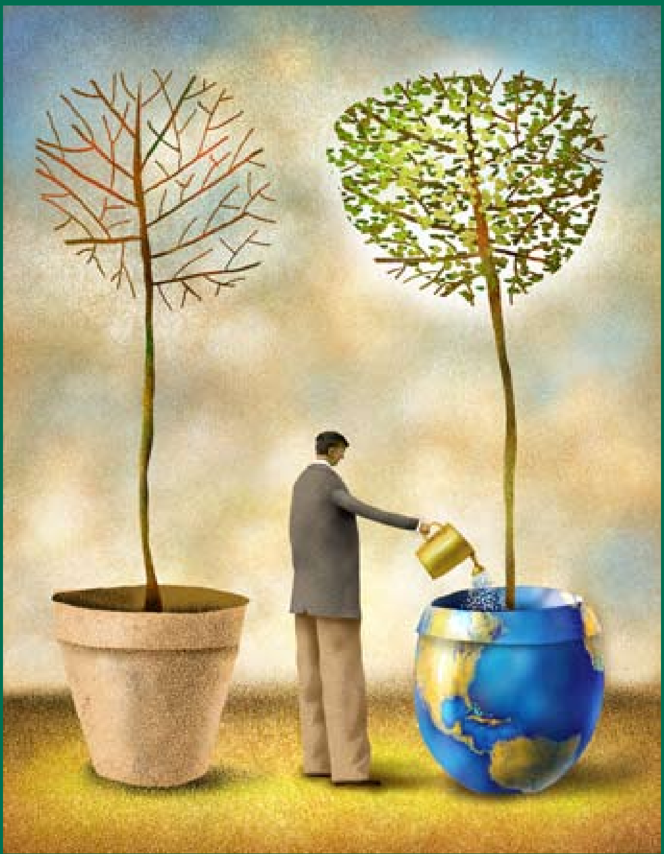
BCG

REPORT

Global Wealth 2010

Regaining Lost Ground

Resurgent Markets and New Opportunities



The Boston Consulting Group

Regaining Lost Ground

Resurgent Markets and New Opportunities

Global Wealth 2010

Jorge Becerra

Peter Damisch

Bruce Holley

Monish Kumar

Matthias Naumann

Tjun Tang

Anna Zakrzewski

June 2010

bcg.com

For information or permission to reprint, please contact BCG at:
E-mail: bcg-info@bcg.com
Fax: +1 617 850 3901, attention BCG/Permissions
Mail: BCG/Permissions
The Boston Consulting Group, Inc.
One Beacon Street
Boston, MA 02108
USA

Contents

Executive Summary

Global wealth closed in on its precrisis peak in 2009, driven by resurgent stock markets. But the recovery, as dynamic as it was, did not translate into stronger performance for the industry—many wealth-management institutions continued to face declining revenues and stubbornly high costs.

Even as the financial crisis recedes and clients regain some of their appetite for risk, the underlying drivers of weakened revenues and profitability are likely to persist. Wealth managers must not allow the surge of global wealth to lead to a sense of complacency or a lack of urgency when it comes to addressing these challenges. They must focus on quality, precision, and service delivery—as well as on truly understanding the client.

The Boston Consulting Group's latest Global Wealth report describes several strategies for improving business performance, including a range of operating levers, such as pricing, that have been shown to boost revenue margins. It also underscores the importance of retaining and winning back clients, given the volume of assets dislodged by the crisis (and still in play). In addition, the report details how wealth managers can improve risk management—a key differentiator—in ways that not only safeguard the business and anticipate stricter regulations but also lead to better client service.

To set the stage for these imperatives, the report begins with an overview of assets under management (AuM) covering 62 markets representing about 99 percent of global GDP. It also details the findings of a benchmarking study of 114 wealth-management institutions globally. To round out our analysis, we conducted more than 30 interviews with wealth managers and drew on the experience of nearly 50 BCG experts worldwide.

Global wealth staged a remarkable comeback in 2009 after its steep decline in 2008. AuM increased by 11.5 percent to $111.5 trillion, just shy of the year-end peak set in 2007.

- North America posted the greatest absolute gain in wealth at $4.6 trillion, but the largest percentage gain occurred in Asia-Pacific (ex Japan), where wealth increased by nearly 22 percent, or $3.1 trillion.
- Europe remained the wealthiest region, with $37.1 trillion in AuM—or about one-third of the world's wealth.

Millionaire households represented less than 1 percent of all households but owned about 38 percent of the world's wealth, up from about 36 percent in 2008.

- The number of millionaire households rose by about 14 percent in 2009, to 11.2 million—about where it stood at the end of 2007.
- The United States had by far the most millionaire households (4.7 million), followed by Japan, China, the United Kingdom, and Germany.
- The highest millionaire densities are in Singapore, Hong Kong, Switzerland, and the Middle East.

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

- Switzerland remained the largest offshore center; it accounted for $2.0 trillion, or about 27 percent, of all offshore wealth.

- Although undeclared assets account for a declining share of offshore wealth, the push for greater transparency will still dampen growth; some clients—particularly those in North America and Europe—will move their assets out of offshore centers (unless currency instability holds them back).

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

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

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

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

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

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

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

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

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

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

- Among benchmarking participants, the average inflow rate in 2009 was 14.2 percent of year-end 2008 assets. The average outflow rate was 12.7 percent.

- Because many clients went searching for temporary safe havens during the crisis, we expect the bulk of the uprooted assets to remain in play.

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

Wealth managers should explore opportunities to improve their service to certain segments—including women. As a client group, women are both significant and underserved.

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

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

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

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

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

- For this to happen, wealth managers must recognize that a proliferation of rules can frustrate both frontline staff and clients while leading to a false sense of security.

- The best approach to managing risk will be comprehensive and rigorous, but success will be measured as much by the behaviors it encourages as by those it subdues. Risk management must be embedded in front-office sales and client service activities.

About the Authors

Jorge Becerra is a senior partner and managing director in the Santiago office of The Boston Consulting Group and leads the Financial Institutions practice in Latin America; you may contact him by e-mail at becerra.jorge@bcg.com. **Peter Damisch** is a partner and managing director in the firm's Zurich office and leads the firm's wealth-management topic in Europe; you may contact him by e-mail at damisch.peter@bcg.com. **Bruce Holley** is a senior partner and managing director in BCG's New York office and a topic expert for wealth management and private banking in the United States; you may contact him by e-mail at holley.bruce@bcg.com. **Monish Kumar** is a senior partner and managing director in the firm's New York office and the global leader of the asset and wealth management segment of the Financial Institutions practice; you may contact him by e-mail at kumar.monish@bcg.com. **Matthias Naumann** is a partner and managing director in BCG's Zurich office and a core member of the Financial Institutions practice; you may contact him by e-mail at naumann.matthias@bcg.com. **Tjun Tang** is a partner and managing director in the firm's Hong Kong office and leads the Financial Institutions practice in Greater China; you may contact him by e-mail at tang.tjun@bcg.com. **Anna Zakrzewski** is a principal in BCG's Zurich office, a core member of the Financial Institutions practice, and a topic expert for wealth management; you may contact her by e-mail at zakrzewski.anna@bcg.com.

Note to the Reader

Acknowledgments

First and foremost, we would like to thank the benchmarking participants, interviewees, and survey respondents. They provided invaluable insights into the state of the wealth management industry. We also thank our BCG colleagues who helped us understand the lay of the land in different markets around the world.

BCG contributors from Asia-Pacific included Nelson Choi, Ashish Garg, Vinoy Kumar, David Le, David Nazareth, Matthew Rogozinski, and Saurabh Tripathi. Douglas Beal, Sven-Olaf Vathje, and Lynn Zovighian provided insights into wealth in the Middle East and Africa.

From Latin America, we relied on Alex Leimbach, Joel Muñiz, Federico Muxi, Leonardo Rubinstein, Masao Ukon, Karl Werner, and André Xavier. From North America, we received guidance from Brent Beardsley, Paul Orlander, and Shubh Saumya.

To understand wealth markets in Europe, we called on Eric Brat, Christian de Juniac, Hélène Donnadieu, Norbert Dworzynski, Thomas Herbeck, Daniel Kessler, Til Klein, Kai Kramer, Ludger Kübel-Sorger, Lars-Uwe Luther, Andy Maguire, Pedro Matthynssens, Claus Miethe, Stuart Quickenden, Monica Regazzi, Olivier Sampieri, Wojciech Sass, and Ian Wachters.

For risk management expertise, we thank Duncan Martin and Peter Neu.

We also thank the following members of BCG's editorial and production teams: Katherine Andrews, Gary Callahan, Dan Coyne, Kim Friedman, and Janice Willett.

Finally, the authors would like to acknowledge the work and dedication of the Global Wealth core team: Judith Albrecht, Giada Borra, Valeria Bruno, Diarmuid Early, Marcel Jaeggi, Patrick Lehner, Andres Montero, and Natalia Zhiglinskaya.

For Further Contact

If you would like to discuss our findings in greater detail, please contact one of the authors.

Jorge Becerra
Senior Partner and Managing Director
BCG Santiago
+56 2 338 9600
becerra.jorge@bcg.com

Peter Damisch
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
damisch.peter@bcg.com

Bruce Holley
Senior Partner and Managing Director
BCG New York
+1 212 446 2800
holley.bruce@bcg.com

Monish Kumar
Senior Partner and Managing Director
BCG New York
+1 212 446 2800
kumar.monish@bcg.com

Matthias Naumann
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
naumann.matthias@bcg.com

Tjun Tang
Partner and Managing Director
BCG Hong Kong
+852 2506 2111
tang.tjun@bcg.com

Anna Zakrzewski
Principal
BCG Zurich
+41 44 388 86 66
zakrzewski.anna@bcg.com