very modest increases.

Globally, the total number of millionaire households (those with more than \$1 million in private wealth) reached nearly 16.5 million in 2014, up from 15 million in 2013. The increase was driven primarily by the solid market performance of existing assets, in both the new and old worlds. Millionaire households held 42 percent of global private wealth in 2014, up from 41 percent a year earlier, and are projected to hold more than 47 percent of global private wealth in 2019.

From a regional perspective, the U.S. still had the highest number of millionaire households in 2014 (7 million), followed by China (2 million) and Japan (1 million). The highest density of millionaires was in Switzerland, where 135 out of every 1,000 households had private wealth greater than \$1 million, followed by Bahrain (123), Luxembourg (120), Qatar (116), Singapore (107), Kuwait (99), and Hong Kong (94). The U.S. remained the country with the largest number of UHNW households at 5,201, followed by China (1,037), the U.K. (1,019), India (928), and Germany (679).

EXHIBIT 4 | The UHNW Segment Will Be the Fastest-Growing in Both Wealth and Number of Households Through 2019



Source: BCG Global Wealth Market-Sizing Database, 2015.

Note: Ultra-high-net-worth households have more than \$100 million in private wealth; upper HNW households have \$20 million to \$100 million in private wealth; lower HNW households have \$1 million to \$20 million in private wealth. Wealth per household is calculated on the basis of average household wealth across detailed subsegments. For further details, please refer to the Methodology section of this report.

The highest density of UHNW households was found in Hong Kong (15.3 per 100,000 households), followed by Singapore (14.3), Austria (12.0), Switzerland (9.0), and Qatar (8.6).

In the old world, the UHNW segment (and especially billionaires) is expected to witness the highest growth in number of households by 2019—an estimated 13 percent annually in Western Europe and 12 percent in North America (nearly twice as fast as the upper HNW segment in those regions). The picture remains similar in most parts of the new

world, with the exception of Eastern Europe, where the upper HNW segment is expected to grow at a strong pace in terms of number of households (14 percent annually) relative to the UHNW segment (18 percent annually). The projected growth of these segments presents a significant opportunity for wealth managers around the world.

The Asset Allocation Perspective

Globally, the largest chunk of private wealth (45 percent) remained invested in cash and deposits in 2014. Wealth invested in equities

shows a rising trend—from 30 percent in 2009 to an estimated 38 percent in 2019—driven both by solid equity returns and by increasing asset allocations in equities.

Asset allocation varies markedly by segment. While the UHNW and lower HNW segments held more than a third of their private wealth in equities in 2014 (43 percent and 36 percent, respectively), the upper HNW segment held just 24 percent, with a higher proportion of cash and deposits (60 percent versus an average of 42 percent for the two other segments). The upper HNW segment may therefore represent an opportunity for more intensive wealth-management activities.

Political and economic tensions continue to drive the demand for offshore domiciles that offer stability.

From a regional viewpoint, the share of private wealth held in equities was highest in North America (49 percent in 2014), followed by Japan (34 percent), Western Europe (33 percent), Asia-Pacific (28 percent, excluding Japan), and MEA (26 percent). Eastern Europe (19 percent) and Latin America (13 percent) had lower equity allocations.

The share of private wealth held in bonds was highest in Latin America (35 percent), followed by Western Europe (27 percent), MEA (24 percent), North America (19 percent), Eastern Europe (16 percent), Asia-Pacific (12 percent, excluding Japan), and Japan (7 percent).

Looking ahead, our projections suggest that past overall trends in asset allocation will continue, allowing for an increasing share in the amount of wealth invested in equities through 2019.

The Offshore Perspective

Globally, private wealth booked in offshore centers grew by 7 percent in 2014 (compared with 8 percent for onshore wealth) to reach

\$11 trillion. The overall \$0.7 trillion rise was driven mainly by asset flows originating in Asia-Pacific (\$0.3 trillion, excluding Japan), Eastern Europe (\$0.2 trillion), and MEA (\$0.2 trillion). The 2014 growth rate for offshore wealth was in line with the 7 percent rise posted in 2013, but with increased amounts of offshore wealth flowing back onshore, particularly in the old world. However, the global share of wealth held offshore remained fairly stable in 2014 (at 7 percent of total global wealth).

Looking ahead, offshore wealth is projected to grow at a CAGR of 5 percent through 2019 to reach an estimated \$14 trillion, compared with a projected CAGR for onshore wealth of 6 percent.

From an old world versus new world standpoint, significant differences were observed in the share of regional wealth held offshore. In the new world, the largest shares of offshore wealth were in Latin America and MEA (both 28 percent) and Eastern Europe (17 percent). Asia-Pacific (excluding Japan) has a high onshore bias, with just 8 percent of regional wealth held offshore. In the old world, shares of wealth held offshore were also generally low, such as in Western Europe (7 percent), North America (2 percent), and Japan (1 percent). Japan has long had a local and conservative bias, with limited assets flowing offshore owing to both a preference for local banks and a high percentage of cash as an asset class. Overall, old-world wealth held offshore is expected to grow by 1 percent annually through 2019, with the new world projected to have a 7 percent annual increase.

The Flow of Wealth Offshore. Current political and economic tensions, such as those in the Middle East and Latin America, continue to drive the demand for offshore domiciles that offer high levels of stability. In some countries, a shortage of developed and professional wealth-management skills also encourages the flow of wealth to destinations abroad.

In 2014, the Caribbean and Panama remained the preferred destinations for wealth originating in North America, with 54 percent of offshore wealth placed there. The U.K. (15

percent) and the Channel Islands and Dublin (15 percent) were also common destinations.

Proximity remained a key driver for offshore wealth originating in Western Europe, with most offshore assets booked in Switzerland (35 percent on average), the Channel Islands and Dublin (21 percent), Luxembourg (14 percent), and the U.K. (5 percent). A similar dynamic was observed in Eastern Europe, with offshore wealth booked in Switzerland (34 percent), the U.K. (17 percent), the Channel Islands and Dublin (16 percent), and Luxembourg (11 percent). The Caribbean and Panama were also common destinations (6 percent combined).

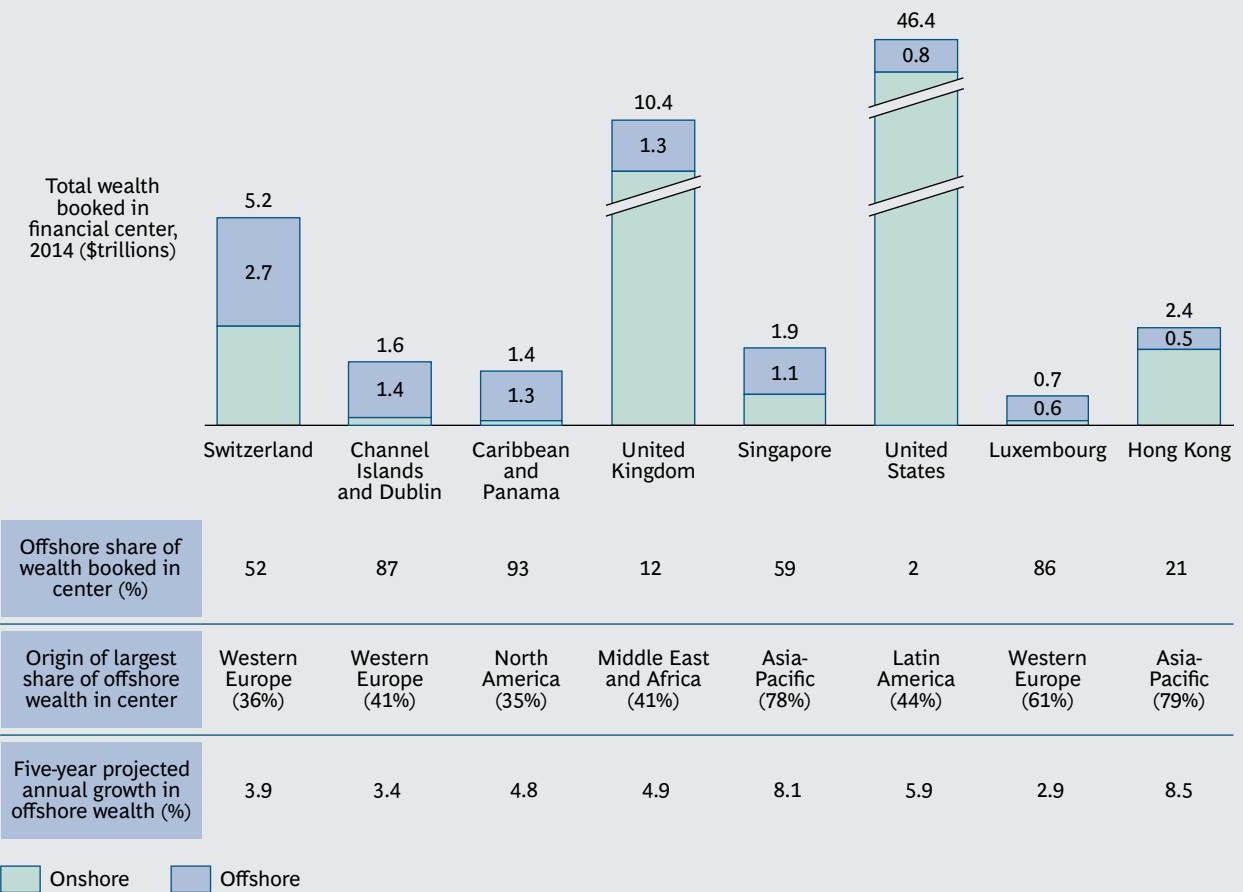
As for offshore wealth originating in Asia-Pacific (excluding Japan), Singapore (32 percent) and Hong Kong (16 percent) remained

the top destinations. Wealth originating in Asia-Pacific (excluding Japan) was also booked farther away, such as in the U.K. and Switzerland (both 11 percent).

Latin American wealth booked offshore tended to go to the U.S. (29 percent) and the Caribbean (29 percent) owing to cultural and historical ties, as well as to Switzerland (27 percent). For MEA wealth booked offshore, Switzerland (31 percent) was the destination of choice, followed by the U.K. (22 percent) and Dubai (19 percent).

Outlook for Offshore Booking Centers. Switzerland remained the leading offshore booking center in 2014, with \$2.7 trillion in wealth from abroad, or 25 percent of total offshore bookings globally. (See Exhibit 5.) The country remains under intense pressure,

EXHIBIT 5 | Switzerland Remained the Largest Offshore Center but Hong Kong Is Poised for the Strongest Growth



Source: BCG Global Wealth Market-Sizing Database, 2015.

Note: Offshore wealth is defined as private financial wealth booked in a country where the household is not resident. For further details, please refer to the Methodology section of the report.

however, from both European and U.S. tax authorities seeking to crack down on tax evasion.

Looking ahead, Switzerland will need to reinvent itself to resist the threat from fast-developing Asia-Pacific booking centers as preferred locations for offshore wealth. Currently, offshore hubs in Hong Kong and Singapore represent the most significant challenge to Switzerland's position. These two locations, accounting for 15 percent of global offshore assets in 2014, are expected to gain in prominence, with projected annual growth of 8 or more percent in offshore bookings over the next five years. They are projected to hold 17 percent of global offshore assets in 2019, owing mainly to the creation of new wealth in the Asia-Pacific region. They are also expected to be the fastest-growing offshore centers, followed by Dubai (at 6 percent annual growth, albeit from a smaller base).

The U.K., owing to its accessibility and reputation for security, continued to thrive as a preferred booking center in 2014, with \$1.3 trillion (12 percent) of total offshore money. The Caribbean and Panama, also with \$1.3 trillion (12 percent), remained an important booking center as well, especially for North American and Latin American clients. The U.S. will continue to grow at a steady 6 percent—owing mainly to the creation of new wealth in Latin America—and is expected to hold 8 percent of global offshore assets in 2019.

Luxembourg is expected to grow slightly below the average rate, at 3 percent, with its share of offshore assets expected to decrease from 6 percent in 2014 to 5 percent in 2019. The Channel Islands and Dublin, known historically for expertise on trusts, are also expected to decline in prominence, with their share of total global offshore assets (13 percent in 2014) projected to fall to 12 percent in 2019. A key factor is the decline in the global trust business, driven by increasing tax pressure in old world countries.

NOTES

1. Private financial wealth includes cash and deposits, money market funds, listed securities held directly or indirectly through managed investments, and other onshore and offshore assets. It excludes investors' own businesses, residences, and luxury goods. Global wealth reflects total financial assets across all households. Other than for Argentina, wealth figures and percentage changes are based on local totals that were converted to U.S. dollars using year-average 2014 exchange rates for all years in order to exclude the effect of fluctuating exchange rates. For more information, see the Methodology section.

2. Canada and the United States.

3. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

4. Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Hungary, Kazakhstan, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkmenistan, Ukraine, and Uzbekistan.

5. Australia, Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.

6. Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, and Uruguay. This year's report excludes Venezuela because of the uncertainty regarding potentially high future inflation in that country and the biased impact on projections for private wealth in Latin America.

7. Algeria, Angola, Bahrain, Egypt, Ethiopia, Iran, Iraq, Israel, Jordan, Kenya, Kuwait, Lebanon, Libya, Morocco, Nigeria, Oman, Qatar, Saudi Arabia, South Africa, Sudan, Syria, Tanzania, Tunisia, Turkey, United Arab Emirates, and Yemen.

WEALTH MANAGER BENCHMARKING

FIVE KEYS TO CONSISTENT SUCCESS

FOR NEARLY 15 YEARS, BCG has been conducting a proprietary benchmarking of wealth management organizations from all over the world, running the spectrum from small boutiques to wealth management units of large banking groups—and covering multiple business models, ranging from onshore to offshore and from banking to brokerage.

Our study involves more than 1,000 data points concerning growth, financial performance, operating models, sales excellence, employee efficiency, client segments, products, and trends along a number of dimensions, including locations, markets, client domiciles, and different peer groups.

With such a wealth of data available, this year's report focuses on what the most successful players in today's wealth-management industry are doing right. In seeking to explore why certain players outperform others, we have identified the continuously strongest organizations among our benchmarking participants over the past three years, drawing on information for the years 2012 through 2014 gathered from more than 200 banks in Western Europe, Eastern Europe, Asia-Pacific, North America, Latin America, and the Middle East.

While strong asset performance over the past three years has fueled growth for most players, our top performers clearly stand out in gener-

ating high revenues per relationship manager, acquiring new assets, and achieving best-in-class revenue and cost margins—and doing all of this with a lean organization. (See Exhibit 6.)

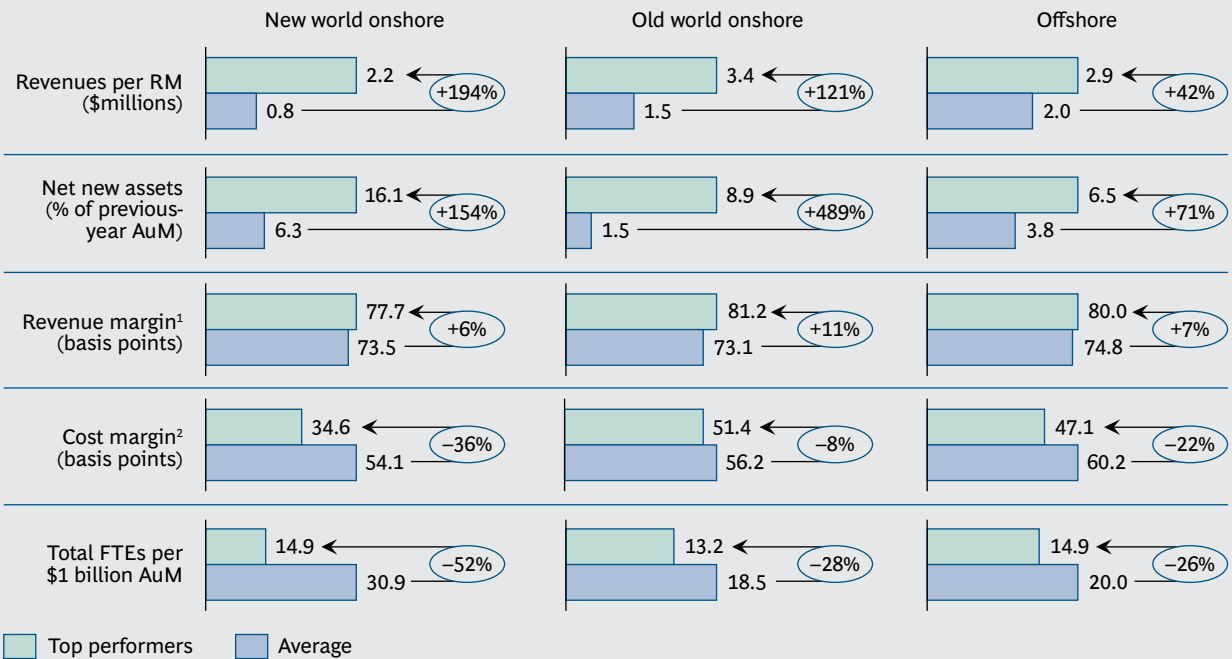
What drives these significant differences in performance? On the basis of our extensive experience working with wealth managers globally, we have identified five key attributes that these winning organizations possess, as described below.

Segment-Specific Value Propositions and Coverage Models. The one-size-fits-all approach is no longer viable in today's wealth-management arena. This is the case not only from an operating and cost perspective, but also from a client perspective. Customers will no longer accept paying too much for services that they do not need or understand, or for insufficient guidance and advice.

Out of all survey participants that shared their internal segmentation criteria with us, a mere 5 percent said that they do not segment clients at all in their service models. Most institutions segment the client base into affluent, high-net-worth (HNW), and ultra-high-net-worth (UHNW) categories. These wealth bands tend to vary from player to player.

Some top performers go a step further by tailoring their segmented offerings. A truly

EXHIBIT 6 | Top Performers Are Consistently Superior in Multiple Categories



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2013–2015.

Note: Sample consists of 216 benchmarked institutions from 2013 to 2015. Average performance of institutions across three years used where available. New world onshore includes Asia-Pacific, Eastern European, Latin American, and Middle Eastern onshore institutions; old world onshore includes North American and Western European onshore institutions; offshore includes Asia-Pacific, North American, Latin American, and Western European offshore institutions. AuM is assets under management.

¹Revenues divided by total yearly average client assets and liabilities.

²Costs divided by total yearly average client assets and liabilities.

tailored offering is built in a modular way, and is less about the number of products or services than about adapting the offering to the client segment’s specific needs. Successful wealth managers systematically prune their product trees to avoid excess proliferation and complexity. Market specifics are considered, as well as the cost to serve the client.

Another key is a dedicated coverage model for each segment, one that clearly defines who interacts with the client for which needs at which times. Relationship manager (RM) client loadings, contact frequency, specialist involvement, and performance targets will differ depending on the type of client served. Digital channels play an increasingly important role in a well-designed coverage model, making interactions with the client both more efficient for the bank and more value-adding for the clients.

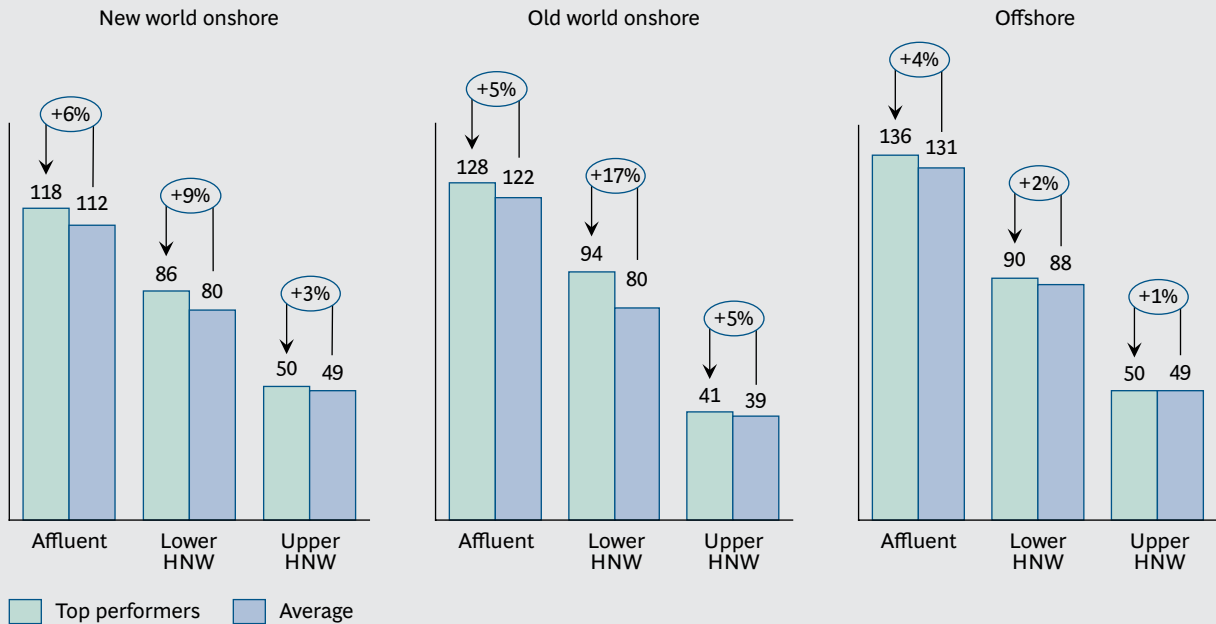
The affluent segment, which is often caught somewhere between the retail and HNW segments, particularly benefits from a well-

defined—and, from a bank’s perspective, efficient and more standardized—value proposition. Banks do not want to over-serve smaller clients at the expense of their target clients. At the other end of the spectrum, UHNW clients are increasingly demanding and globalized. Wealth managers unable to meet their evolving needs will find themselves left behind in a segment that is growing faster than all others.

Rigorous Price Realization in Target Client Segments. As we have seen, the most successful wealth managers have clearly defined their target client segments. They are usually able to enforce price realization effectively. Indeed, clients are less inclined to ask for discounts when the value proposition of the bank’s services is evident. Overall, the potential revenue increase for players that improve their pricing dynamics is substantial. Although revenue margins vary by client segment and type of player, top onshore performers in the old world are particularly strong in achieving above-average margins. (See Exhibit 7.)

EXHIBIT 7 | Revenue Margins Vary by Client Segment and Type of Player

Revenue margin by client segment (basis points)



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2013–2015.

Note: Sample consists of 216 benchmarked institutions from 2013 to 2015. Average performance of institutions across three years used where available. New world onshore includes Asia-Pacific, Eastern European, Latin American, and Middle Eastern onshore institutions; old world onshore includes North American and Western European onshore institutions; offshore includes Asia-Pacific, North American, Latin American, and Western European offshore institutions. Revenue margin equals revenues divided by total average client assets and liabilities. Affluent households have \$250,000 to \$1 million in private wealth; lower HNW households have \$1 million to \$20 million in private wealth; upper HNW households have more than \$20 million in private wealth.

A Differentiated Advisory Offering. Clients using advisory services demand a clear value proposition in our age of low-cost online brokerage services and automated advisors. Many clients hesitate to delegate all of their investment choices, having lost a degree of confidence in their wealth manager’s ability to achieve superior returns on discretionary mandates. Transparency brought about by regulation is higher than ever and makes comparison shopping by clients even easier.

In this difficult climate, many high-performing wealth managers have invested in building a truly value-adding advisory package. While the average share of assets under management from advisory services stands at 30 percent, top performers have a share of 48 percent, and are able to offer a number of attractive features such as different service levels, fully transparent pricing, and digital elements such as automatic alerts.

The point of differentiation is not necessarily the advisory process itself but the experience

that the wealth manager offers—making the role of the RM critical in bringing the value of the bank to the client. A well-structured advisory offering will increase and systematize the frequency of interactions with the client, generating an experience of proactive and timely service.

Ultimately, successful advisory offerings will lead to diversified client portfolios with asset allocations that are aligned with investment objectives and risk appetites. Such portfolios will benefit from systematic trading activities, bringing the bank’s full range of capabilities to bear, and feature frequent reviews of progress against investment objectives. Wealth managers can also benefit from linking pricing to advice, rather than to trading activity, thus ensuring more stable, recurring income flows.

While wealth managers in all regions have begun to ramp up their advisory offerings, the trend has been most prominent in Western European offshore banks—and, interest-

ingly, in full-service brokerages in North America.

A Focus on Front-Office Excellence. High-performing organizations can achieve more than double the revenues of average performers, as measured by revenue per RM. A similar dynamic applies to the net new assets that each RM can acquire. Yet despite such clear potential benefits, many players struggle with optimizing front-office operating excellence.

Over time, we have seen top wealth-management organizations significantly improve their front-office performance by taking steps such as the following:

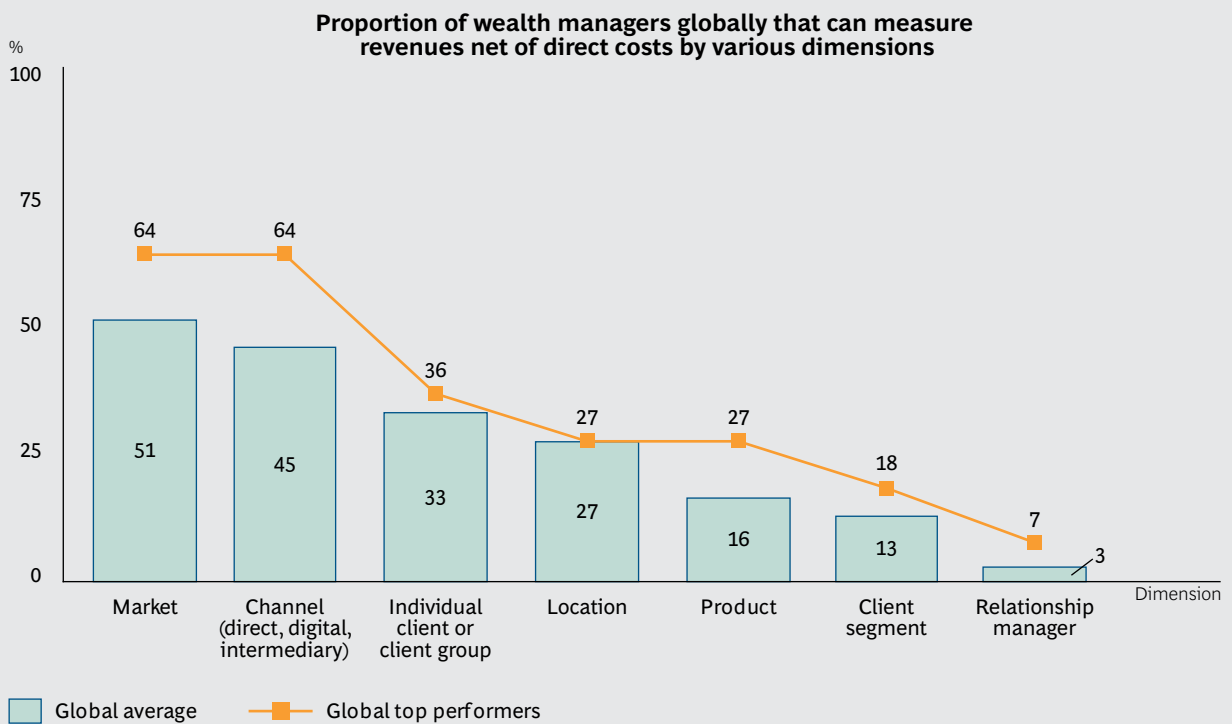
- Making leaders accountable for team (not just individual) performance
- Fostering cross-functional approaches to clients across retail, corporate, and private-banking divisions
- Developing a client-centric (as opposed to product-centric) sales culture

- Complementing the sales-management system with activity-based measures

Still, true front-office excellence is less about processes and setups than about changing the way the front office works on a day-to-day basis. The desired result is RMs who spend time with the right clients, proactively approach clients with appropriate investment ideas, minimize price discounting, and generate referrals in order to reach new prospects.

The Ability to Measure and Manage Profitability. Among our 2015 benchmarking participants, very few steer their businesses on the basis of profitability. Revenue-based measures are much more common. For example, 89 percent of all participants were able to measure revenues per RM, but only 3 percent (7 percent for top-performing players) monitored RM profit contribution after direct costs. (See Exhibit 8.) At the product level, only 16 percent had a view of product profitability net of direct costs (27 percent for top performers). Similarly, only 13 percent of participants (18 percent of top performers) measured client segment profitability after direct costs.

EXHIBIT 8 | Few Wealth Managers Are Able to Fully Steer Their Businesses by Profitability



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2015.
 Note: Sample consists of institutions benchmarked in 2015.

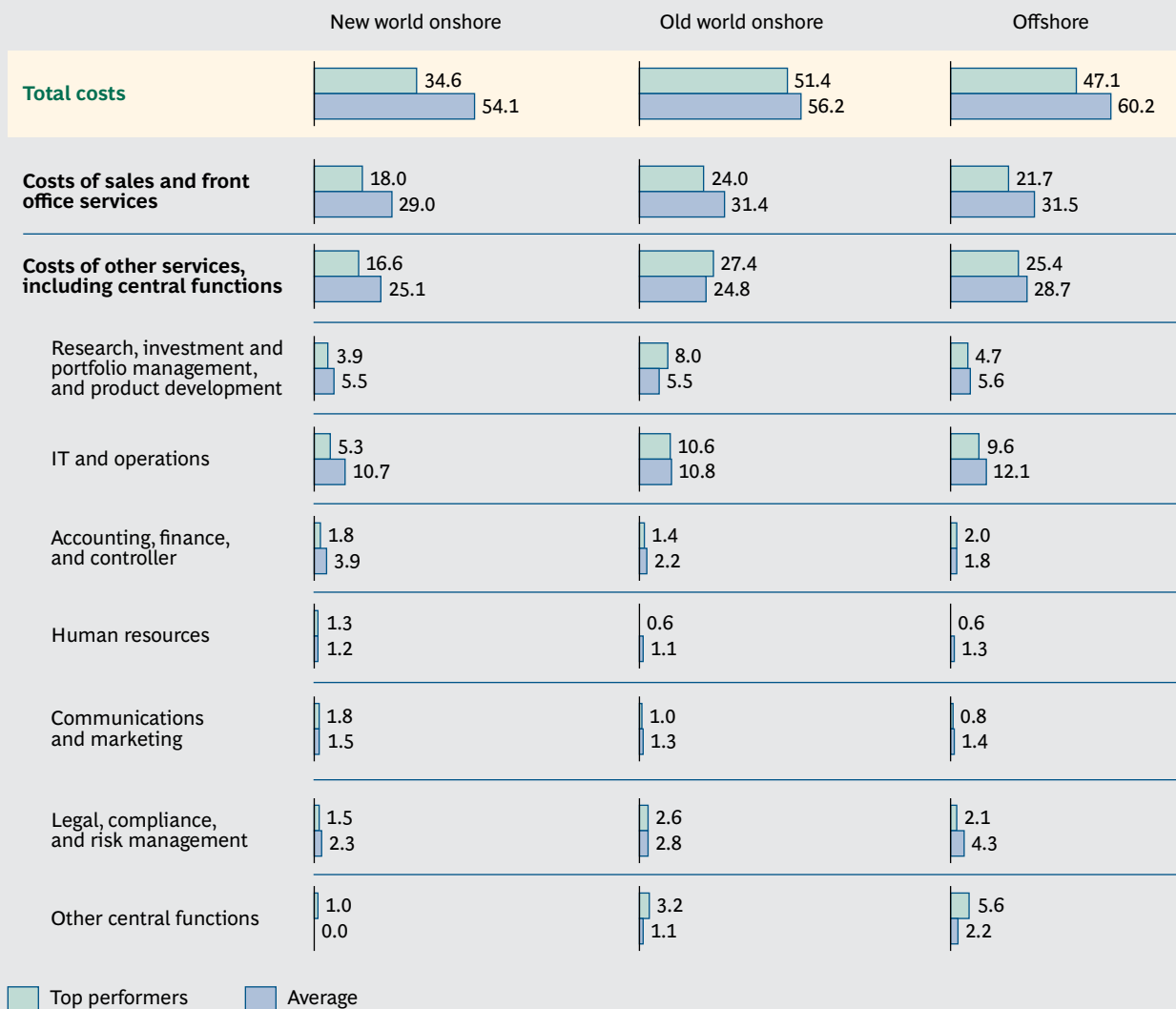
Top performers aim for full transparency on cost to serve, enabling them to clearly prioritize activities and investments on the basis of profitability. They also know that profitability must be measured along multiple dimensions, such as by market, client, product, and RM (as well as by alternative distribution channel, such as the independent financial advisor), in order to accurately gauge the financial health of their business. More comprehensive measurement will reveal cost drivers such as organizational and product complexity, which sometimes go largely un-

noticed. Obviously, accurate cost-allocation mechanisms are key to managing for profitability. As a result, top performers in all business models have achieved lower costs relative to assets and liabilities. (See Exhibit 9.)

In general, top players in both onshore and offshore wealth-management models can grow profitably despite the numerous challenges they face. (See the sidebar “Is Offshore Wealth Management Still an Attractive Business?”)

EXHIBIT 9 | Top Players Achieve Lower Costs

Costs relative to average client assets and liabilities (basis points)



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2013–2015.

Note: Sample consists of 216 benchmarked institutions from 2013 to 2015. Average performance of institutions across three years used where available. New world onshore includes Asia-Pacific, Eastern European, Latin American, and Middle Eastern onshore institutions; old world onshore includes North American and Western European onshore institutions; offshore includes Asia-Pacific, North American, Latin American, and Western European offshore institutions.

IS OFFSHORE WEALTH MANAGEMENT STILL AN ATTRACTIVE BUSINESS?

While revenue margins in the offshore wealth-management industry have dropped by an average of 10 to 15 basis points since their peak prior to the 2007–2008 financial crisis, we still see an “offshore revenue-margin premium” compared with onshore players in some offshore centers, notably in Switzerland. (See the exhibit below, “Top Offshore Players Still Achieve Healthy Revenue and Profit Margins.”)

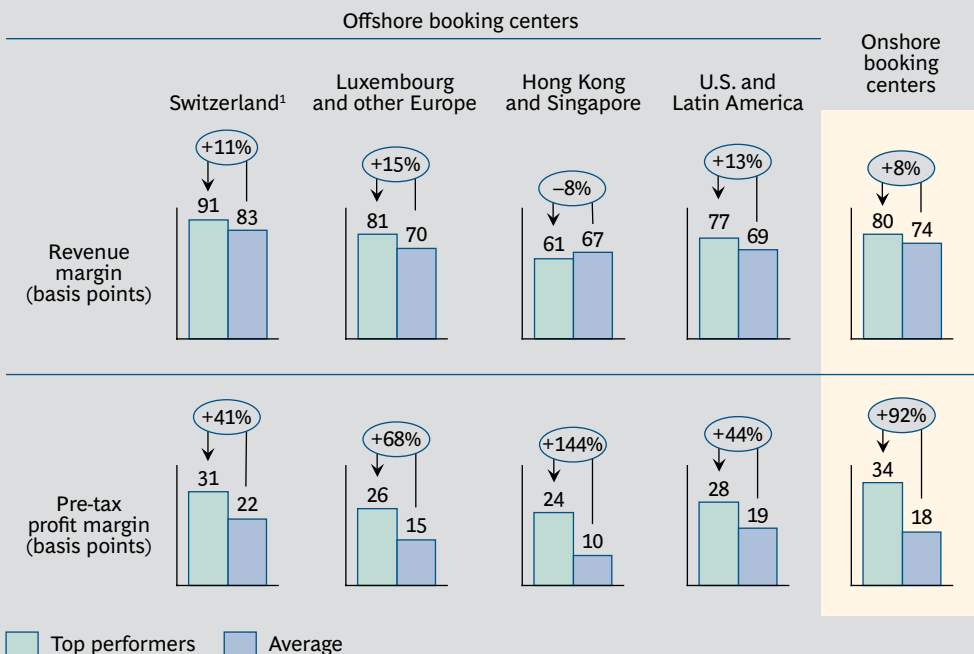
Obviously, the days when high revenue margins were achievable regardless of a client’s domicile are a thing of the past. Offshore players must now deal with return on asset (ROA) results that can vary widely by market, reflecting local and regional investment preferences and behavior. But clients are still willing to pay a premium for benefits such as political and financial stability, regional diversification, high-

quality service, discretion, and broad expertise across products and asset classes.

When it comes to costs, offshore players have been hardest hit by tougher regulatory requirements, particularly in the know-your-customer category. Faced by the requirement for automatic exchange of information on client accounts across borders, they have had to regularize their client books and are subject to large fines for any negligence. Litigation in this area is likely to continue, and we expect the regulatory playing field to converge to rigorous standards in most parts of the world.

In addition to investments in legal and compliance staff, significant technology expenses have been required to ensure compliance in all markets served by

Top Offshore Players Still Achieve Healthy Revenue and Profit Margins



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2013–2015.

Note: Sample consists of 216 benchmarked institutions from 2013 to 2015. Average performance of institutions across three years used where available. Margins are calculated relative to total average client assets and liabilities. Profits are revenues net of direct costs.

¹Includes Liechtenstein banks.

offshore wealth managers—making offshore banking a cost-heavy structure. It is therefore no surprise that average pre-tax profit margins in offshore booking centers are converging with those in onshore booking centers for many players.

Top offshore performers have focused on profits, not volume, and are transforming their businesses to make them more viable for the future.

Nonetheless, the most successful offshore players are achieving bottom-line margins of up to 31 basis points, close to those of top onshore performers, demonstrating that both models can be operated in a profitable manner. What are top offshore performers doing differently? Most important, they have focused on profits, not volume, and are transforming their businesses to make them viable for the future. Among the steps they have taken are the following:

- Reduced their regional footprint to only those markets with the most attractive economics or growth potential, and stopped actively serving non-priority markets

- Sold or closed down subscale operations and booking centers, or acquired other players to reach scale
- Invested in differentiating segment- and market-specific value propositions, including those related to digital technology (to keep up with new competitors and higher client expectations)
- Reduced product ranges and adapted pricing models to attract only their target clients
- Managed sales forces on a market-by-market basis, adapting sales and coverage targets according to each market's potential and specific characteristics
- Trained front-office staff carefully to ensure compliance with cross-border regulations

Ultimately, despite highly challenging developments in many areas of offshore wealth management, there is still potential for profits and future growth for those players that stay ahead of the curve.

INVESTING FOR EXCELLENCE

IN THESE DAUNTING TIMES, it is critical for wealth managers to determine where they should be investing for growth. For example, should they concentrate on improving existing businesses or on exploring new frontiers? In either area, which should be the priority categories for investment? Should the focus be on the short term (the next 12 months) or on the longer term (the next two to five years)?

Most wealth managers are placing equal emphasis on both short-term and longer-term time horizons.

Across all regions, our client work and research have revealed some interesting patterns. For example, onshore businesses in North America and Eastern Europe and offshore players in Switzerland plan the highest allocation of resources (71 percent, 63 percent, and 62 percent of their respective investment budgets) to optimizing existing businesses as opposed to expanding into new frontiers. All other regions are allocating slightly more than half of their resources to optimizing existing business.

As for exactly where to invest resources to enhance existing businesses, the three highest

priorities are improving sales force effectiveness (17 percent of total investment resources), enhancing digital interfaces (14 percent), and increasing collaboration with other business units (10 percent). (See Exhibit 10.) By contrast, the highest priorities for expanding into new frontiers are developing a digital advisor channel (10 percent of total investment resources), acquiring competitors and assets (9 percent), and developing asset management and capital markets capabilities (8 percent).

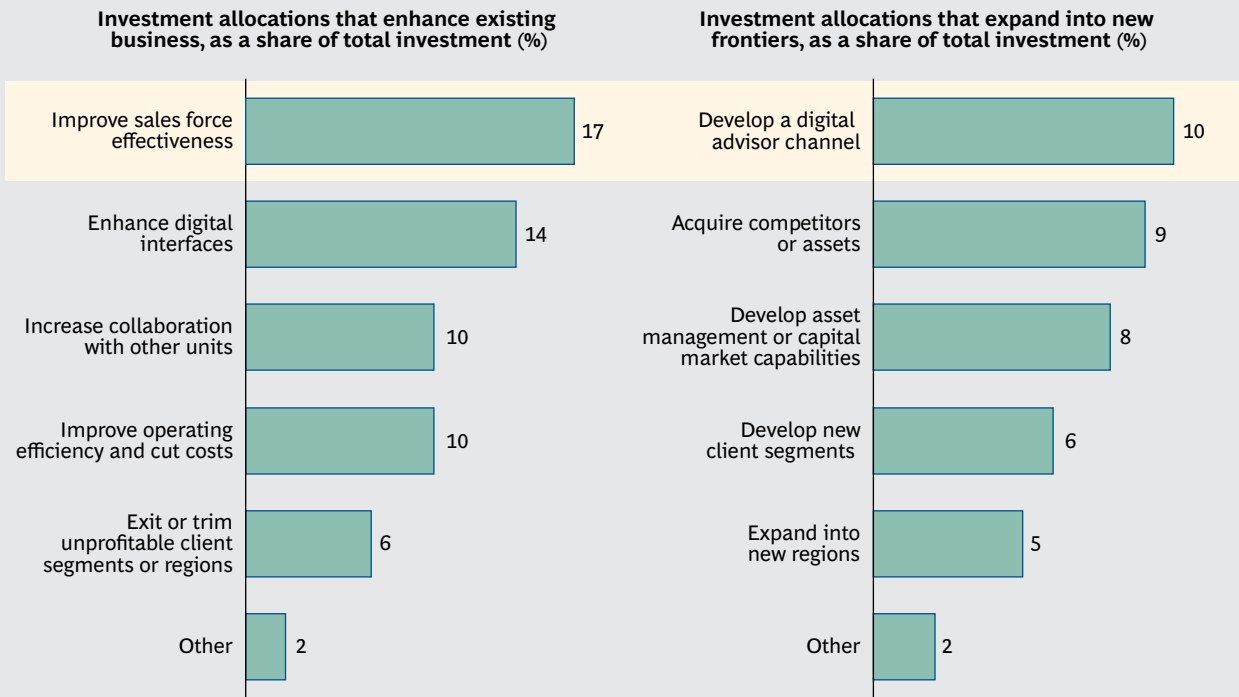
In addition, most wealth managers across all regions are placing equal emphasis on short-term (12 months) and longer-term (two to five years) time horizons.

Of course, each region has its own character, and growth initiatives will be influenced by many factors. Below, we present a more nuanced outlook for individual regions.

North America

For wealth managers in North America, 2014 was a strong year despite some headwinds. The low-interest-rate environment put pressure on banking-product earnings, for example, and ongoing regulatory pressures continued to raise the cost of doing business. (See the sidebar “Global Regulatory Pressures Show No Signs of Abating.”) Still, robust equity markets provided ample support.

EXHIBIT 10 | Improving Sales Force Effectiveness and Developing Digital Capabilities Are Top Investment Priorities



Source: BCG Wealth Manager Performance Benchmarking Database, 2015.
 Note: Calculations are based on simple average values across all regions.

GLOBAL REGULATORY PRESSURES SHOW NO SIGNS OF ABATING

Wealth managers face an increasingly complex regulatory landscape, with more than 100 updates issued daily around the world. The precise details and scope of some measures are not always evident, creating a major challenge for wealth managers. Indeed, as political and economic instruments, some regulations create more confusion than clarity, and place a significant burden on wealth managers from a cost perspective.

Making things even more difficult, litigation concerning regulatory measures has increased significantly, with some sanctions threatening the sustainability of banks and business models. Since the global financial crisis, litigation costs in the U.S. and Europe alone have amounted to \$178 billion, with U.S. banks footing roughly two-thirds of the bill and European banks paying the rest. (See the exhibit

“Litigation Costs Have Increased Significantly and Become a Part of Doing Business.”) Most of these costs have been in response to steps taken by U.S. regulators.

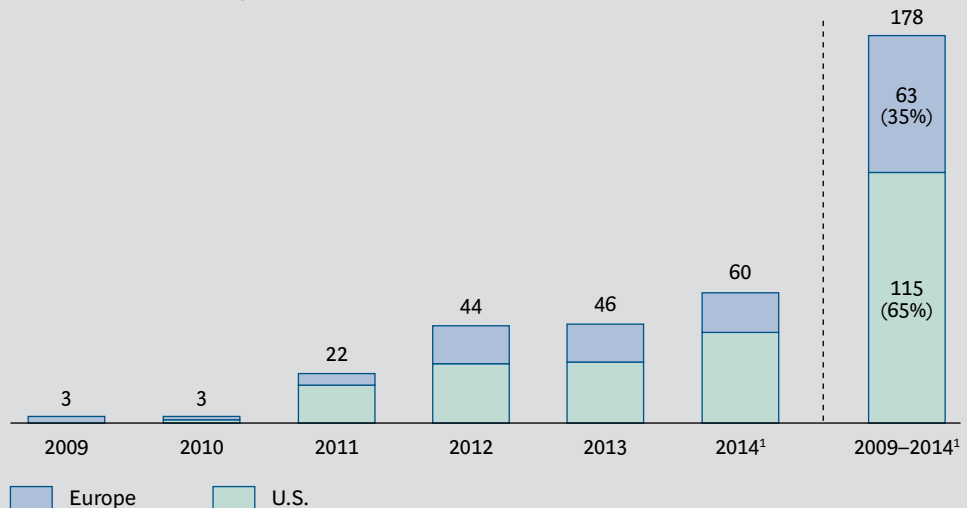
Overall, there is no denying that regulatory, compliance, and operating risks have come to dominate the day-to-day business of many international wealth managers. And although classic balance-sheet risks such as credit risk and liquidity risk are typically minor, they still need to be monitored. Wealth managers are being forced to adapt to the same level of oversight as universal and retail banks.

On the positive side, a key result of such developments is that regulatory, compliance, and operating risk management have become core competencies that enable wealth managers to differentiate themselves. It is therefore critical that they fully

GLOBAL REGULATORY PRESSURES SHOW NO SIGNS OF ABATING (continued)

Litigation Costs Have Increased Significantly and Are Becoming a Part of Doing Business

Litigation costs since the financial crisis (\$billions)



Source: BCG analysis.

Note: Based on 6 large U.S. banks and 12 large European banks; includes only fines and settlements surpassing \$50 million.

¹Through September 2014.

grasp the evolving regulatory landscape and be able to anticipate changes—both for each business line and for each country in which they do business. (See the exhibit “Wealth Managers Must Fully Grasp a Complex and Ever-Evolving Landscape.”)

For example, new regulations on client suitability and market transparency are constantly adding more requirements to the advisory and selling process. And in cross-border wealth management, the number of countries served is a key driver for the complexity of the business model. The size of the bank determines how much complexity can reasonably be handled.

Leading wealth managers are responding to the situation in three principal ways. First, they are establishing regulatory and compliance management as a cross-functional organizational unit that leverages synergies and coordinates lobbying. This unit’s activities include the following:

- Gathering regulatory intelligence
- Calculating the regulatory impact on the business and appropriate responses (both financial impact and strategic options)
- Raising understanding and awareness among stakeholders, clients, and the general public

Second, wealth managers are improving front-to-back operating and compliance risk management. This initiative involves the following:

- Installing a strong risk and compliance culture
- Adopting a front-to-back model with three lines of defense: the front office (sales department), risk controlling, and audit. Compliance and operating-risk management start with the front office.

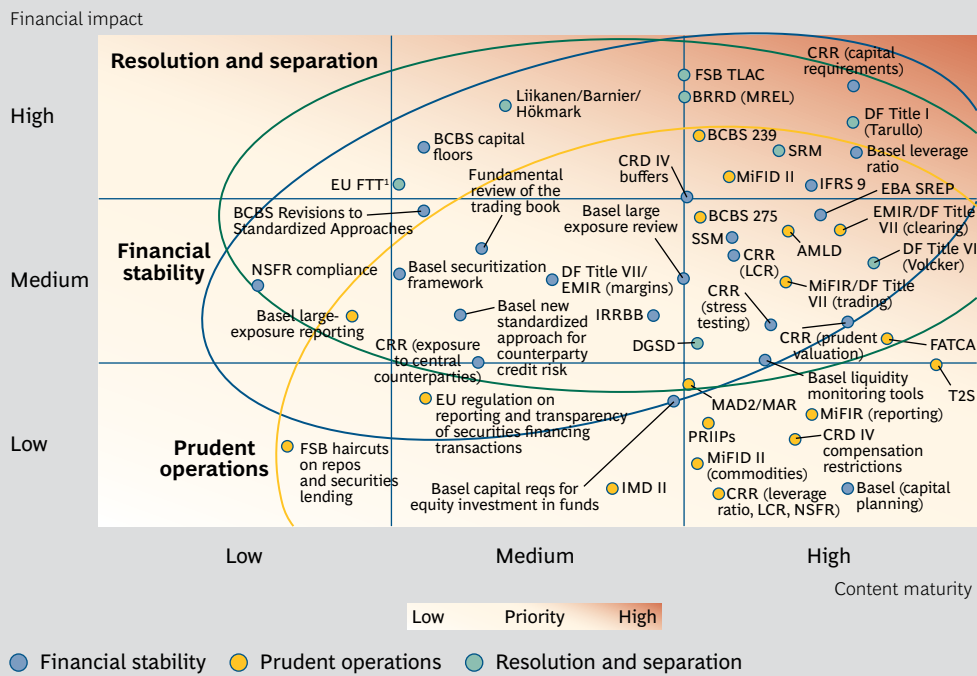
- Developing an easy-to-use tool kit for managing risk that is integrated into daily processes for all levels of personnel and activity—not just in the risk department

And third, wealth managers are actively reviewing their business portfolios, both by market and by segment, focusing only on

those areas with critical mass while deemphasizing and exiting others.

Implementing these steps represents a large cultural challenge for many wealth managers. A full commitment from senior management as well as a dedicated transformation-management team is required for success.

Wealth Managers Must Fully Grasp a Complex and Ever-Evolving Regulatory Landscape



Source: BCG analysis.

Notes: Not all regulations are shown. AMLD = Anti-Money-Laundering Directive; BCBS = Basel Committee on Banking Supervision; BRRD = Bank Recovery and Resolution Directive; CRD/CRR = Capital Requirements Directive/Regulation; DF = Dodd Frank; DGSD = Deposit Guarantee Schemes Directive; EBA = European Banking Authority; EBU = European banking union; EMIR = European Market Infrastructure Regulation; ESMA = European Securities and Markets Authority; FATCA = Foreign Account Tax Compliance Act; FINREP/COREP = Financial Reporting/Common Reporting Framework; FSB = Financial Stability Board; FTT = financial transaction tax; HFHG = Hochfrequenzhandelsgesetz (High-Frequency Trading Act); IFRS = International Financial Reporting Standards; IMD = Insurance Mediation Directive; IOSCO = International Organization of Securities Commissions; IRRBB = interest rate risk in the banking book; LCR = liquidity coverage ratio; LEI = Legal Entity Identifier; MAD/MAR = Market Abuse Directive/Regulation; MaRisk = Minimum Requirements for Risk Management; MaSan = Minimum Requirements for Recovery Plans; MiFID/MiFIR = Markets in Financial Instruments Directive/Regulation; MMF = money market funds; MREL = minimum requirement for own funds and eligible liabilities; NSFR = net stable funding ratio; PRIIP = packaged retail investment and insurance products; RRP = recovery and resolution planning; SREP = supervisory review and evaluation process; SRM = Single Resolution Mechanism; SSM = Single Supervisory Mechanism; T2S = Target2-Securities; TLAC = total loss-absorbing capacity; UCITS = Undertakings for Collective Investment in Transferable Securities.

¹Separation and resolution changes owing to adjustments of booking model/legal entity setup.

Looking ahead, overall growth and share-of-wallet gains will be targeted both by brokerage and private-banking models, with a particular emphasis on driving organic growth. Indeed, wealth managers of all types are looking for close-to-home opportunities, starting with their existing customer relationships. Brokerages, for example, are seeking to consolidate the investment wallet but also to leverage other areas of the business in order to make inroads into the lending wallet—largely through mortgages and banking products. They are adapting both compensation structures and training programs accordingly, as well as adding specialists to support financial advisors in selling and delivering these products. They are also attempting to create compelling new offerings and enhance service levels in the hope of raising competitiveness and attracting new customers. Private banks, for their part, are continuing to look for ways to drive increased penetration of investment services by bolstering their overall offerings. Increasing capabilities in alternative investments seems to be currently in vogue.

New teaming structures are aimed at harvesting clients in the long tail of the RM book.

There is also a wide-ranging focus on optimizing resource deployment in order to liberate capacity that can be put toward growth initiatives. Ongoing cost increases and more onerous client-service requirements are prompting players to reevaluate service models and overall economics for low-wealth-band clients and those with limited growth potential. Brokerages, for example, are placing renewed focus on clients with minimum investable assets of more than \$250,000. Private banks are reevaluating service models for clients with between \$1 million and \$5 million in assets, attempting to optimize team structures to match the exact nature and size of the client opportunity. They are taking a hard look at the current assets and future needs of their clients in order to tailor the service model.

Of course, virtually all wealth managers are actively pursuing the next generation of clients, both through new teaming structures and through extending their current business models to tap into younger individuals who may represent the affluent and HNW clients of the future. These new structures are aimed at harvesting clients in the long tail of the RM book and establishing relationships with family members who have (or are likely to have) sizable future assets. One goal is to be able to provide a smooth transition as RMs move on or retire.

For players whose business is primarily in retail banking, leveraging new business models is about profitably addressing the needs of clients and incubating them as their wealth grows. Many such players are evaluating how new technologies can be leveraged to gain competitive advantage.

To a degree, we are witnessing the convergence of brokerage-oriented and private-banking-oriented models. All are pushing toward a more holistic, planning-led advisory approach that includes lending and banking products as well as investment solutions. It remains to be seen whether the regulatory environment will fully converge as well.

The industry is also seeing a continued push toward more-centralized portfolio management, a move driven not only by the search for cost efficiency but also by the commitment to quality. It is paramount to maintain consistency in both investment advice and portfolio performance in an increasingly complex and macro-driven investment environment in which specialized sub-asset classes are more prevalent. Recently, the largest source of alpha generation has been strategic (and tactical) asset allocation, and it is difficult for individual advisors to have enough depth of knowledge (or time) to make macro calls or to navigate allocation across multiple asset classes.

There have been two important consequences of this trend. The first is that standardized, packaged solutions are becoming increasingly prevalent at the lower end of HNW levels, and second, exchange-traded funds (ETFs) have proliferated as not only a passive invest-

ment approach but also an efficient way to gain sector exposure. Taken as a whole, such developments are profoundly changing the role of the individual investment advisor.

In addition, limitations on proprietary products and the inability to co-invest alongside the bank because of the Volcker rule is forcing a redefinition of the wealth-manager value proposition in the UHNW space. This development is feeding into the tactical asset-allocation trend as well, as banks can no longer offer proprietary products that are the source of superior investment performance.

Finally, the “robo advisor” trend is catching the attention of many wealth managers. Most have had discussions with one or more robo-advisor platforms about some form of partnership, minority investment, or white-labeling agreement. We expect to see more of this type of activity in the year ahead as traditional wealth managers attempt to navigate the digital landscape.

Europe

European wealth managers—both onshore and offshore—are facing numerous challenges. Regulatory scrutiny has increased requirements for liquidity and capital reserves. Client-protection regulations have continued to become tighter in many European markets, increasing complexity and pressuring margins. Geopolitical topics such as automated information exchange are also on the agenda. Offshore centers, under heavy pressure from governments, are undergoing a transformation related to transparency and the regularization of clients.

Furthermore, we are witnessing relatively slow growth on the market side. The low-interest-rate environment and the weakness of the euro have had negative effects on profitability for some players, and cost pressures are forcing wealth managers to rethink their operating models. The emphasis has been on less complexity and on leaner, more streamlined delivery models.

Challenges aside, European wealth managers are seizing the moment to look ahead and determine their investment priorities for the

future. How can they take their offerings to the next level and gain a competitive edge over their rivals? Both onshore and offshore players are reviewing their options.

Onshore Players. For onshore players, investment priorities are a combination of both strategic and tactical measures. On the strategic side, wealth managers are seeking to gain a better understanding of clients and their needs, as well as to develop clearly differentiated value propositions and service models for specific segments and life stages. They are combining elements of traditional face-to-face service with seamlessly integrated digital elements, with a goal of true multichannel excellence.

Forging partnerships with the next generation of challengers is a priority.

As in other areas of the financial services industry, forging partnerships with the next generation of challengers such as financial technology companies and niche boutiques is a priority, as is exploring alternative business models such as crowd investing and crowd financing. Many wealth managers are rethinking their overall investment philosophies. There is also the matter of keeping human resources robust by attracting and developing the next generation of RMs—people whose profiles may be vastly different from those of their predecessors.

On the tactical side, European wealth managers are investing in improving proactive client servicing, which requires effective management of client service organizations. They are seeking to take analytical capabilities to the next level to enable more tailored advice, as well as to develop more effective client targeting, cross-selling, and up-selling. Improving collaboration across different lines of business is also a priority, as is continuing to transform pricing models. Of course, strong backing from senior management and sufficient funding for the transformation journey are critical.

Offshore Players. Offshore players in Europe are investing primarily in three areas. The first concerns their strategic ambition, where the focus is on increasing scale and seeking M&A opportunities. They are also actively deciding which markets to continue serving and which ones to exit (with most having realized that trying to be everything to everyone is no longer a winning proposition). Much like onshore players, they are redefining service models for different segments and rethinking which segments to serve.

Second, offshore players are investing in sharpening their value propositions and clarifying their differentiation from competitors in numerous, broad-based ways. The move toward increased digital capabilities is one initiative, and it has multiple dimensions. These include large-scale build-ups of digital private banking as a standalone channel, and enhancement of the client experience by making interactions simpler and providing 24/7 availability.

Asia-Pacific is and will remain a massive engine of new wealth creation.

Simplicity also applies to other parts of the business, and wealth managers are making efforts to tailor their investment offerings accordingly. In addition, they are introducing less complex, more transparent pricing models that show clients exactly what they are paying for.

Finally, offshore players are investing in higher levels of overall efficiency and effectiveness. Major investments have been made in raising front-office excellence and in finding the right people. These may not be new initiatives, but the past few months have witnessed a wave of investment activity.

The new focus is on the middle-management side, coaching team leaders to become truly effective front-office managers, and on building both an activity-based reporting system and a client-centric sales culture. A further

objective is to liberate time for RMs to spend on finding and serving the right clients.

Additional investment is being made in optimizing footprints and locations in terms of scale, processes, and minimum critical size for profitability. Players are seeking to streamline their number of offices, with noncore locations being sold or closed and key locations being enhanced and expanded.

Asia-Pacific

Asia-Pacific is and will remain a massive engine of new wealth creation. Market, consumer, and competitive trends are reshaping the regional wealth-management industry. Onshore markets are reaching scale, and the overall economic outlook is rebalancing, driven by a cooling-off dynamic in China. Liquidity and capital are becoming more costly, which is having an impact on banks' ability to gain funding. With regard to clients, a generational change is taking place, with increasing numbers of financially savvy younger investors. Clearer transparency on the performance of different wealth managers is offering clients the kind of information they need to evaluate providers.

From a competitive standpoint, wealth managers are becoming more sophisticated and moving toward more detailed advisory offerings. Increasingly, commercial banks are also entering the wealth-management space, leveraging their group capabilities and synergies as well as their client access and on-the-ground knowledge of local regulations. There is additional segmentation of core offerings as most wealth managers in Asia-Pacific, like those in other regions, have come to fully understand that one size no longer fits all.

It remains to be seen whether digital attackers will encroach on the wealth management space in Asia-Pacific as they have in other areas of banking and other regions. Such organizations focus on specific ecosystems—for example, industry verticals such as small and medium-size business-to-business enterprises—and on products for life-stage needs such as setting up a new business or planning for retirement. They also try to “own” the flow of information in the target ecosystem and

leverage that advantage to provide advice and financial solutions. Such solutions can include lending and investment strategies for smaller businesses or highly customized strategies for retirement savings and income management. Digital attackers are already a reality for lower wealth bands, but they have not yet fully targeted higher segments. Within this overall context, two different models are emerging (and competing): local commercial banks and global specialists. Strong growth remains an imperative for all, although each model has a different approach.

The primary focus of local commercial banks is onshore business, targeted largely at lower bands of wealth, although some players are pushing to build a greater offshore presence as well. Many tend to take a holistic approach in the hope of becoming a one-stop shop. Some players have become adept at leveraging group capabilities—such as those linked to wholesale and investment banking, as well as to asset management—in order to develop advisory models and new products. Such an approach can be self-sustaining, with corporate and investment-banking clients providing investment opportunities for wealth clients, who in turn provide a source of liquidity. On a broader scale, these players are increasingly trying to maximize referrals across different areas of the institution and investing to increase sales excellence.

Upgrading digital capabilities is another key initiative. Overall objectives include lowering the cost-to-serve for lower wealth bands by providing more do-it-yourself functionality (including robo advising), improving RM tools to foster better front-line activity and efficiency, and leveraging big data.

By contrast, global specialists are focusing mainly on offshore business and higher wealth bands, leveraging their global reach and capabilities to offer superior products and advice. Optimizing brand recognition and client referrals for customer acquisition is a priority, as is partnering with local commercial banks to target some degree of onshore business and gain additional sources of customers. These global specialists are also pushing the digitization agenda, with several objectives: improving market under-

standing and customer access, sharpening front-line efficiency, and engaging customers in the ways to which they have become accustomed with their retail banks and online merchants.

Customers are becoming more knowledgeable and sophisticated—and therefore more demanding.

Despite many challenges, the wealth management industry in Asia-Pacific is poised to thrive over the next decade. Profitable growth rightly remains the first imperative for most players.

Latin America

In some Latin American markets, the depreciation of local currencies, disappointing returns from local investments, and doubts about the long-term economic outlook have resulted in an increased percentage of net new assets flowing offshore. Nonetheless, leading local players have been able to sustain strong growth in assets under management and improved levels of profitability, as wealthy families increasingly seek to have their savings managed professionally.

Of course, the priorities for wealth managers vary across the region depending on each market's level of development. One common dynamic is that customers are becoming more knowledgeable and sophisticated—and therefore more demanding.

In Brazil, for example, leading players have developed highly sophisticated offerings that allow them to gain share and earn substantial profits. They have also managed to build effective sales forces and efficient business models. Some of these institutions have specifically targeted clients with between \$5 million and \$10 million in investable assets, effectively leveraging their privileged access to new sources of wealth. They have invested in advisory capabilities and in some cases used access to tax-advantaged instruments to gain

share. Their main priorities are to develop new channels and enhance digital interfaces.

It is worth noting that Brazil's central bank raised interest rates in order to address the country's uptick in inflation in 2014. That step benefited fixed-income investments, especially two tax-advantaged vehicles known as LCIs (Letras de Crédito Imobiliário) and LCAs (Letras de Crédito do Agronegócio).

In Mexico, the onshore wealth-management market is dominated by the largest local commercial banks. These institutions have focused on making delivery models more efficient, optimizing client portfolios, and implementing cost-reduction initiatives. A few players have taken steps toward becoming more customer-centric—opening up product architectures, reducing complexity in their offerings, raising multichannel capabilities, and refining RM compensation structures. Still, many players have a long way to go. In addition, the previous trend toward greater onshore activity has reversed itself, with local-currency depreciation pushing net new money offshore, mainly to U.S. booking centers.

Chile is known for its well-developed and increasingly sophisticated onshore offering. However, Chilean players continue to show significant room for improvement in their front-office efficiency and effectiveness. Their RMs tend to have smaller portfolios and lower productivity than RMs in more developed markets. Improving sales force effectiveness is a priority and seen as key to lifting profitability.

Several types of players dominate in Chile: local investment banks, brokerages, and commercial banks that have invested in developing private-banking offerings. There has also been a recent surge in multifamily offices that promise an unbiased, buy-side offering to UHNW clients. As a result, some of the more established players in Chile, especially those with brokerage-driven models, are rethinking their strategies in order to respond to clients who were disappointed by recent returns and are showing interest in switching their private bank or starting to work with a multifamily office. The evolution from a brokerage model to a pure private-banking model is not an easy path, however, because it involves changing both RM compensation models and the overall sell-side culture. Some private-banking divisions of local banks have been trying to forge more holistic client relationships that incorporate investments, loans, and ties to other businesses such as corporate and investment banking.

Colombia and Peru continue to be predominantly offshore venues, despite recent strong macroeconomic performance. Only a few local players have invested in developing sophisticated private-banking offerings, and traditional offshore players have not yet developed a significant local presence. Wealth managers have an opportunity to rethink their business models and prepare for a phase that could present very attractive onshore growth opportunities.

METHODOLOGY

BCG'S PROPRIETARY METHODOLOGY FOR measuring the size of global wealth markets has been continuously refined and enhanced over the past 15 years. Our definition of wealth includes cash deposits, the net amount of listed securities held either directly or indirectly through managed funds, and life and pension assets. Such assets can typically be monetized easily. Other assets, more difficult to monetize and thus excluded, include real estate (primary residence as well as investments), business ownership, and collectibles, consumables, and consumer durables such as luxury goods.

The market-sizing model of *Winning the Growth Game: Global Wealth 2015* now covers 92 countries accounting for more than 99 percent of global GDP in 2014. (As originally released in June 2015, the report covered 62 countries accounting for some 94 percent of global GDP.) All GDP and private-wealth growth rates are in nominal terms. Venezuela is excluded this year owing to uncertainty about potentially high future inflation and the biased impact on projections of private wealth in Latin America.

In order to exclude the effect of fluctuating currencies on private-wealth calculations, we used 2014 average exchange rates throughout. However, because of the extent of the Argentine peso devaluation relative to the U.S. dollar (32 percent), this year's report uses year-by-year exchange rates for Argentina (that is, a 2013 exchange rate for 2013 wealth, a 2012 exchange rate for 2012 wealth, and so on) to better reflect the evolution of wealth in that country. The impact of the adjustment is a five-year annual growth projection of 1 percent, versus 19 percent using the 2014 average exchange rate throughout, for projected wealth of \$0.4 trillion in 2019 instead of \$0.8 trillion.

FOR FURTHER READING

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

Adapting to Digital Advances: Global Capital Markets 2015

A report by The Boston Consulting Group, May 2015

Operational Excellence in Retail Banking 2015: Creating Digital Banks with a Human Touch

A Focus by The Boston Consulting Group, April 2015

The Bionic Bank

A Focus by The Boston Consulting Group, March 2015

The Look of a Winner: Global Corporate Banking 2015

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Overcoming the Digital Dilemma in Wealth Management

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