

Leading Research

John Rolander
Gauthier Vincent
Chuck Lyman
Sofia Graniello

booz&co.

U.S. Wealth Management Survey
Trends and Emerging Business Models

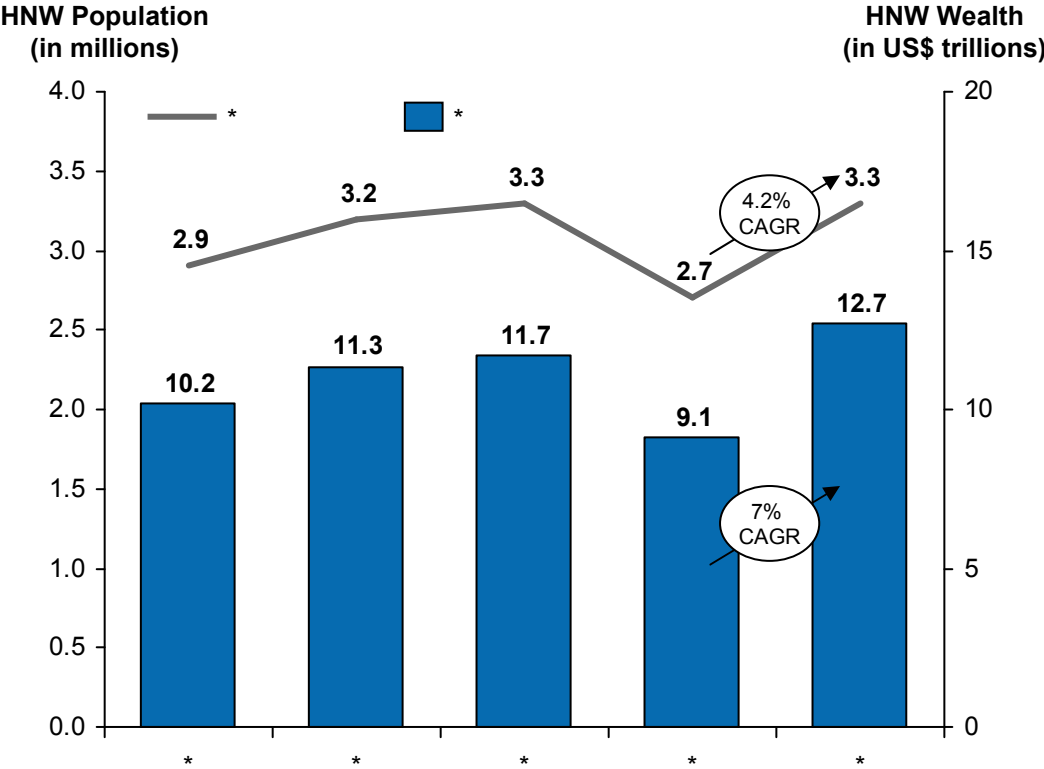


Executive Summary

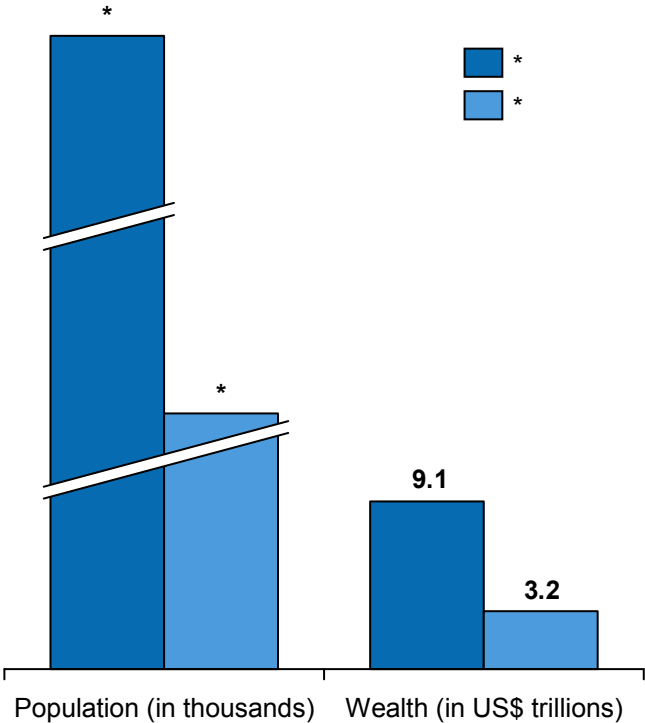
- The U.S. wealth management industry is in the midst of a series of dramatic changes, resulting from the recent crisis as well as long-term trends in the industry
- Full-service firms have been losing share of advisors and assets to independent and self-directed channels—a trend that preceded the crisis and has accelerated
- The financial crisis has created new challenges: Client satisfaction has approached historic lows, and client focus on transparency and lower-risk/return products has resulted in lower revenue yield
- In addition, consolidation of banks and brokerages has led to the challenge of creating a truly integrated experience and realizing the potential economic rewards
- Going forward, we expect the industry to focus on three key strategic challenges:
 1. How can advisors and firms regain client trust?
 2. What is the the role of the advisor in a world of integrated financial institutions?
 3. How can wealth management operating models deliver specialization and scale to enable competitive advantage and profitable growth?
- Answering these questions will be key to positioning evolving wealth management firms for a new phase of growth and profitability

North America Shows Continued Growth Prospects for High Net Worth (HNW) Markets

North American HNW¹ Population and Wealth,² 2005-2013e



North American HNW and Ultra HNW Population and Wealth,³ 2008



1. High net worth is defined as individuals with more than US\$1M in investable assets, ultra high net worth as those with more than \$30M in investable assets.

2. Wealth is defined as investable assets, excluding primary residence, collectibles, consumables, and consumer durables.

3. The estimate of ultra HNW wealth in North America is based on the global contribution rate of ultra HNW to total HNW wealth = 34.7%.

Note: 2013 population growth is an estimate based on Booz & Company analysis.

Source: Capgemini/Merrill Lynch World Wealth Report 2009; IHS research; Booz & Company analysis and research

North American HNW Growth Is Outpacing Other Global HNW Markets

Global Wealth Management Market Growth (CAGR 2002-2007¹)

Global

GDP	3.6%
HNW	7.0%
Multiple²	1.9x

North America

GDP	2.8%
HNW	8.4%
Multiple	3.0x

Europe

GDP	2.5%
HNW	4.4%
Multiple	1.7x

Asia/Pacific

GDP	5.2%
HNW	8.1%
Multiple	1.6x

Middle East & Africa

GDP	6.1%
HNW	10.8%
Multiple	1.8x

Latin America

GDP	4.5%
HNW	5.9%
Multiple	1.3x

Key Takeaways

- Rapid growth of HNW globally at 7% CAGR, with North America growing faster at 8.4%
- Higher HNW to GDP multiple in North America attributed to unique market characteristics:
 - Wealth distribution and concentration
 - Stability and maturity of capital markets

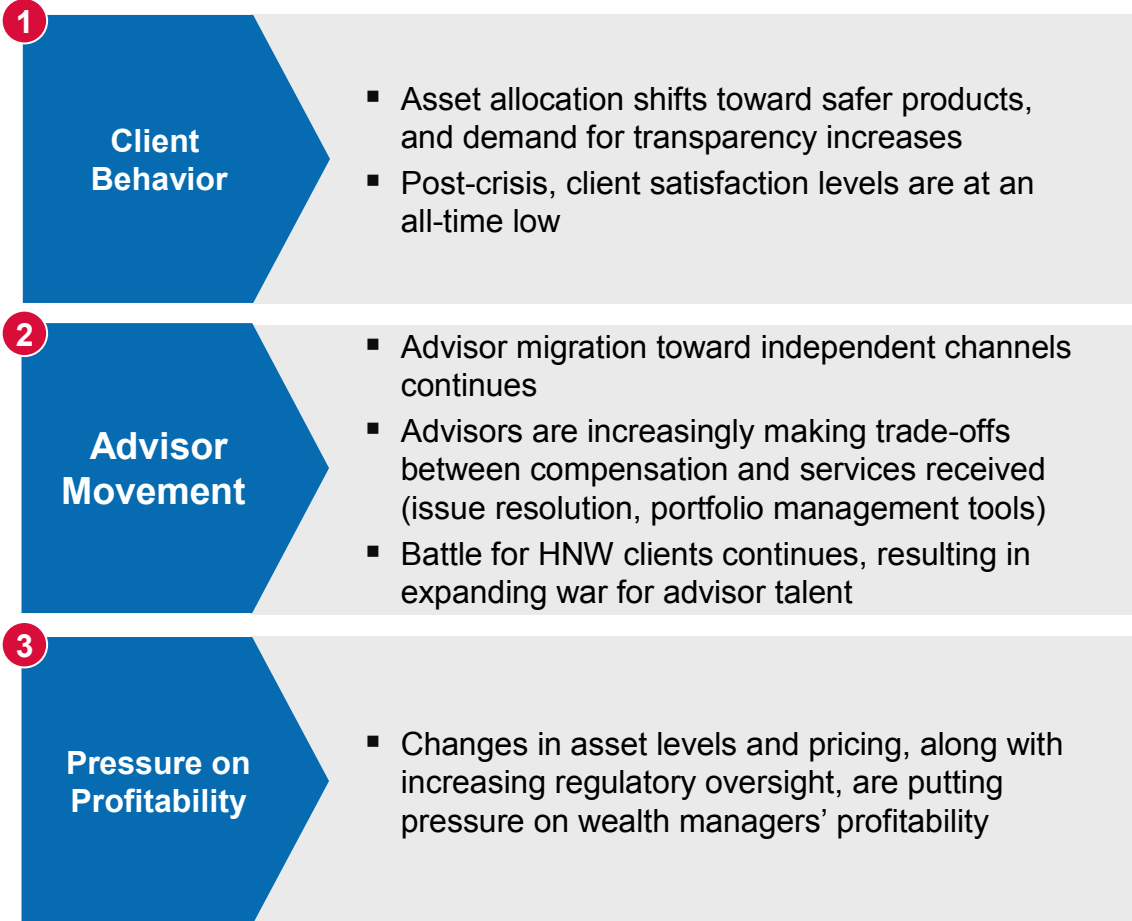
1. 2002-2007 sample used to avoid distortions from market conditions in 2008 and 2009.

2. Multiple represents the number of times that HNW markets are growing above GDP; a higher multiple represents a HNW market growing much faster than the rest of the economy.

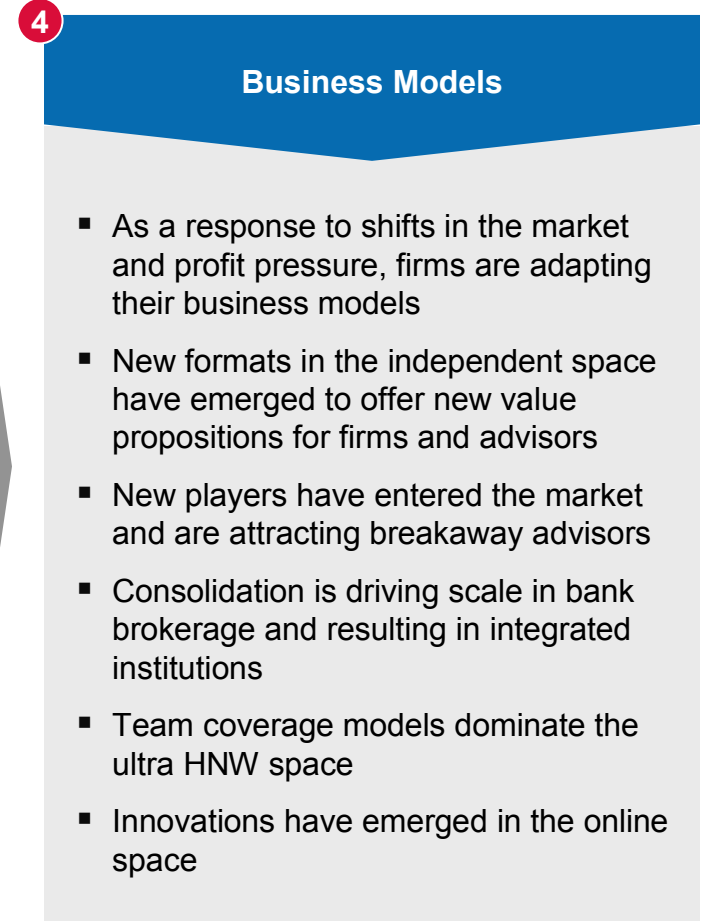
Source: IHS research; Booz & Company analysis and research

Recent Trends Have Posed Important Challenges to Firms in the U.S. Wealth Management Marketplace

Key Trends



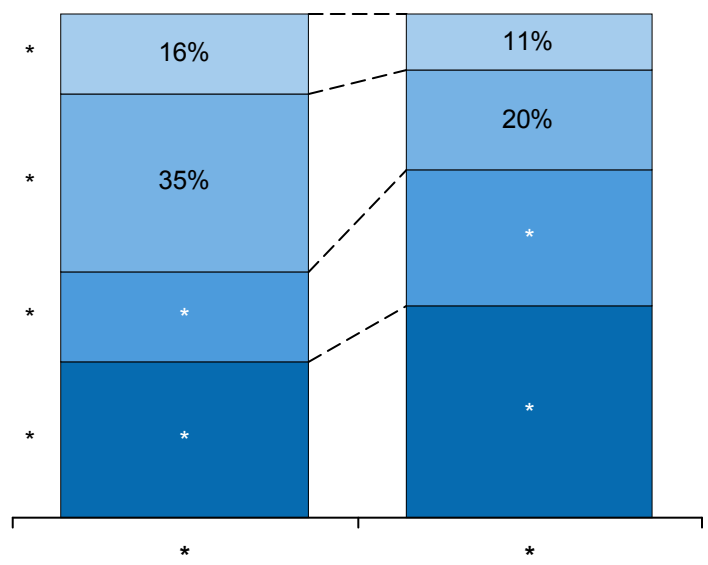
Implications



Globally, the Downturn Has Engendered More Pragmatic Client Behaviors

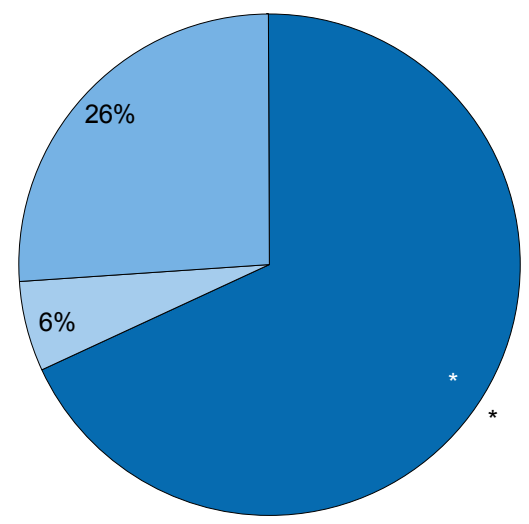
Changing Requirements of HNW Investors

Shift in Asset Allocation
(% of client assets invested, per product)



- Assets shifting away from equities and alternatives
- Increasing preference for safer, more transparent products such as fixed income and cash related

Sustainability of Recent Trend Toward Lower Risk*
(% of responses)



- Despite the recent shift in asset allocation, the majority of respondents expect a return to traditional allocation

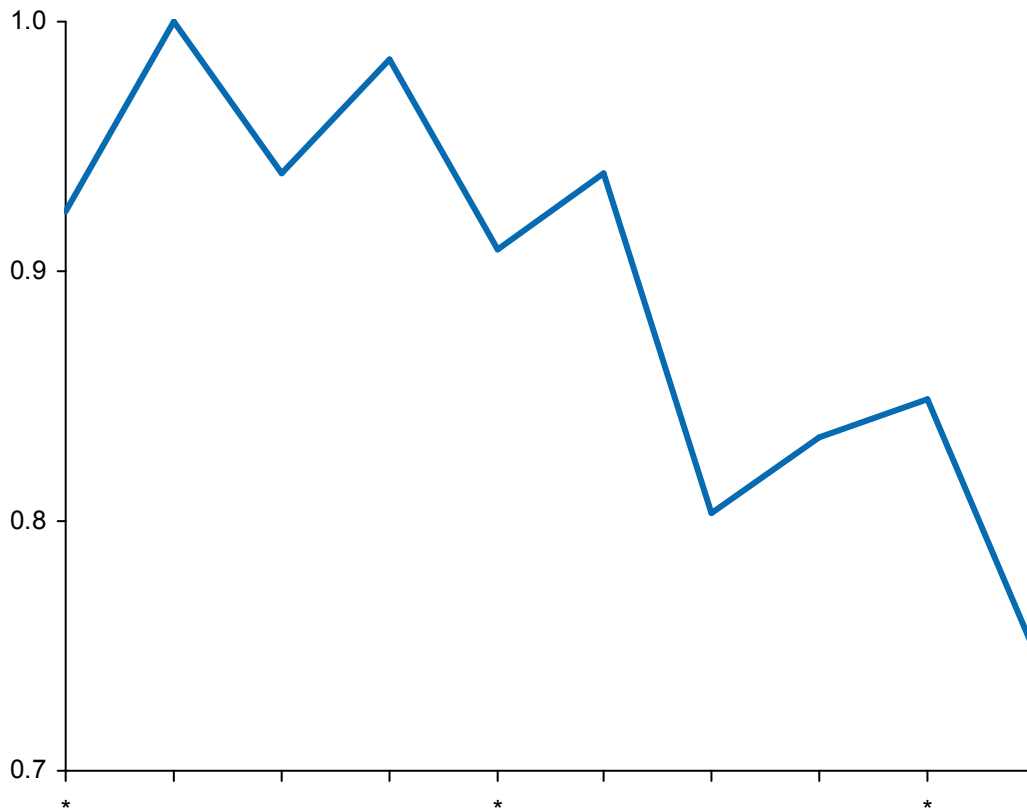
95% of survey respondents rated “price transparency” as being of “high importance” when asked about new pricing structures

* Based on responses of 140 private banking executives, senior financial advisors, and leaders of regulatory authorities in 15 markets worldwide to Booz & Company’s 2009 private banking survey. Source: Booz & Company research and analysis

Investment Returns During the Crisis Have Resulted in Plummeting Client Satisfaction Levels

HNW Client Satisfaction Index*

CLIENT EXAMPLE

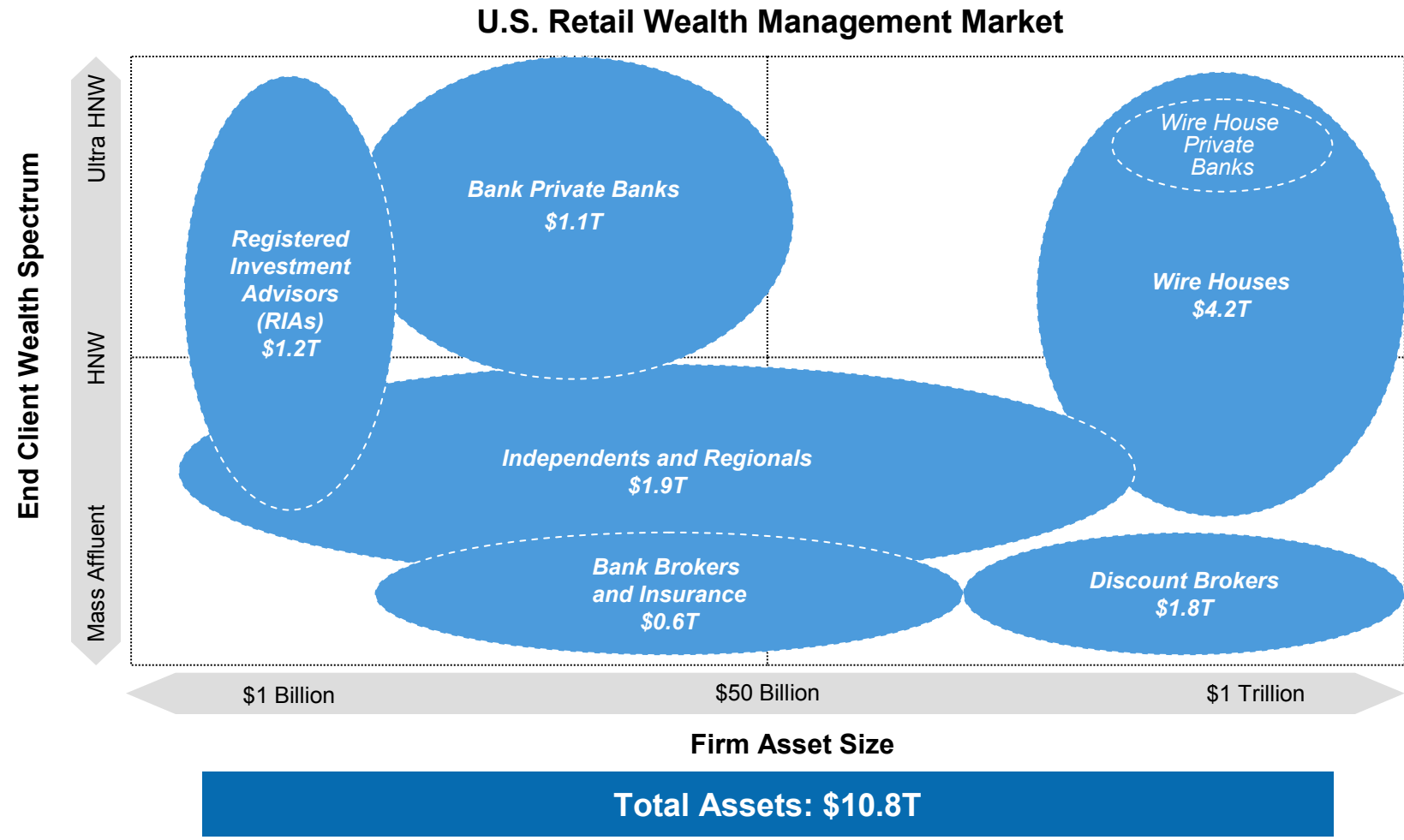


Key Takeaways

- Client satisfaction levels decreased to all-time lows during the financial crisis as investment performance decreased
- Driven by this decline, clients experienced decreased loyalty to their advisors and firms, fueling the migration trend
- Advisors are facing challenges in how to best address client dissatisfaction
- Wealth management firms are responding by adopting a more client-focused perspective

* Calculated from percentage of satisfied customers, with 1 being the highest number of satisfied customers.
Source: Booz & Company

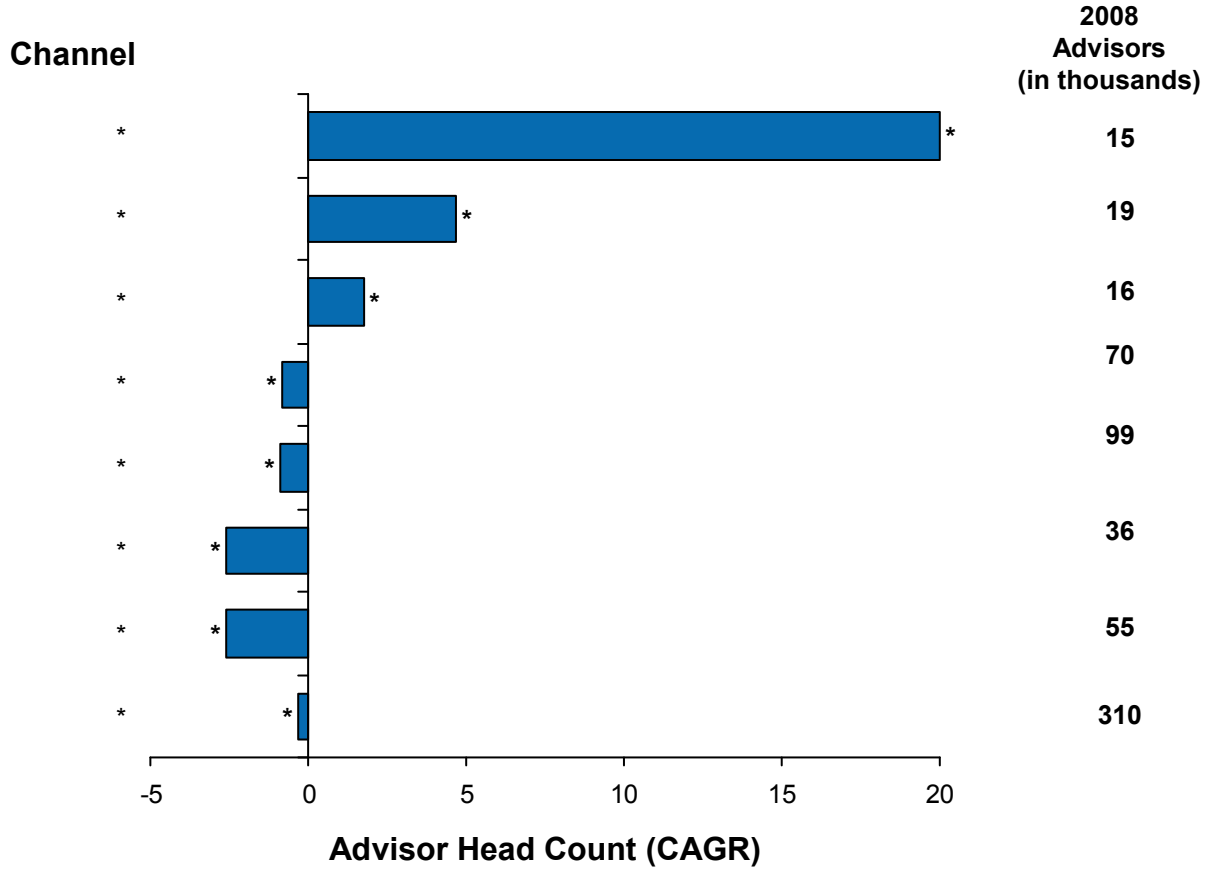
The \$10.8T U.S. Wealth Market Is Served by Multiple Providers with Distinct Formats but Overlapping Value Propositions



Source: Capgemini/Merrill Lynch; Aite Group; *Financial Planning's* FP 50; press releases; 10-K forms; Booz & Company analysis

The Shift of Advisors and Assets from Full-Service to Independent Models Is Expected to Continue

Advisor Head Count by Channel
(2004-2008 CAGR and Number of Advisors)



Key Takeaways

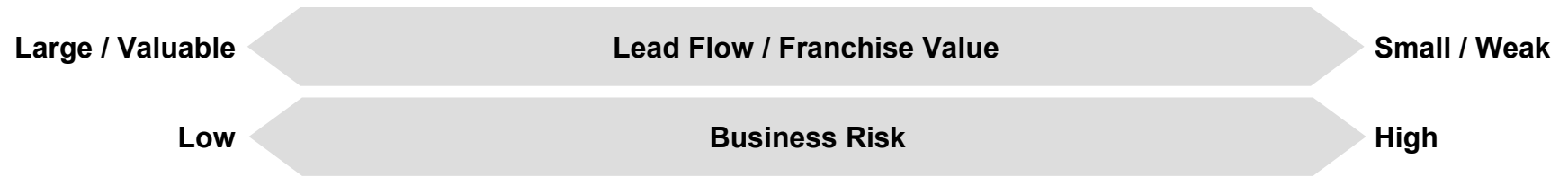
- Driven by the desire for independence and higher payouts, financial advisors have been migrating from wire houses to more independent channels
- The hybrid channel has benefited from this trend, as breakaway advisors typically have a mix of commission and fee businesses
- Independent segments should continue to benefit from investor and advisor preference for independence
- Independents, RIAs, and hybrid advisors have increased share and now account for about 40% of assets combined

* Broker/dealer.

Source: Cerulli Associates publicly available data, "Market Update: RIA Channel Sizing and Assessment,"; Booz & Company analysis

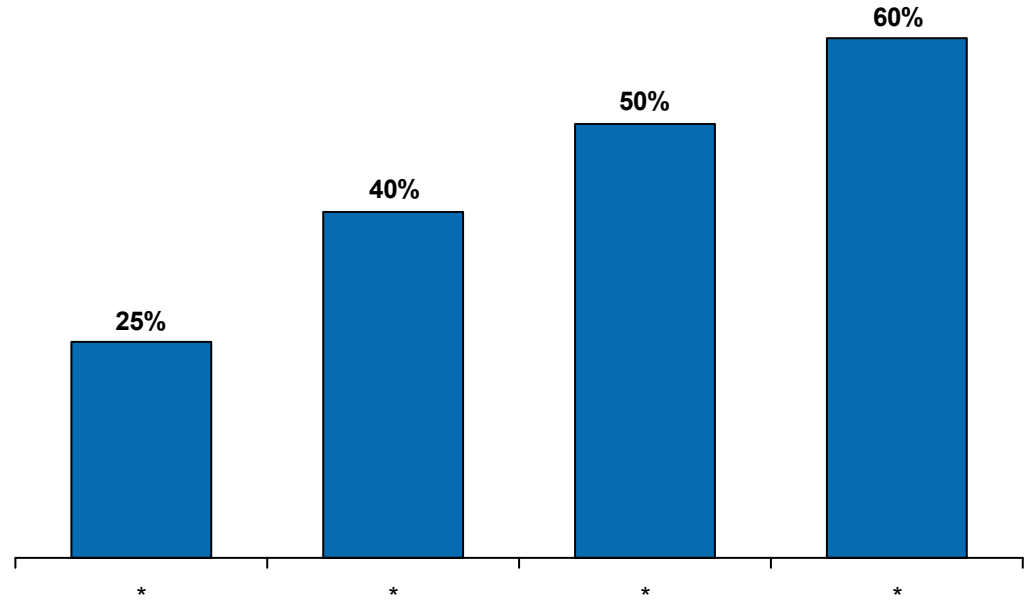
Increasingly, Advisors Are Choosing a Sales Format Based on Trade-Offs Between Compensation, Flexibility, and Risk

Advisor Compensation Structures*



Private Bank Model Characteristics

- Inherited book
- Advisor not responsible for overhead or team costs
- Broad product set and team of experts
- HNW / ultra HNW



Independent Model Characteristics

- Creates a brand and market presence
- Self-sourced client base
- Responsible for all overhead and business risks

* Percentages represent portion of gross revenues generated per advisor paid out as advisor compensation.

Source: Booz & Company

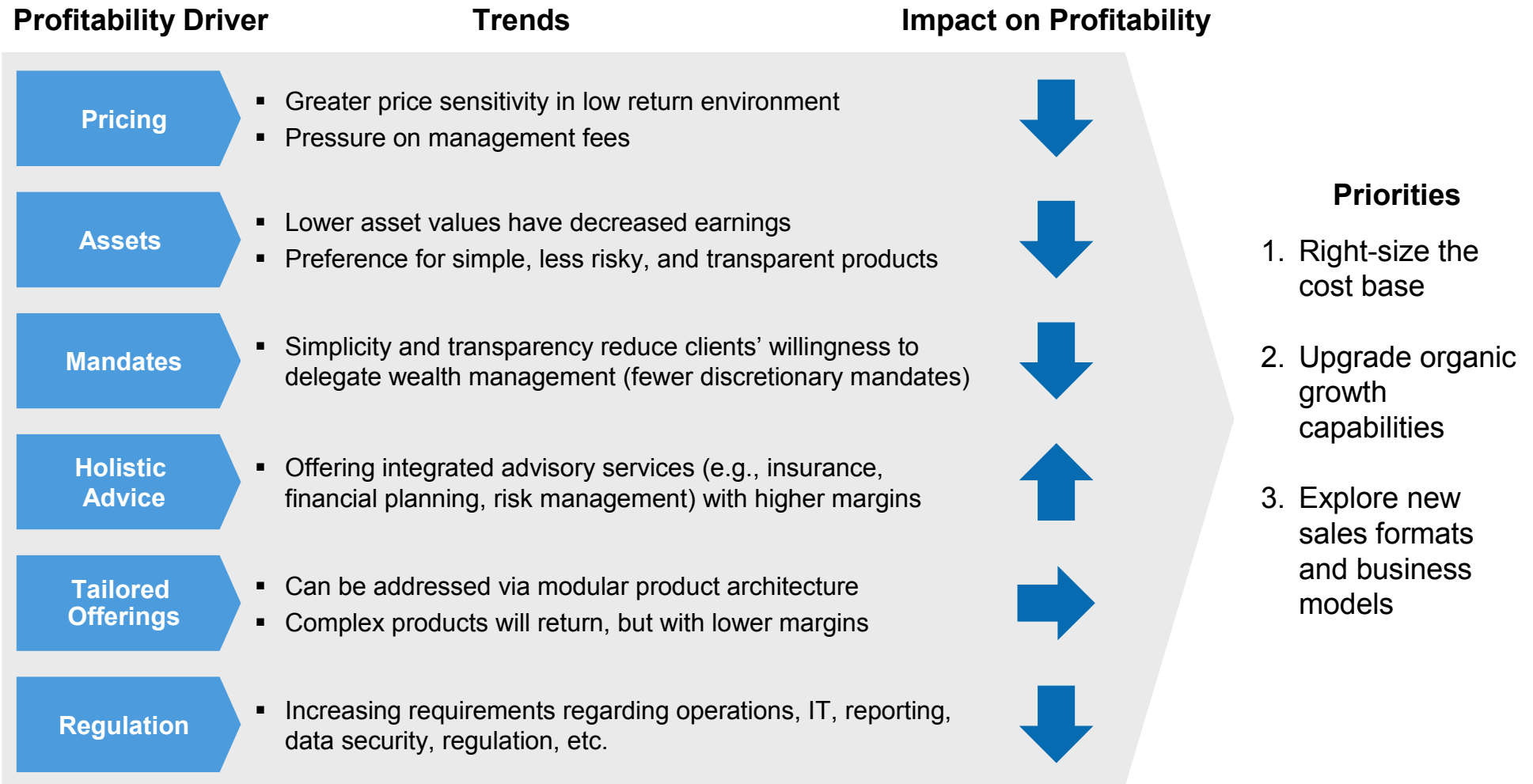
Winning in Talent Acquisition Is Key; the Battle to Win the HNW Client Is the Battle for the Advisor Who Owns the Relationship

Upgrading the Talent Pool

- **Opportunities to hire experienced talent are increasing**
 - More talent on the market due to layoffs at brokerage firms / investment bank
 - Salary levels are normalizing
- **However**
 - Many experienced advisors are locked in by retention deals
 - Many have concerns about cultural / business model mismatch if they move

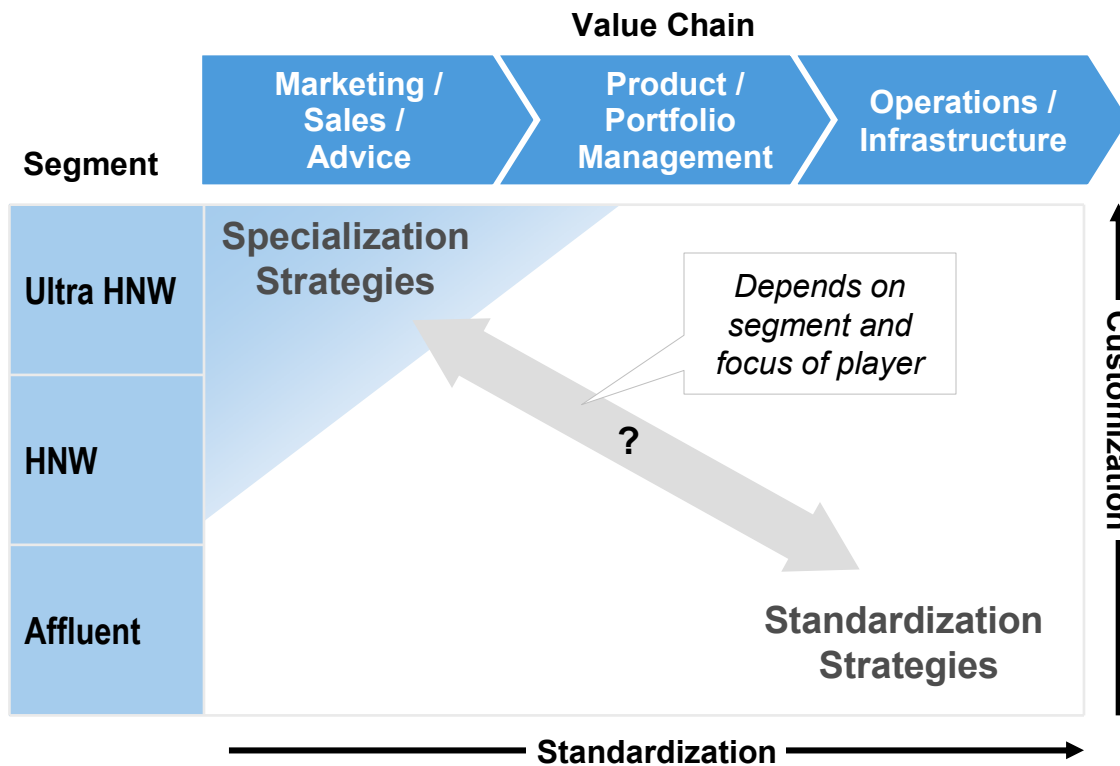
- **Few firms are recruiting actively (and those that are recruiting are being very selective)**
 - Primarily growth-oriented banks
 - Severe constraints on head count at most firms
- **Internal levers increasingly important**
 - Focus on increasing advisor productivity
 - Accelerating growth in performance of younger advisors
 - Creating incentives (bonus, deferred compensation) to encourage long-term retention

Profitability Will Remain Under Pressure and Firms Will Need to Continue Managing Costs Tightly



Need to Balance Revenue with Cost to Serve Is Driving Specialization and Standardization Strategies

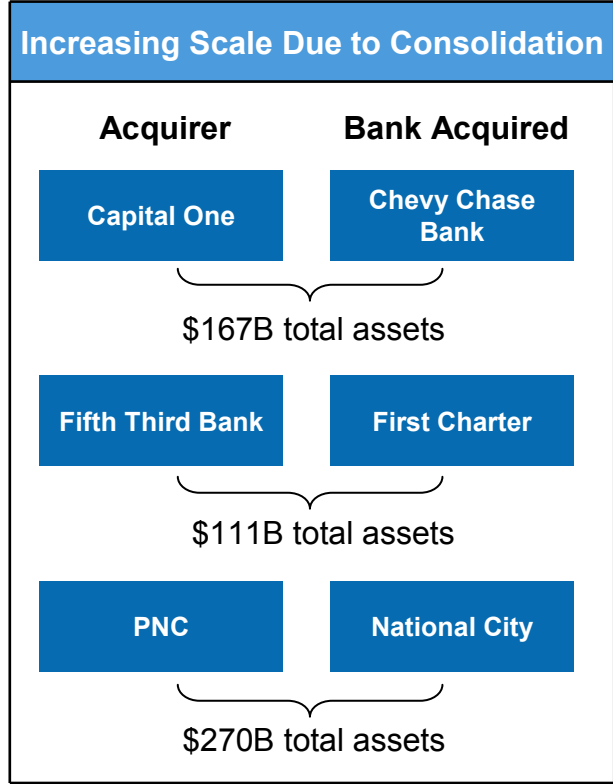
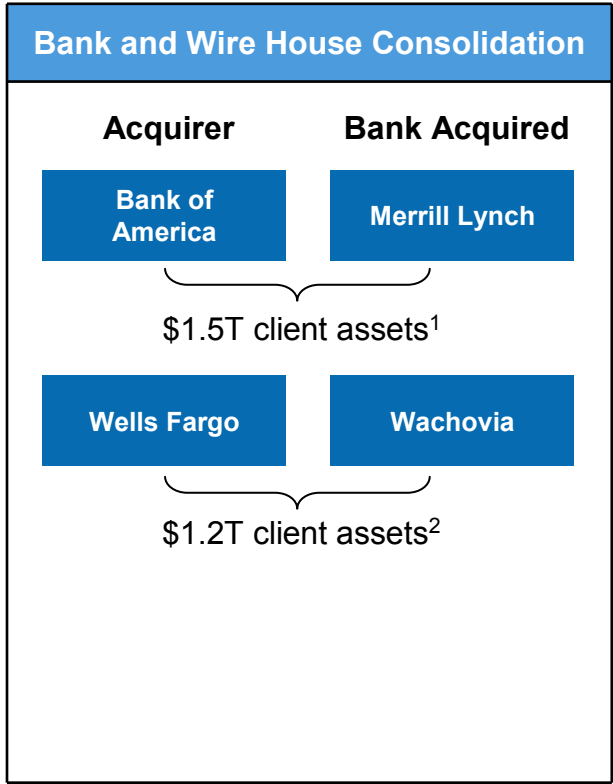
Creating New Business Models



Observed Models
<ul style="list-style-type: none"> ▪ Disintegration of value chain by segments <ul style="list-style-type: none"> – Focus on scale in lower segments – Specialization in upper segments ▪ Niche players / RIAs <ul style="list-style-type: none"> – Focus on upper segments and advice; product specialization – Emphasize conflict-free platform; no commissions; no product push ▪ Large, integrated players <ul style="list-style-type: none"> – Team-based sales and service – Increased cross-selling, cost synergies – Separate branding (in upper segments) to increase credibility

Consolidation Has Driven Scale in Bank Brokerage and the Emergence of Integrated Institutions

Wire House / Bank Brokerage Trends and Implications



- Emergence of “Bankerage”**
- Increased perception of banks’ security in comparison to non-bank B/Ds
 - Increased penetration of B/D services in banks’ retail branches
 - Increased legitimacy of bank B/D model, as larger retail banks merge with brokerage firms

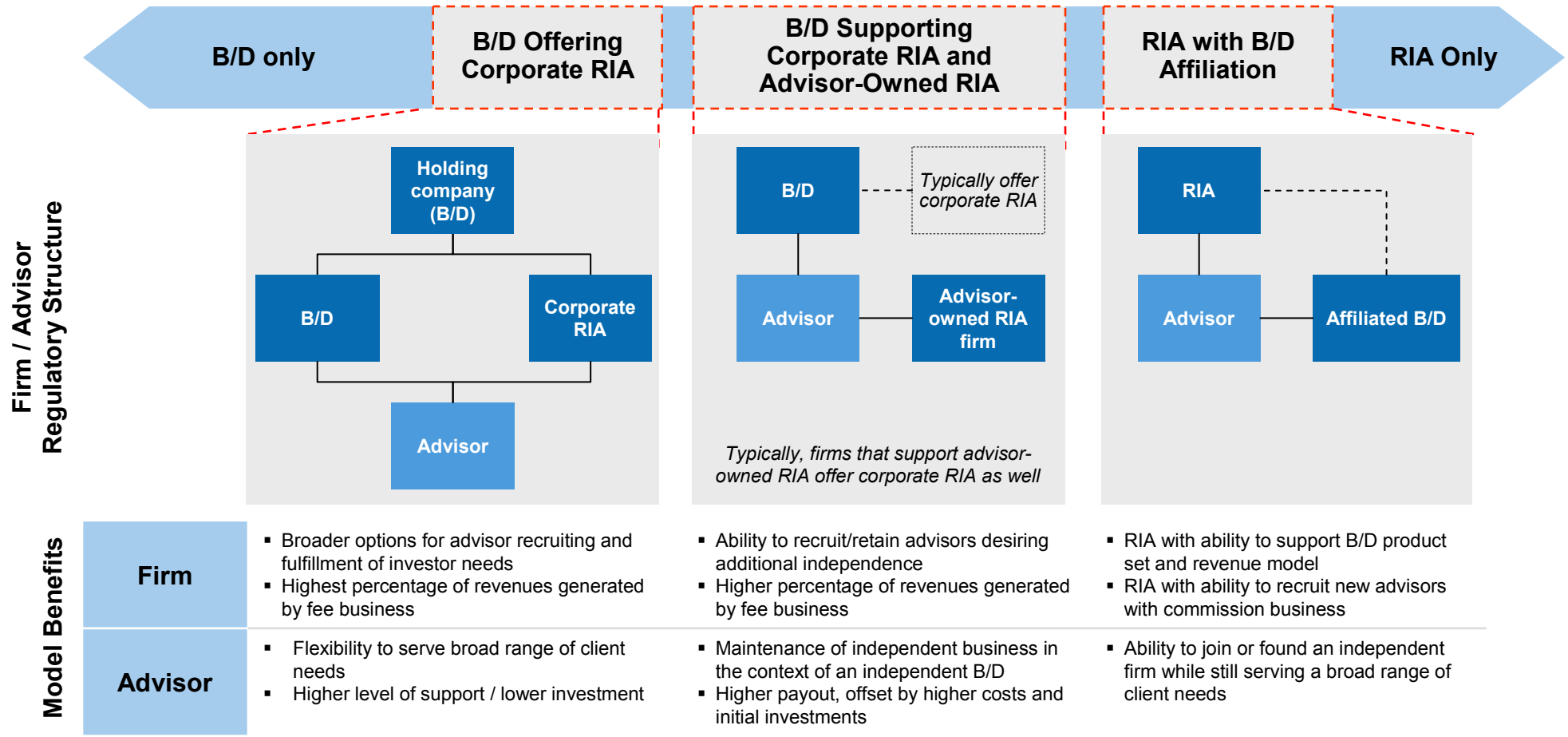
1. Combined 2009 and 2007 estimates; includes \$1.4T in assets at Merrill Lynch Global Wealth Management (2009) and ~\$100B at U.S. Trust (2007 figures; updated AUM estimates not available).

2. 2009 estimates; includes \$1.1T assets at Wells Fargo Advisors and ~\$100B at Wells Fargo Private Bank and Wells Fargo Family Wealth.

Source: Press releases; Booz & Company analysis

Hybrid Formats Offer Flexibility for Firms and Advisors That Have a Mix of Fee-Based and Commission-Based Business

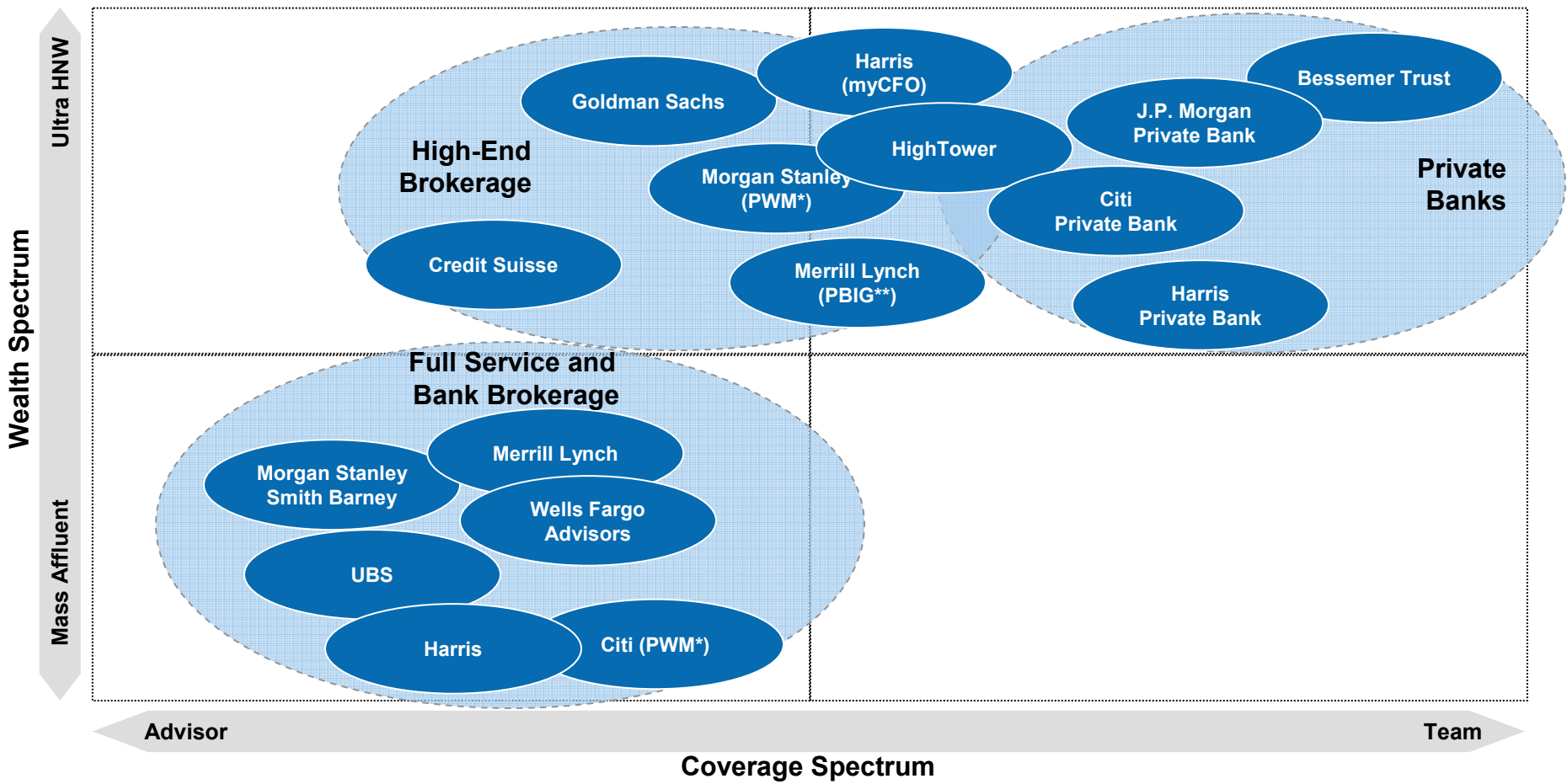
Hybrid Firms' Operating Models



Source: Booz & Company

Team Coverage Models Dominate in the Ultra HNW Market

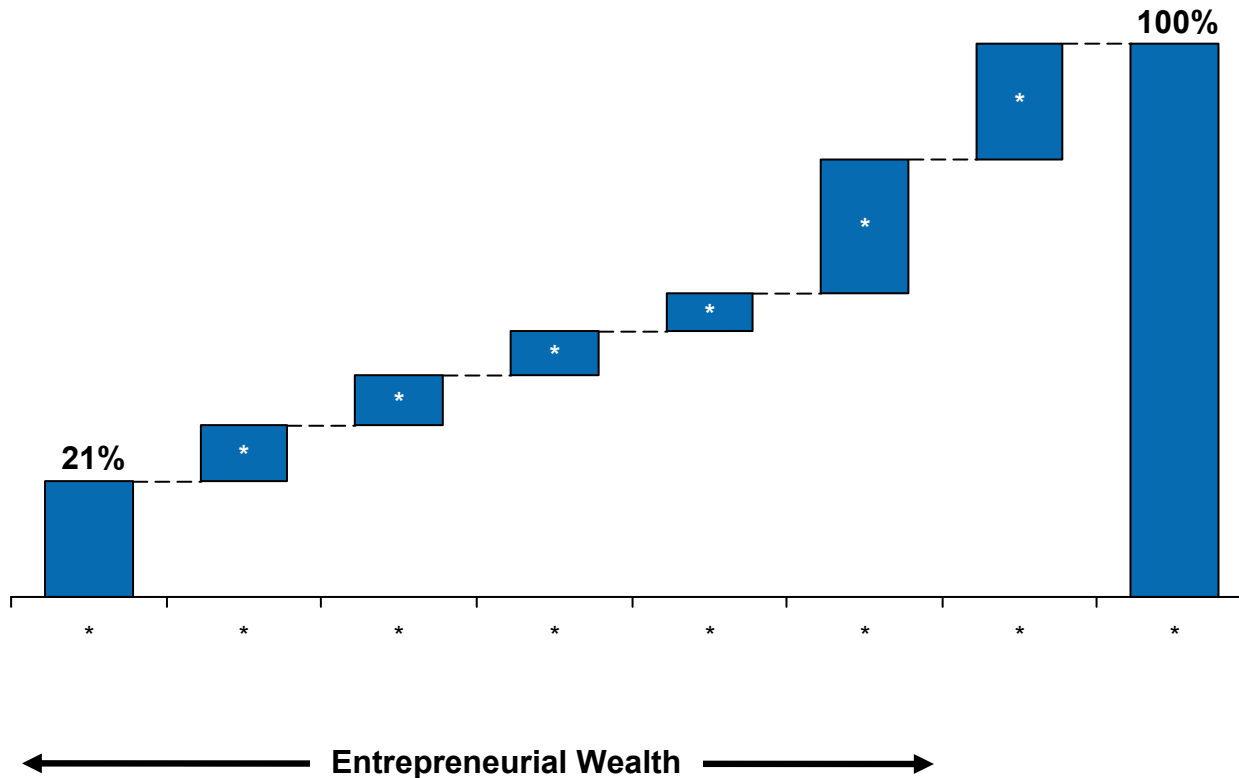
Competitor Map: Coverage Models



* Private Wealth Management
 ** Private Bank Investment Group
 Source: Booz & Company

An Integrated Model Positions Wealth Managers to Serve Entrepreneurs Better Through Wealth Creation Strategies

Sources of Ultra HNW Wealth*



Wealth Creation: The “Private Investment Banking” Model

- Broad range of private banking, commercial banking, and investment banking capabilities
- Team-based, multidisciplinary sales and service coverage model
- Referral protocols to access products within a diversified financial services firm

* Percentages represent composition of the Forbes 400, 2008.
Source: Booz & Company analysis

Conclusions

- The wealth management industry is undergoing a number of changes, from new client behaviors and shifts in sources of profitability to new sales formats and emerging business models
- Wealth management firms can take advantage of these changes. To capture continued growth prospects, they will need to:
 - Focus on client experience
 - Revisit market segmentation and refine their customer value proposition by segment
 - Upgrade or build new capabilities (e.g., product solutions, advice, client knowledge management) to deliver customer value

The most recent list of our offices and affiliates, with addresses and telephone numbers, can be found on our website, www.booz.com

Worldwide Offices

Asia

Beijing
Delhi
Hong Kong
Mumbai
Seoul
Shanghai
Taipei
Tokyo

Australia, New Zealand & Southeast Asia

Adelaide
Auckland
Bangkok
Brisbane
Canberra
Jakarta
Kuala Lumpur
Melbourne
Sydney

Europe

Amsterdam
Berlin
Copenhagen
Doha
Dublin
Düsseldorf
Frankfurt
Helsinki
Istanbul
London
Madrid
Milan
Moscow
Munich
Oslo
Paris
Rome
Stockholm
Stuttgart
Vienna
Warsaw
Zurich

Middle East

Abu Dhabi
Beirut
Doha
Cairo
Dubai
Riyadh

North America

Atlanta
Chicago
Cleveland
Dallas
DC
Detroit
Florham Park
Houston
Los Angeles
Mexico City
New York City
Parsippany
San Francisco

South America

Buenos Aires
Rio de Janeiro
Santiago
São Paulo


Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations.

Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 61 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage.

For our management magazine *strategy+business*, visit www.strategy-business.com.

Visit www.booz.com to learn more about Booz & Company.



Contact Information

New York

John Rolander

Partner

+1-212-551-6069

john.rolander@booz.com

Gauthier Vincent

Senior Executive Advisor

+1-212-551-6522

gauthier.vincent@booz.com

Chuck Lyman

Principal

+1-212-551-6429

chuck.lyman@booz.com

Sofia Graniello

Senior Associate

+1-212-551-6803

sofia.graniello@booz.com