

European Wealth Management

June 2009

Wealth Management prepares to embrace change

The strategic planning cycle has started for most businesses in the European wealth management industry, and one major feature of strategic thinking across wealth management and private banking is the degree of change anticipated by the industry's major players.

MDRC has carried out a short survey of 24 of the EU's major wealth managers and private banks. We held discussions primarily with the finance and planning teams to try and determine the degree of change expected by these businesses and the strategies they were considering to address these changes.

The major finding is that the overwhelming majority of wealth managers and private banks are planning significant changes to their business models to be competitive in what is expected to be a harsher business environment beyond 2009.

Highlights
<ul style="list-style-type: none"> 79% of the wealth managers surveyed are planning "significant" changes to their business models. All of the wealth managers in the above category are exploring geographical expansion - either in their domestic market or in other EU countries. 63% of wealth managers surveyed plan to strengthen their client relationships (and increase "share of wallet") by widening their product offering. 54% of wealth managers surveyed believe that acquisitions are more likely in the current business environment. 75% of wealth managers surveyed plan to maintain or increase business activity during the current economic slowdown.

Figure 1 - Wealth managers expect a much harsher business climate post 2009

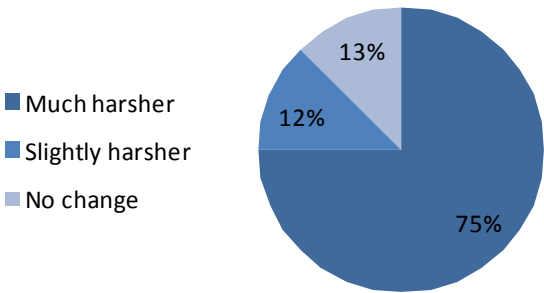
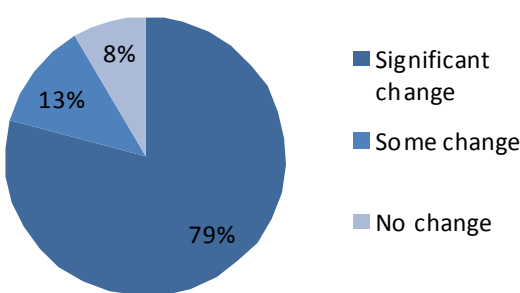


Figure 2 - Wealth managers are planning to change their business models



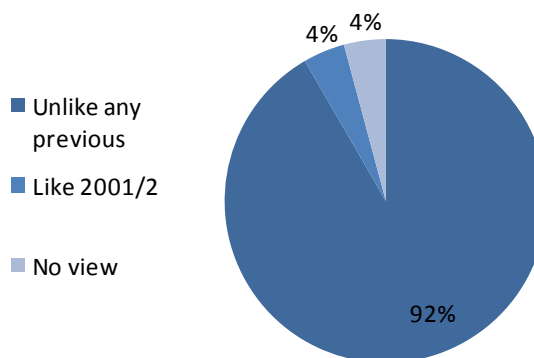
Introduction

MDRC has been assisting a number of major European wealth managers & private banks to understand how the competitive landscape is likely to evolve over the next 2-3 years - as the world emerges from the current recession and there is a return to personal wealth creation.

As part of this process we have sought the views of some of the largest wealth managers and private banks across the EU to identify any common themes in how these business view the next 2-3 years and their ideas on how the industry and their businesses will evolve.

were content that the performance/ profit related remuneration schemes would reduce employment costs in the short term. However, firms were actively reviewing the roles of front line staff given changes in technology.

Figure 3 - Wealth managers believe the current recession is unlike any previous.

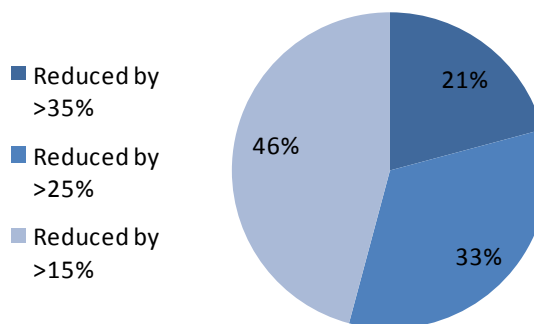


Are there lessons from the past?

One of the consequences of the rapid growth of wealth management in recent years is the lack of a “corporate memory” and one of the roles of consultancies like MDRC is to provide a “corporate memory” where the outcomes of previous strategies can be examined.

However the consensus view from our research is that the current recession and the preceding banking crisis is unlike anything within a corporate memory. To quote from L.P Hartley *"The past is a foreign country: they do things differently there"*. The consensus view is also that pre-recession strategies will be insufficient to allow wealth managers and private banks to achieve their expected targets, and most firms are actively re-appraising their business models.

Figure 4 - Wealth managers believe that new business income will be sharply reduced in 2009/10



In our discussions it became apparent that virtually all firms were considering “tactical” as opposed to “strategic” initiatives to reduce their cost bases. With employment the largest single cost item for most firms, few were considering substantial reductions in the number of front office staff employed - most firms

There is also broad agreement that client acquisition is likely to be significantly more difficult in the near term, with both numbers of new clients and the income generated per client substantially lower in 2009/10 than in previous years.

However, where there is an interesting divergence is in the strategic choices being considered by firms to address the more difficult business environment.

“Expansionary” or “Defensive”

The strategic choices can be broadly categorised as **“Expansionary”** or **“Defensive”**. The choice of strategic direction is driven by the firm’s expectation of the timing of a market recovery. The two strategies are not mutually exclusive, but only the very largest firms have the resources to implement both in the current environment.

“Expansionary” strategies are those where the firm intends to build the client base and gain market share, primarily by extending the current product or service offer to more locations - either in existing countries of operation or in new countries - as a way of increasing client acquisition. At the heart of this strategy is a belief that the core business infrastructure has excess capacity and that additional business volume can be accommodated at low marginal cost. Expansion in a domestic market is relatively straightforward, either by organic growth or by acquisition; expansion in a new country usually involves an acquisition. Only firms with some form of existing presence in a foreign location could consider “De-novo” operations.

“Defensive” strategies focus on building a stronger relationship with the client, aiming to provide a greater share of the client’s financial needs. 63% of the wealth managers in the survey believed that it was a priority to increase the clients’ “share of wallet”, and also displace competing relationships with the client. Expanding the range of products and services offered to client becomes a priority. Alliances and partnerships to provide these new products and services are integral to this strategy.

Figure 5 - Increasing the local market presence is a priority for major wealth managers

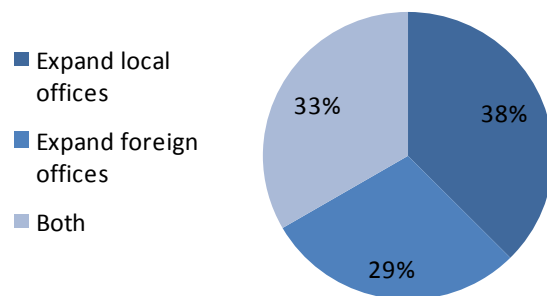


Figure 6 - UK expansion is the highest priority for wealth managers in the survey

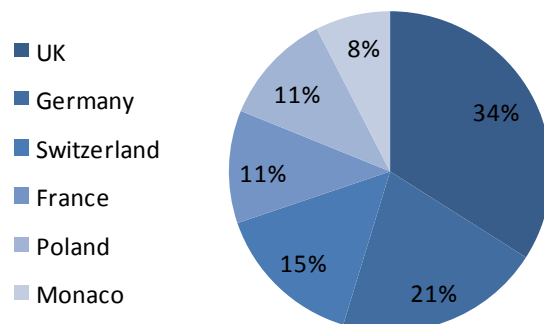
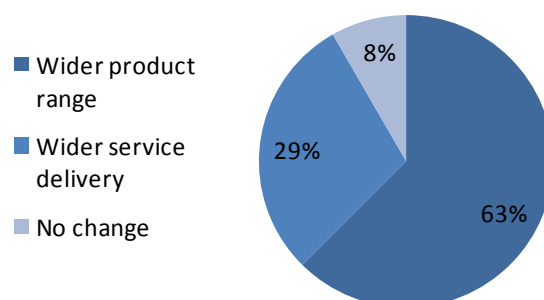


Figure 7 - Widening the product or service mix is being considered by a majority of wealth managers.



This short survey was unusual in that we sought input from the planning and finance functions of the wealth management businesses rather than from the commercial management of the firms concerned.

Preparing to embrace change

The responses we obtained suggest that the overwhelming majority of wealth managers and private banks believe that their current business models (client acquisition, product offers and service delivery) will not deliver the performance expected from the business. It is interesting that cost reduction alone is also considered unlikely to deliver a sufficient improvement in business performance. One interesting finding was that the majority of the firms were examining alternative fee structures as the profitability of some clients (particularly with large and complex portfolios) comes under pressure.

The view from the participants in this survey is that the wealth management sector is preparing for a period of change and (at least) the major businesses are examining all options available in order to be competitive in what is expected to be a harsher business environment beyond 2009.

Figure 8 - Most of the businesses in the survey think that there will be an increase in mergers or acquisitions in wealth management.

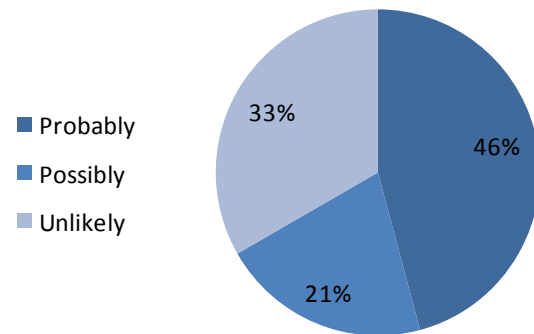
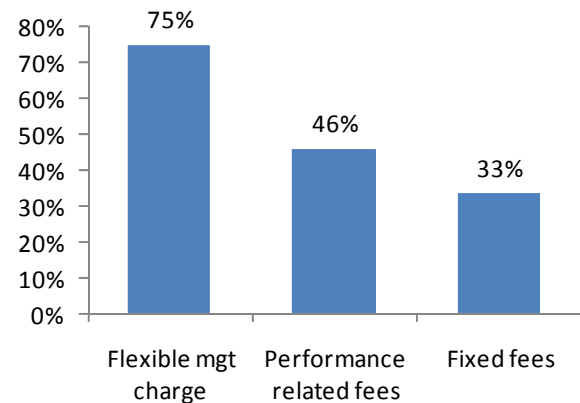


Figure 9 - The survey found that most firms are examining a number of alternative fee options.



About MDRC

MDRC is a management consulting firm and a leading advisor on wealth management and private banking business strategy.

We help clients in all sectors of financial services across the EU and the Middle East to gain a better understanding of their target markets, identify highest-value opportunities, benchmark their performance and improve the way they work.

• **Creating an impact - Innovation & Sustainable Advantage**

We help our clients build a sustainable competitive advantage by focusing on the core skills of client management, marketing and brand strategy and product and corporate development.

Our approach to consulting combines deep insight into the dynamics of business organisations and unrivalled knowledge of the wealth management and private banking industries. MDRC's associates cover all 27 states of the EU and the world's major financial centres.

• **Understanding consequences - Strategic Research**

MDRC's strengths come from our investment in strategic research. Each year MDRC group commissions strategic research into the key issues impacting on the world's wealth markets to stay relevant to our clients and bring them unparalleled thinking and advice.

MDRC's proprietary research base of HNW individuals in countries across the EU allows rapid and accurate testing of most business hypotheses at minimal cost.

• **Committed to success and value - Business Planning**

We believe that consultants should only provide business managers the support they require. If this means that assignments are focused on simply validating or challenging business assumptions and plans, we are happy to work on that basis.

We focus on facilitating the strategic and business planning process; we support businesses to develop robust strategies and we test existing plans against our market knowledge and planning scenarios.

• **Building reliability - Understanding and Improving Client Relationships**

We are committed to assisting our clients in understanding and improving their client relationships and expand their client bases. A key element of our proprietary research focuses on the potential of the client relationship and the performance of organisations in meeting clients' needs and expectations.

Over the past 10 years we have developed robust methodologies to measure and improve client satisfaction and retention in service sector businesses.

• **Building the future – the Position Assessment**

The foundation for building a competitive and robust business is to understand the strengths and weaknesses of that business and those of its competitors; when this is carried out with a structured methodology we call this a "Position Assessment". We develop new insights about the business and the market, assist the business to act and drive tangible results, and become more capable.