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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 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


<table>
<thead>
<tr>
<th>Year</th>
<th>HNW Population (in millions)</th>
<th>HNW Wealth (in US$ trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>10.2</td>
<td>2.9</td>
</tr>
<tr>
<td>2006</td>
<td>11.3</td>
<td>3.2</td>
</tr>
<tr>
<td>2007</td>
<td>11.7</td>
<td>3.3</td>
</tr>
<tr>
<td>2008</td>
<td>9.1</td>
<td>2.7</td>
</tr>
<tr>
<td>2009</td>
<td>12.7</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Growth rates:
- HNW Wealth: 7% CAGR (2005-2008)


<table>
<thead>
<tr>
<th>HNW Population (in thousands)</th>
<th>Ultra HNW Wealth (in US$ trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.9</td>
<td>9.1</td>
</tr>
<tr>
<td>3.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

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 2002-2007)

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP</th>
<th>HNW</th>
<th>Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>3.6%</td>
<td>7.0%</td>
<td>1.9x</td>
</tr>
<tr>
<td>North America</td>
<td>2.8%</td>
<td>8.4%</td>
<td>3.0x</td>
</tr>
<tr>
<td>Europe</td>
<td>2.5%</td>
<td>4.4%</td>
<td>1.7x</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>5.2%</td>
<td>8.1%</td>
<td>1.6x</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>6.1%</td>
<td>10.8%</td>
<td>1.8x</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.5%</td>
<td>5.9%</td>
<td>1.3x</td>
</tr>
</tbody>
</table>

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

1. Client Behavior
   - Asset allocation shifts toward safer products, and demand for transparency increases
   - Post-crisis, client satisfaction levels are at an all-time low

2. Advisor Movement
   - Advisor migration toward independent channels continues
   - Advisors are increasingly making trade-offs between compensation and services received (issue resolution, portfolio management tools)
   - Battle for HNW clients continues, resulting in expanding war for advisor talent

3. Pressure on Profitability
   - Changes in asset levels and pricing, along with increasing regulatory oversight, are putting pressure on wealth managers’ profitability

Implications

4. Business Models
   - As a response to shifts in the market and profit pressure, firms are adapting their business models
   - New formats in the independent space have emerged to offer new value propositions for firms and advisors
   - New players have entered the market and are attracting breakaway advisors
   - Consolidation is driving scale in bank brokerage and resulting in integrated institutions
   - Team coverage models dominate the ultra HNW space
   - Innovations have emerged in the online space

Source: Booz & Company
Globally, the Downturn Has Engendered More Pragmatic Client Behaviors

Changing Requirements of HNW Investors

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

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*

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

U.S. Retail Wealth Management Market

- **Ultra HNW**
  - Bank Private Banks
    - $1.1T
  - Registered Investment Advisors (RIAs)
    - $1.2T

- **HNW**
  - Independents and Regionals
    - $1.9T
  - Bank Brokers and Insurance
    - $0.6T

- **Mass Affluent**
  - Discount Brokers
    - $1.8T
  - Wire House Private Banks
    - $1 Trillion
  - Wire Houses
    - $4.2T

**End Client Wealth Spectrum**

- **Firm Asset Size**
  - Total Assets: $10.8T

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

Advisor Compensation Structures*

<table>
<thead>
<tr>
<th>Large / Valuable</th>
<th>Lead Flow / Franchise Value</th>
<th>Small / Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inherited book</td>
<td>Advisor not responsible for overhead or team costs</td>
<td></td>
</tr>
<tr>
<td>Broad product set and team of experts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HNW / ultra HNW</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

### Profitability Driver

<table>
<thead>
<tr>
<th>Profitability Driver</th>
<th>Trends</th>
<th>Impact on Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pricing</strong></td>
<td>- Greater price sensitivity in low return environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Pressure on management fees</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>- Lower asset values have decreased earnings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Preference for simple, less risky, and transparent products</td>
<td></td>
</tr>
<tr>
<td><strong>Mandates</strong></td>
<td>- Simplicity and transparency reduce clients’ willingness to delegate wealth management (fewer discretionary mandates)</td>
<td></td>
</tr>
<tr>
<td><strong>Holistic Advice</strong></td>
<td>- Offering integrated advisory services (e.g., insurance, financial planning, risk management) with higher margins</td>
<td></td>
</tr>
<tr>
<td><strong>Tailored Offerings</strong></td>
<td>- Can be addressed via modular product architecture</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Complex products will return, but with lower margins</td>
<td></td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>- Increasing requirements regarding operations, IT, reporting, data security, regulation, etc.</td>
<td></td>
</tr>
</tbody>
</table>

### Priorities

1. Right-size the cost base
2. Upgrade organic growth capabilities
3. Explore new sales formats and business models

Source: Booz & Company
Need to Balance Revenue with Cost to Serve Is Driving Specialization and Standardization Strategies

Creating New Business Models

<table>
<thead>
<tr>
<th>Segment</th>
<th>Specialization Strategies</th>
<th>Standardization Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultra HNW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HNW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affluent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Value Chain

- Marketing / Sales / Advice
- Product / Portfolio Management
- Operations / Infrastructure

Observed Models

- Disintegration of value chain by segments
  - Focus on scale in lower segments
  - Specialization in upper segments

- Niche players / RIAs
  - Focus on upper segments and advice; product specialization
  - Emphasize conflict-free platform; no commissions; no product push

- Large, integrated players
  - Team-based sales and service
  - Increased cross-selling, cost synergies
  - Separate branding (in upper segments) to increase credibility

Source: Booz & Company
### Business Models: Bank Brokerage

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

**Wire House / Bank Brokerage Trends and Implications**

<table>
<thead>
<tr>
<th>Bank and Wire House Consolidation</th>
<th>Increasing Scale Due to Consolidation</th>
<th>Emergence of “Bankerage”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquirer</strong></td>
<td><strong>Bank Acquired</strong></td>
<td></td>
</tr>
<tr>
<td>Bank of America</td>
<td>Merrill Lynch</td>
<td></td>
</tr>
<tr>
<td><strong>$1.5T client assets</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>Wachovia</td>
<td></td>
</tr>
<tr>
<td><strong>$1.2T client assets</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquirer</td>
<td>Bank Acquired</td>
<td></td>
</tr>
<tr>
<td>Capital One</td>
<td>Chevy Chase Bank</td>
<td></td>
</tr>
<tr>
<td><strong>$167B total assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Third Bank</td>
<td>First Charter</td>
<td></td>
</tr>
<tr>
<td><strong>$111B total assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PNC</td>
<td>National City</td>
<td></td>
</tr>
<tr>
<td><strong>$270B total assets</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**

- **B/D only**
  - Holding company (B/D)
  - B/D
  - Corporate RIA
  - Advisor

- **B/D Offering Corporate RIA**
  - Typically offer corporate RIA

- **B/D Supporting Corporate RIA and Advisor-Owned RIA**
  - B/D
  - Advisor-owned RIA firm

- **RIA with B/D Affiliation**
  - RIA
  - Advisor
  - Affiliated B/D

**Firm Benefits**
- Broader options for advisor recruiting and fulfillment of investor needs
- Highest percentage of revenues generated by fee business

**Advisor Benefits**
- Flexibility to serve broad range of client needs
- Higher level of support / lower investment
- Maintenance of independent business in the context of an independent B/D
- Higher payout, offset by higher costs and initial investments

**Model Benefits**
- Ability to recruit/retain advisors desiring additional independence
- Higher percentage of revenues generated by fee business

**Regulatory Structure**
- Typically, firms that support advisor-owned RIA offer corporate RIA as well

**Note:**
- RIA with ability to support B/D product set and revenue model
- RIA with ability to recruit new advisors with commission business
- Ability to join or found an independent firm while still serving a broad range of client needs

*Source: Booz & Company*
Team Coverage Models Dominate in the Ultra HNW Market

Competitor Map: Coverage Models

- **Ultra HNW**
  - High-End Brokerage
    - Goldman Sachs
    - Morgan Stanley (PWM*)
    - Merrill Lynch (PBIG**)
  - Full Service and Bank Brokerage
    - Credit Suisse
    - UBS
    - Morgan Stanley Smith Barney
    - Wells Fargo Advisors
    - Citi (PWM*)

- **Mass Affluent**
  - HighTower
  - J.P. Morgan Private Bank
  - Citi Private Bank
  - Harris Private Bank
  - Bessemer Trust

- **Private Banks**
  - Morgan Stanley Smith Barney
  - Merrill Lynch
  - Wells Fargo Advisors
  - UBS
  - Citi (PWM*)

* 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*

- 21%
- Business Models: Private Banks
- Entrepreneurial 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

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
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