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Transparency Is the New Gold Standard: U.S. Wealth Managers Must Redefine Role to Regain Trust in Current Environment, says PricewaterhouseCoopers

PricewaterhouseCoopers Issues Report on the Future of Private Banking and Wealth Management

NEW YORK, June 29, 2009 – Private banks and wealth managers have seen their profits plummet in the wake of unprecedented financial turmoil, investment scandals and the decline in world wealth, according to a new report published today by PricewaterhouseCoopers LLP. 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 in 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.

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. The report also looks at the qualitative impacts of the financial crisis over the first quarter of 2009. Based on survey responses from nearly 240 private banks and wealth managers, this year's report is the latest installment in a global survey first conducted in 1993.

Among the conclusions discussed in the report:

- **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". With a wave of new treaties and cross border cooperation around increased government demands for tax transparency the private banking and wealth management world will continue to become more open in the years ahead. This could signal an end to the competitive advantages of some jurisdictions. Wealth managers will simply not want to risk their reputations by operating in 'non-transparent' or 'non-cooperative' jurisdictions. While certain clients from troubled or unstable jurisdictions will always seek professional offshore management of their assets transparency is forcing a much more complementary and open operating model.

- **The Middle East and Asia-Pacific remain top targets for expansion abroad.** Private banks and wealth managers say their top five markets for global expansion are the Middle East and Asia, in particular Hong Kong, Singapore and China. Yet only 32 percent of wealth managers plan to open new operations abroad in the next two years, down from 52 percent in this survey in 2007. The decline is driven largely by waning interest in Europe, where only 29 percent of wealth managers have plans to expand abroad. There continues to be interest in global expansion in the Americas, particularly to serve the top tier of the wealth pyramid.

- **Further consolidation and a period of inorganic growth appear inevitable.** Some 88 percent of wealth managers surveyed expect further consolidation in the sector in the next two years, with 34 percent expecting substantial consolidation. Sixty-three percent regard acquisitions as crucial to their own growth strategy, more than double the projected rate of acquisition just two years ago. This is driven by the cost of increasing regulation, and new technologies and infrastructure to provide clients with the kind of information they are demanding.

- **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. Thirty-six percent of CEOs believe there is room to eliminate 10 percent to 20 percent of their costs, and another 18 percent believe they can cut costs by more than 20 percent. Transformational change, including techniques learned from industries outside of financial services, is key to securing productivity gains, process improvements and cost reductions.

- **Wealth managers will need to invest in advanced technology to survive.** The CEOs of wealth managers regard technology as the weakest element of their organizational capabilities, and 63 percent expect to increase their IT spend in the next two years, including 82 percent who plan to undertake some form of major core system upgrade. COOs predict that online client service platforms will become a top-five operational priority over the next two years. Those organizations able to provide innovative, high-quality online client interfaces through, for example, handheld devices, may be able to increase client loyalty and, importantly, free their customer relationship managers (CRMs) to focus on higher-value client interactions. Clients are demanding aggregated reporting and access to information across multiple providers.

"The financial crisis and the breach of trust by some managers has had a profound impact on investor confidence. While the client and asset attrition phase of the crisis will eventually pass, the industry will be very different in the future. The DNA of world wealth has changed in terms of what clients want, demand and expect from wealth managers and service providers," said John Garvey, U.S. leader, financial services advisory practice, PricewaterhouseCoopers. "The winners will be the firms that can provide investors acceptable performance coupled with extraordinary levels of insight and transparency around their assets, investment strategies and products. These firms will once again become trusted advisors to the wealthy. This is a challenge that will require investments in technology, talent plus discipline and ruthless execution."

Wealth Managers Need to Regain "Trusted-Advisor" Status

Clients have raised the bar and are now demanding more from their wealth managers, including peace of mind. More than half (53 percent) of the private banking clients surveyed by PricewaterhouseCoopers say that their primary source of financial advice is now their own research capabilities and independent knowledge, an indication of their skepticism about the quality of the advice they have been getting.

"Transparency is the new gold standard of wealth management," said C. Steven Crosby, U.S. leader, private banking and wealth management practice, PricewaterhouseCoopers. "How managers and service providers keep clients informed regarding performance of their assets and integrity, financial health and processing status will be brand-differentiating."

Additional highlights:

- **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 days of simply pushing product alone are over. Quality of advice is now a crucial differentiator. The focus has shifted from client acquisition to client retention through increased interaction and better relationship building. The most profitable wealth managers were found to have significantly lower ratios of clients per client relationship manager across all wealth segments, allowing the managers to embrace advice and financial planning as core relationship offerings.

- **Clients demand transparency and due diligence.** 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. They also want more information about how their holdings are being transacted, processed and managed. Private clients are looking for answers about the integrity surrounding their wealth and personal data, as well as the soundness of the institutions and processing counterparties who serve them. 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 percent) 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 mass affluent (less than $500,000) and 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 and product mix, together with the appropriate CRM skills, to do so profitably. Coupled with tailoring to specific client groups, changes in fees schedules and enhanced assessments of client profitability are required.

- **Opportunities exist to capture inter-generational wealth transfers**. Eighty-seven percent of wealth managers say they regard inter-generational products and services as their top priority. There is clearly room for improvement in capturing inter-generational wealth transfers, since just 38 percent of wealth managers surveyed are able to retain more than half of their clients' assets when faced with an inter-generational transfer event. Family office offerings and holistic perspectives on family relationships with the appropriate tools and channels are critical to avoid asset attrition across generations. A significant factor in delivering this is improving the skills of CRMs, who rank inter-generational wealth transfers as their third-highest priority area for additional training.

- **Green investment is good.** Fifty-five percent of wealth managers now say they view sustainability and socially conscious investment products as important to their business over the next five years. This is reflects the longer time horizon the wealthy tend to bring to their investments, which gives rise to a multi-generational perspective on the environment.

About the PricewaterhouseCoopers Global Private Banking / Wealth Management Survey
The PricewaterhouseCoopers Global Wealth Survey was first conducted in 1993 and continues to be one of PwC's most widely read publications. The latest survey was conducted between December 2008 and March 2009 and included participation from nearly 240 private bank and wealth management firms. It is one of the largest surveys in the industry, reflecting views of 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 provided as a service to the financial services industry. .

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PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, or as the context requires, the PricewaterhouseCoopers global network of other member firms of the network, each of which is a separate and independent legal entity.

Note to Editors/Reporters: A full copy of the report is available for download at www.pwc.com/wealth

Reminder: U.S. Global Wealth Management Web Cast scheduled for Monday, June 29, 2009 at 11:00am EST.

Preregistration required: www.seeuthere.com/PrivateBankingWealthManagementForumWebcast2009

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