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# News Release

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## A report from PricewaterhouseCoopers shows that wealth managers must focus on technology, their processes and their people if they are to be successful in a world of increasing political, fiscal and regulatory pressures.

In Bermuda and globally, private banks and wealth managers have seen their profits plummet in the wake of unprecedented financial turmoil, investment scandals and a decline in world wealth, according to a new report published by PricewaterhouseCoopers.

Damage has been done to the critical element of trust at the heart of the relationship between high net worth clients and their wealth managers. With increasing demand for transparency around all aspects of the investment process and performance, a growing regulatory compliance burden and the need to control costs, wealth managers face enormous challenges as they try to redefine their role and regain "trusted advisor" status."

The PricewaterhouseCoopers report, entitled "A New Era: Redefining the Way to Deliver Trusted Advice", identifies significant changes affecting wealth managers, how they are responding with changes in their business and what senior private bankers and wealth managers see happening in the industry in the future as well as the qualitative impacts of the financial crisis over the first quarter 2009. The report draws on insight from a survey of nearly 240 private banks and wealth managers from around the world, including Bermuda.

Clients have raised the bar and are now demanding more from their wealth managers, including peace of mind. More than half (53%) of high net worth clients surveyed say that their primary source of financial advice is now their own research capabilities and independent knowledge, an indication of their scepticism about the quality of the advice they actually have been getting.

Andrew Brook, Partner and Asset Management Practice Leader, PricewaterhouseCoopers Bermuda commented:

> "Local and internationally focussed private banking firms and wealth management companies based in Bermuda are facing the same challenges as global organisations. With increasing regulation and demand for accountability, transparency has become the established norm for wealth management. How clients are kept informed about the performance of their assets, as well as the integrity, financial health and processing status from their wealth managers, underlying service providers and counterparties, will be what differentiates financial organisations in these demanding times."

**Highlights from the 2009 survey:**

- **Boutiques and smaller client ratios will play a significant role.** PricewaterhouseCoopers found no direct link between size and profitability in terms of cost/income ratios, making small, well run boutique firms particularly well positioned to thrive. Client service and brand differentiation now trumps history and brand awareness. The focus has shifted from client acquisition to client retention through increased interaction and better relationship building.

- **The era of absolute banking secrecy is over.** Through international pressure for increased transparency, the era of absolute banking secrecy has evolved into a new world of "compliant confidentiality". The private banking and wealth management world will continue to become more transparent and more regulated in the years ahead. While onshore centres will manage more private wealth than they do today, International Private Banking Centres (IPBCs), like Bermuda, that choose to focus their offerings and complement onshore services will continue to play an important role. A fast-changing international regulatory framework will lead to a new generation of treaties between IPBCs and large economies – an example is Bermuda's recent signing of a significant number of TIEAs (Tax Information Exchange Agreements) - as well as the probable emergence of expanded regulatory regimes within the EU and elsewhere. Wealth managers will not want to impact their reputations by operating in 'non-transparent' or 'non-cooperative' jurisdictions.

## A report from PricewaterhouseCoopers shows that wealth managers must focus on technology, their processes and their people if they are to be successful in a world of increasing political, fiscal and regulatory pressures…./2 of 3

- **Clients demand transparency.** High net worth clients now want much more transparent product offerings, product suitability, robust due diligence and real-time customized reporting with proactive risk/reward analysis versus a point-in-time snapshot of their wealth and holdings. Wealth managers face increased challenges in how they manage the cost and efficiency of different service delivery options, given the increased demand by clients for information and proactive risk analysis.

- **Stick to the core segment.** Nearly half (46%) of wealth managers provide services across all levels of wealth, a reflection of an opportunistic catch-all strategy of client segmentation. But profitability among the various segments of wealth varies widely. The affluent (less than $500,000), the very high net worth (over $20 million) clients and ultra high net worth (over $50 million) clients have proven less profitable in the current environment, and wealth managers seeking to operate in these segments must have the necessary scale, systems, product mix, together with appropriate CRM skills to do so profitably.

- **Opportunities exist to capture inter-generational wealth transfers.** 87% of wealth managers say they regard inter-generational products and services as a priority. There is clearly room for improvement in capturing inter-generational wealth transfers, since just 38% of wealth managers surveyed are able to retain more than 50% of their clients' assets when faced with an inter-generational transfer event.

- **Further consolidation and a period of inorganic growth appear inevitable.** Industry consolidation appears inevitable. Some 88% of wealth managers surveyed expect further consolidation in the sector in the next two years, with 34% expecting substantial consolidation. Sixty-three% regard acquisitions as crucial to their own growth strategy, more than double the projected rate of acquisition just two years ago.

- **A ruthless drive for operational efficiency and cost reduction**. While enabling growth is the top priority for Chief Operating Officers (COOs), short-term cost-cutting is their second-highest priority. Techniques that include transformational change, including from outside of financial services, are key to securing the kind of process improvements and cost reductions predicted.

- **Wealth managers need to invest in advanced technology to survive.** The CEOs of wealth managers regard the use of technology as the weakest element of their organizational capabilities, and 63% expect to increase their IT spend in the next two years

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**Notes to Editor:**

1. A full copy of the report is available for download at www.pwc.com/wealth

2. The PricewaterhouseCoopers Global Wealth Survey was first conducted in 1993 and continues to be one of PwC's most widely read publications. The survey conducted between December 2008 and March 2009, included participation from nearly 240 private bank and wealth management firms. It is one of the largest surveys in the industry, including views from senior management and client facing relationship managers from global banks, private client groups at leading broker dealers, family offices, boutiques and individual wealthy investors. The survey is not sponsored by any firm or vendor and is part of PricewaterhouseCoopers thought leadership as a service to the financial services industry.

## A report from PricewaterhouseCoopers shows that wealth managers must focus on technology, their processes and their people if they are to be successful in a world of increasing political, fiscal and regulatory pressures…./3 of 3

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