

BCG

REPORT

GLOBAL WEALTH 2007

Tapping Human Assets to Sustain Growth



THE BOSTON CONSULTING GROUP

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 66 offices in 38 countries. For more information, please visit www.bcg.com.

Tapping Human Assets to Sustain Growth

GLOBAL WEALTH 2007

Victor Aerni

Christian de Juniac

Bruce Holley

Tjun Tang

September 2007

© The Boston Consulting Group, Inc. 2007. All rights reserved.

For information or permission to reprint, please contact BCG at:

E-mail: bcg-info@bcg.com

Fax: +1 617 973 1339, attention BCG/Permissions

Mail: BCG/Permissions

The Boston Consulting Group, Inc.

Exchange Place

Boston, MA 02109

USA



Contents

Note to the Reader	5
Preface	6
Executive Summary	7
The Global Wealth Market: Expanding to \$100 Trillion	11
Global Overview	11
Millionaire Households	16
Regional and Country Highlights	18
The Middle East: Pursuing Growth in a Challenging Market	20
Market Overview	20
Growth Strategies	21
Challenges for Wealth Managers	22
Succeeding in the Arab States of the Gulf	22
Wealth Manager Benchmarking: Tracing the Drivers of Performance	25
Benchmarking Study	25
Profitability Trends	25
Performance Levers	27
Growing from Within: Focusing on Human Assets to Drive Growth	37
Improving Sales Force Productivity	37
Reinvigorating and Broadening the Role of the Team Leader	40
Managing and Developing Human Assets	41
For Further Reading	44



Note to the Reader

This is our seventh Global Wealth report. As we did in previous years, we relied on several sources to develop insights into wealth markets and performance trends in the industry: a study of wealth markets around the world, a global benchmarking survey of wealth managers, in-depth interviews with players across regions, and our own experience working with industry leaders. We share the results of our analysis in the following pages, and, as always, we welcome your comments.

Acknowledgments

First and foremost, we thank the financial institutions that participated in our benchmarking survey and in-depth interviews. The experts at these institutions provided invaluable insights into global wealth markets, rounding out our understanding of a range of topics, including changes in profitability and drivers of performance. They also gave us a firsthand perspective on the opportunities, challenges, and key success factors in their respective markets.

Several leaders in BCG's Financial Services practice made important contributions to this year's report: for Latin America, Jorge Becerra, Federico Muxi, and Guillermo Peschard; for Asia-Pacific, Kim Wee Koh and Matthew Rogozinski; for Europe, Andre Helfenstein, Ludger Kübel-Sorger, and Andy Maguire; for North America, Monish Kumar, Paul Orlander, and Steven Thogmartin; and for the Middle East, Markus Massi and Sven-Olaf Vathje.

We thank the members of the editorial and production teams, including Barry Adler, Katherine Andrews, Gary Callahan, Dan Coyne, Mary DeVience, Elyse Friedman, and Kim Friedman. We also acknowledge the BCG consulting team that led the effort to produce this year's report: Valeria Bruno, Marc Heissenbüttel, Thomas Schoch, and Anna Zakrzewski.

For Further Contact

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

Victor Aerni

Partner and Managing Director
BCG Zurich
+41 44 388 86 66
aerni.victor@bcg.com

Christian de Juniac

Senior Partner and Managing Director
BCG London
+44 207 753 5353
dejuniac.christian@bcg.com

Bruce Holley

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

Tjun Tang

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



Preface

Last year's Global Wealth report revealed how wealth managers can unlock their potential for growth by developing a deeper understanding of their clients. This year's report, our seventh, examines the greatest source of organic growth *within* wealth management players—namely, their human assets.

Drawing on in-depth interviews with a range of wealth managers as well as our own experience in the industry, this report describes how players can improve their performance by boosting sales force productivity, redefining the role of the team leader, and managing and developing human assets. In combination, these selected measures provide the foundation for virtually any effort to improve sales force effectiveness. The report also highlights a full range of levers that can improve organic growth.

In addition, the report examines the opportunities and challenges of pursuing growth in the Middle East, one of the world's most prominent wealth markets. Drawing on interviews with local and international wealth managers and our experience in the region, we outline the strategies that players are already using, as well as those they should pursue, to make the most of this attractive market.

The report also presents our findings from a comprehensive market study of wealth, which covered 62 countries representing more than 96 percent of global GDP, and an equally comprehensive bench-

marking survey of 111 wealth managers, who oversaw a total of \$9.9 trillion in client assets and liabilities (CAL). Together, the study and survey shed light on broad trends in wealth markets and the range of factors that gave rise to strong performance.

Our insights into wealth markets and performance drivers, together with the specific productivity initiatives we identified through in-depth interviews, can help players craft new strategies for gaining a larger, more profitable share of the global market for wealth management. We hope that you find this report insightful and thought provoking.

Executive Summary

Our report begins with an overview of wealth markets around the world, followed by an in-depth look at a high-profile market: the Middle East. We then present findings from our survey of wealth managers, concluding with recommendations for how they can improve their performance by focusing on human assets.

The Global Wealth Market: Expanding to \$100 Trillion

Global wealth, measured in local currencies, grew by 7.5 percent in 2006 to reach \$97.9 trillion. This increase marked the fifth consecutive year of expanding wealth.

- North America (the United States and Canada) and Europe had the deepest pools of wealth, at \$36.2 trillion and \$33.0 trillion, respectively. Combined, these countries accounted for 27 percent of all households and 71 percent of global assets under management (AuM).¹
- The next-largest wealth markets were Japan and the rest of Asia-Pacific, with \$11.9 trillion and \$10.6 trillion in AuM, respectively.²
- The smallest markets were Latin America, with \$3.4 trillion in AuM, and the Middle East and Africa, with \$2.9 trillion in AuM.

- When wealth was measured in local currencies, Asia-Pacific (excluding Japan) and Latin America had the strongest gains in AuM in 2006, at 12.8 percent. AuM in the Middle East and Africa grew by 8.9 percent. North America also posted above-average growth at 8.0 percent, while Europe achieved a gain of 5.8 percent in AuM. Japan had the slowest growth in AuM, at 3.9 percent.
- Measured in U.S. dollars rather than in local currencies, global wealth grew by 11.7 percent last year.
- The impact of a weak U.S. dollar varied by region. The currency effect was strongest in Europe, where growth in AuM was 11.8 percentage points higher when measured in U.S. dollars. In Asia-Pacific (excluding Japan) and Latin America, the growth of AuM was 4.7 percentage points and 4.0 percentage points higher, respectively, when measured in U.S. dollars.

Wealthy households—those with at least \$100,000 in AuM—represented 16.5 percent of

1. AuM, or assets under management, includes listed securities held directly or indirectly through managed investments, cash deposits, money market funds, and onshore and offshore assets. It excludes wealth attributed to investors' own businesses, residences, or luxury goods. Global wealth reflects total AuM across all households.

2. In the section on sizing the global wealth market, Japan is analyzed separately from the rest of the Asia-Pacific region. In the benchmarking section, Japan is included in the Asia-Pacific sample.

all households but owned 86.3 percent of AuM in 2006.

- From 2001 to 2006, the proportion of wealthy households increased from 11.5 percent to 16.5 percent, as the ranks of the wealthy swelled by 80 million households.
- During this period, the AuM owned by wealthy households climbed from \$51.4 trillion to \$84.5 trillion, while AuM owned by nonwealthy households declined, albeit slightly.

The amount of wealth held offshore increased by 10.7 percent in 2006 to \$6.7 trillion, while onshore wealth increased by 11.8 percent to \$91.2 trillion.

- Offshore wealth decreased from 7.4 percent of total wealth in 2002 to 6.9 percent in 2006. It is projected to decline to 6.3 percent by 2011.
- More than one-quarter of the wealth in Latin America and the Middle East and Africa was held offshore, compared with only 2.0 percent in North America.

Millionaire households represented the richest 0.7 percent of all households, and they owned \$33.2 trillion—or about one-third—of global AuM.

- The United States had, by far, the highest number of millionaire households, followed by Japan, the United Kingdom, and Germany. China ranked fifth, ahead of major European economies such as France and Italy.
- The top 15 cities, ranked by the number of millionaire households, included 10 from the United States, 3 from Europe, and 2 from Japan.
- Small countries and city-states had the highest densities of millionaire households, measured as a percentage of total households. The United Arab Emirates and Switzerland led the ranking, with millionaire households accounting for 6.1 percent of all households in each country—almost nine times the global average.

- The total number of millionaire households grew by 14.0 percent last year, but the growth rates varied widely by region. In Europe, the number of millionaire households grew by 26.4 percent. Asia-Pacific (excluding Japan) and Latin America also had above-average growth at 19.3 percent and 16.3 percent, respectively. In North America, millionaire households grew by 9.0 percent.

A comparison of wealth markets, by region and country, highlights the extraordinary growth of emerging markets.

- China and Brazil had the highest compound annual growth rates (CAGRs) in AuM from 2001 to 2006, at 23.4 percent and 22.4 percent, respectively; the global average for the period was 8.6 percent. Of course, these and other emerging markets grew from a relatively low base of assets.
- Four of the top six countries, measured by CAGR in AuM from 2001 to 2006, were from Central and Eastern Europe (CEE)—Hungary, Poland, Slovakia, and the Czech Republic.

The Middle East: Pursuing Growth in a Challenging Market

The six countries of the Cooperation Council for the Arab States of the Gulf (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—represent an attractive wealth market.

- The average AuM of wealthy households in the GCC region was close to \$1 million in 2006, compared with the global average of less than \$400,000.
- The rise in oil prices has been a major driver of economic growth in the GCC region, but governments have also been diversifying their economies to develop sustainable income sources beyond the oil industry.

Nearly all major international players are currently working to establish representative of

ices or a more substantial presence in the GCC region. Many face a challenging and highly competitive environment.

- Entrenched foreign players have already proved their commitment to the region. At the same time, local players can leverage both their close relationships with leading families and their widespread banking networks in the region.
- Intensified competition has led to margin pressure, eroding prices, product commoditization, and a tightening market for talent.
- Foreign players must also contend with growing competition from Islamic banks. These banks offer products that are not only compliant with shari'a, or Islamic law, but also, in many cases, mirror both the performance and variety of conventional offerings.

Many global players have already made inroads into the GCC region. Their experiences highlight several factors that can help players establish a strong and growing presence.

- Some factors—such as the need to attract talent and build strong client relationships—apply to all players, both international and regional.
- Entrants will need to pay particular attention to understanding the needs of local clients, networking to build strong credentials, and showing a clear commitment to the region, ideally with a comprehensive portfolio of suitable products.
- Larger international players should leverage their expertise in investment and corporate banking to provide an end-to-end offering that meets the full spectrum of clients' needs.

Wealth Manager Benchmarking: Tracing the Drivers of Performance

Participants in the global benchmarking survey had a median pretax profit margin of 34.7 per-

cent in 2006, and fewer than 5 percent of participants showed a loss. Such strong performance was the result of concerted efforts to complement superior profitability with growth.

- Players in Latin America achieved the highest median return on assets (ROA) and the strongest growth in net new assets (NNA)—13.7 percent.
- Wealth managers in Asia-Pacific, together with European onshore players, also managed to combine high ROA performance with strong growth in NNA.³
- Players that operated in other markets or used other business models had difficulty achieving both strong profitability and growth. The competitive North American market, for example, had the lowest median growth in NNA in 2006—4.9 percent.

European offshore and onshore banks had the highest median CAL per relationship manager (RM), at \$198 million and \$173 million, respectively. North American brokers had the lowest median CAL per RM, well below \$100 million.

- CAL per RM is a function of two measures: the number of clients served by an RM, which is a figure linked to a wealth manager's service model, and the average client size.
- At North American brokers, RMs on average served more than four times the number of clients their counterparts in Asia-Pacific served—256 versus 61.
- By contrast, individual clients in Asia-Pacific had by far the highest median CAL, at \$2.2 million, while individual clients of North American brokers had the lowest, at \$0.3 million.
- Client size has a significant impact on margins. Richer clients, who have more bargaining power, tend to generate less revenue per CAL, while cli-

3. For our analysis, we defined onshore players as those that held more than 50 percent of their AuM onshore; offshore players held more than 50 percent of their AuM offshore.

ents with less wealth typically generate higher margins.

Variations in performance were also driven by cost-to-income and cost-to-CAL ratios.

- Much of the increased profitability of European players, for example, was attributable to better cost management and control. Their median cost-to-CAL ratio decreased from 67 basis points in 2003 to 55 basis points in 2006.
- North American competitors improved their median cost-to-CAL ratio only slightly, from 66 basis points in 2003 to 63 basis points in 2006.
- Players in Asia-Pacific increased their cost-to-CAL ratios during the same period, from 48 to 52 basis points. The rise was driven largely by an approximately 100 percent increase in average compensation paid to RMs in the region between 2004 and 2006, which itself resulted from strong market growth and a profound shortage of qualified talent.

Growing from Within: Focusing on Human Assets to Drive Growth

Although a wide range of factors contribute to a wealth manager's performance, the most decisive factor is often its *human* assets. Improving sales force productivity is one of three initiatives that will build a foundation to support the full organic-growth potential of human assets.

- To improve productivity, wealth managers must start by finding ways to make RM and team performance more transparent and then promote this increased transparency throughout the organization. This step will be instrumental in driving a range of measures designed to improve sales force effectiveness.
- Players should also introduce a coaching culture, which—like performance transparency—can

support other initiatives to boost the productivity of RMs.

- A third productivity initiative, referral management, is underutilized by many wealth managers, but it has the potential to unleash tremendous organic growth.

Players should complement their efforts to improve productivity with two other performance initiatives: reinvigorating and broadening the role of the team leader and developing better processes for managing and developing human assets.

- Team leaders will need to play a pivotal role in managing the cultural change that must accompany efforts to boost productivity, especially performance transparency.
- Productivity gains will be jeopardized unless wealth managers can develop better systems for recruiting and training RMs, managing the transition of clients between RMs, and implementing performance-based compensation.



The Global Wealth Market

Expanding to \$100 Trillion

Global wealth grew by 7.5 percent in 2006 to reach \$97.9 trillion, measured in local currencies.⁴ This increase marked the fifth consecutive year of expanding wealth. And, given the positive outlook for underlying economic growth, we expect AuM to continue its steady rise.

As it was in previous years, AuM was concentrated in certain regions—North America and Europe, in particular—and among wealthy households, which we define as having more than \$100,000 in AuM. In 2006 about 9.6 million households around the world had more than \$1 million in AuM, an increase of 14.0 percent from 2005. These were the richest 0.7 percent of households, and they owned \$33.2 trillion—or about one-third—of global AuM.

A look at wealth, by country, revealed strong growth in emerging markets—especially China and Brazil, but also in several countries located in CEE—despite the prevalence of cash holdings. We also found ongoing shifts in investment preferences in the Middle East, where the proportion of onshore AuM continued to rise.

Global Overview

North America (the United States and Canada) and Europe had the deepest pools of wealth, at \$36.2 trillion and \$33.0 trillion, respectively. (See Exhibit 1, page 12.) Combined, these countries ac-

counted for 27 percent of all households and 71 percent of global AuM. The next-largest wealth markets were Japan and the rest of Asia-Pacific, with \$11.9 trillion and \$10.6 trillion in AuM, respectively. The smallest markets were Latin America, with \$3.4 trillion in AuM, and the Middle East and Africa, with \$2.9 trillion in AuM.

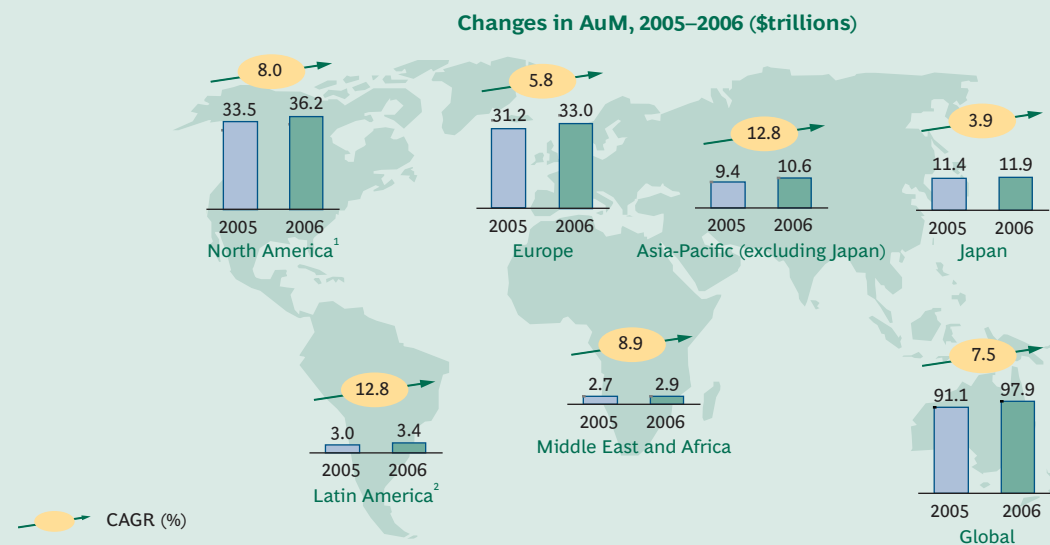
Market Growth. Measured in local currencies, Asia-Pacific (excluding Japan) and Latin America had the strongest gains in AuM, at 12.8 percent. AuM in the Middle East and Africa grew by 8.9 percent. North America also posted above-average growth, at 8.0 percent, while European AuM achieved a 5.8 percent gain. Japan's AuM had the slowest growth, at 3.9 percent.

Measured in U.S. dollars, global wealth grew by 11.7 percent last year, due to a weak U.S. dollar. The currency effect was strongest in Europe, where AuM growth was 11.8 percentage points higher when measured in U.S. dollars. (See Exhibit 2, page 12.) In Asia-Pacific (excluding Japan) and Latin America, the growth of AuM was 4.7 and 4.0 percentage points higher, respectively, when measured in U.S. dollars.

In other regions, the currency effect was either negligible or negative. In North America, AuM growth was constant when measured in U.S. dollars, as the

4. Unless stated otherwise, growth rates in this report are calculated in U.S. dollars.

Exhibit 1. Global Wealth Neared \$100 Trillion in 2006



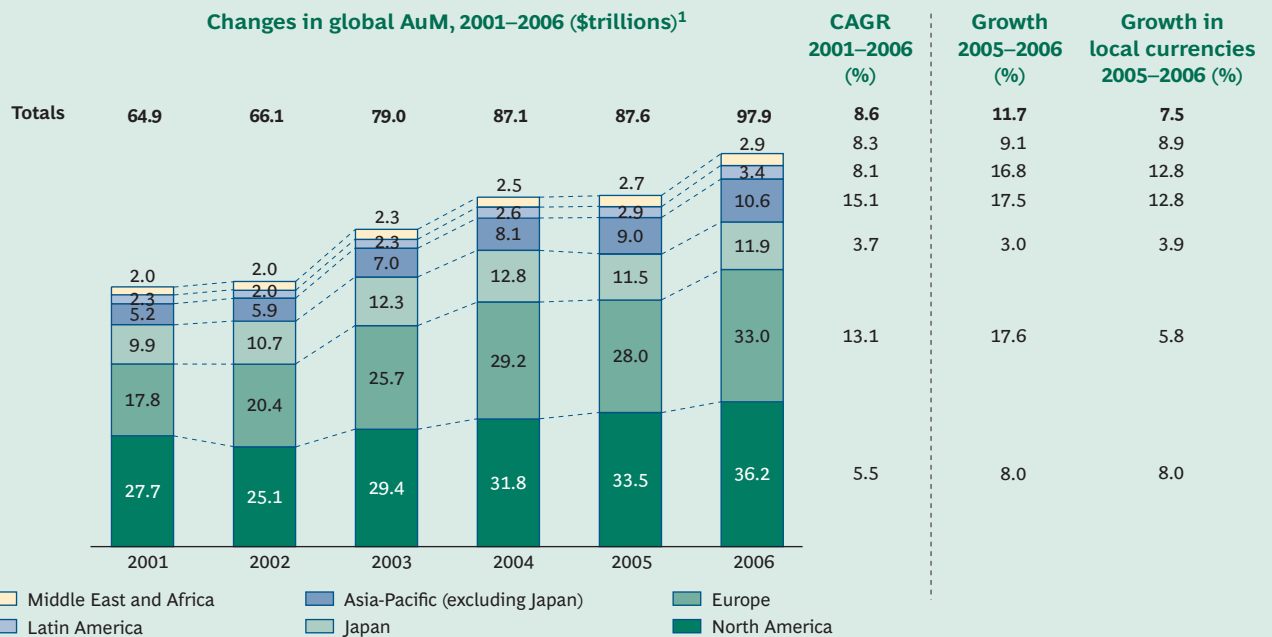
Source: BCG Global Wealth Market-Sizing Database, 2007.

Note: Percentage changes and global totals of AuM are based on complete, not rounded, numbers. Also, AuM levels vary slightly from last year's report because of changes in underlying macroeconomic data; calculations for 2005 are based on the same methodology used in the 2006 calculations. AuM in 2005 was calculated using 2006 U.S. dollar exchange rates. Global wealth is measured in AuM across all households; growth rates are measured in local currencies.

¹United States and Canada.

²South America, Central America, and Mexico.

Exhibit 2. A Weak U.S. Currency Amplified Growth in AuM as Measured in U.S. Dollars



Source: BCG Global Wealth Market-Sizing Database, 2007.

Note: AuM levels vary slightly from last year's report because of changes in underlying macroeconomic data; calculations for 2001 to 2005 are based on the same number of countries and the same methodology used in the 2006 calculations. Column totals and percentage changes in AuM are based on complete, not rounded, numbers.

¹Growth rates are measured in U.S. dollars and therefore may be higher or lower than actual growth in AuM as measured in local currencies.

Canadian dollar remained quite stable, and Canada's wealth represented only a small fraction of the region's AuM. The currency effect was also muted in the Middle East and Africa, since many Middle Eastern currencies are pegged to the U.S. dollar. In Japan, by contrast, AuM growth was lower when measured in U.S. dollars, due to a weak yen.

Drivers of Growth. Apart from the currency effect, growth in global wealth can be attributed to two factors: savings and market performance, which includes the impact of markets for stocks, bonds, and cash.⁵ The latter led to a 5.7 percent increase in AuM—a significant contribution, given that AuM grew by a total of 7.5 percent. Stock markets grew, on average, 20 percent worldwide, but their impact was most acute in North America, which had the highest rate of equity holdings as a percentage of AuM. Stock market gains, together with other market-performance factors, produced an 8.1 percent increase in North American AuM, which was marginally offset by a negative savings rate. In Europe, where investors had a lower rate of equity holdings, market performance accounted for 3.0 percent growth in AuM.

Although large equity stakes can provide a performance edge, they also introduce greater risk and volatility. In 2002, for example, stock markets fell by more than 20 percent, on average, but only North America experienced a drop in AuM. All other regions posted gains, which together compensated for the losses in North America and led to a slight increase in global wealth.

Distribution of Wealth. For the purposes of this report, we segmented wealthy households into three categories: the affluent, with \$100,000 to \$1 million in AuM; the emerging wealthy, with \$1 million to \$5 million in AuM; and the established wealthy, with more than \$5 million in AuM. Wealthy households, which represented 16.5 percent of households worldwide, owned 86.3 percent of global AuM in 2006. AuM was further concentrated among the wealthiest households, with the richest 0.1 percent, those with more than \$5 million in AuM, owning 17.5 percent of global wealth, and millionaire households, the richest 0.7 percent, owning a total of \$33.2 trillion—or 33.9

percent—of global AuM. (See Exhibit 3, page 14.) The affluent segment, with AuM between \$100,000 and \$1 million, accounted for 15.8 percent of households and owned 52.5 percent of global AuM.

The distribution of wealth among all households changed significantly from 2001 to 2006. The proportion of wealthy households increased from 11.5 percent to 16.5 percent, as the ranks of the wealthy swelled by 80 million households. Most joined the affluent segment, but the established wealthy segment—the richest households—grew at the highest CAGR: more than 10 percent from 2001 to 2006.

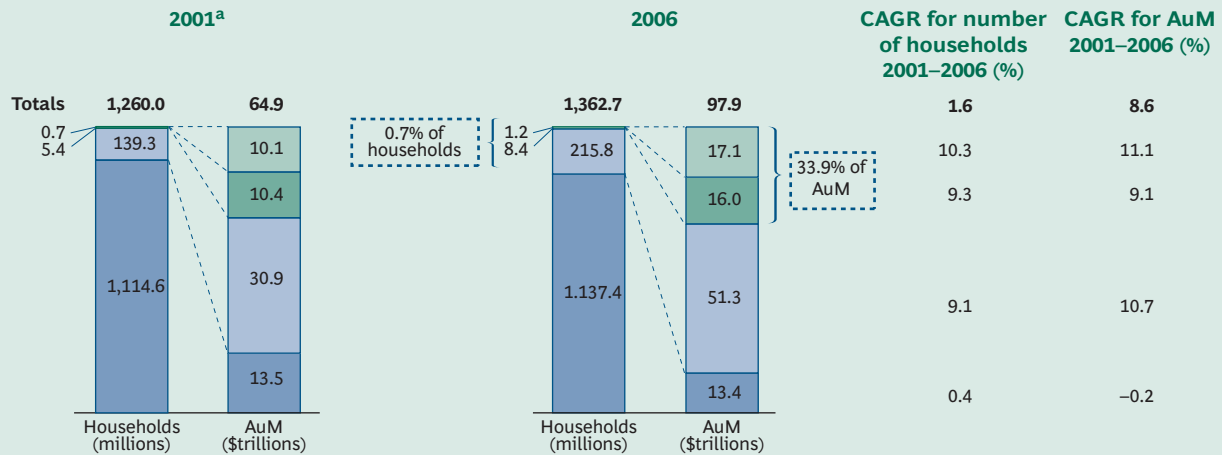
The total AuM owned by wealthy households climbed from \$51.4 trillion in 2001 to \$84.5 trillion in 2006. In stark contrast, the total AuM owned by nonwealthy households declined from 2001 to 2006, albeit slightly. Their share of global AuM fell from 20.8 percent to 13.7 percent during this period, even as the number of nonwealthy households grew at a CAGR of 0.4 percent.

The distribution of wealth, by asset class, continued to rebound from the dot-com crash of 2000 and from subsequent global downturns. The proportion of AuM held in equities reached 39.2 percent in 2006, up from 31.6 percent in 2002. At the same time, the proportion of AuM held in cash and deposits declined from 37.4 percent to 33.2 percent, and the proportion held in bonds fell from 22.2 percent to 19.5 percent. Asia-Pacific's wealth markets, in particular, experienced a steady move away from cash holdings.

Offshore Wealth. The amount of offshore wealth increased by 10.7 percent in 2006, to \$6.7 trillion, but the share of wealth held offshore fell to 6.9 percent. The primary reasons for holding offshore assets—such as underdeveloped local financial sectors and political instability—stayed relatively constant and continued to shape a distinct pattern of offshore activity across regions. More than one-quarter of the wealth in Latin America and the Middle East and Africa was held offshore, for

5. Market performance was calculated by subtracting savings from overall growth in AuM, measured in local currencies.

Exhibit 3. Millionaire Households Represented 0.7 Percent of All Households but Owned 33.9 Percent of Global AuM



Even though overall wealth increased by a CAGR of 8.6 percent—growing nearly five times faster than the number of households—the nonwealthy did not see their AuM rise

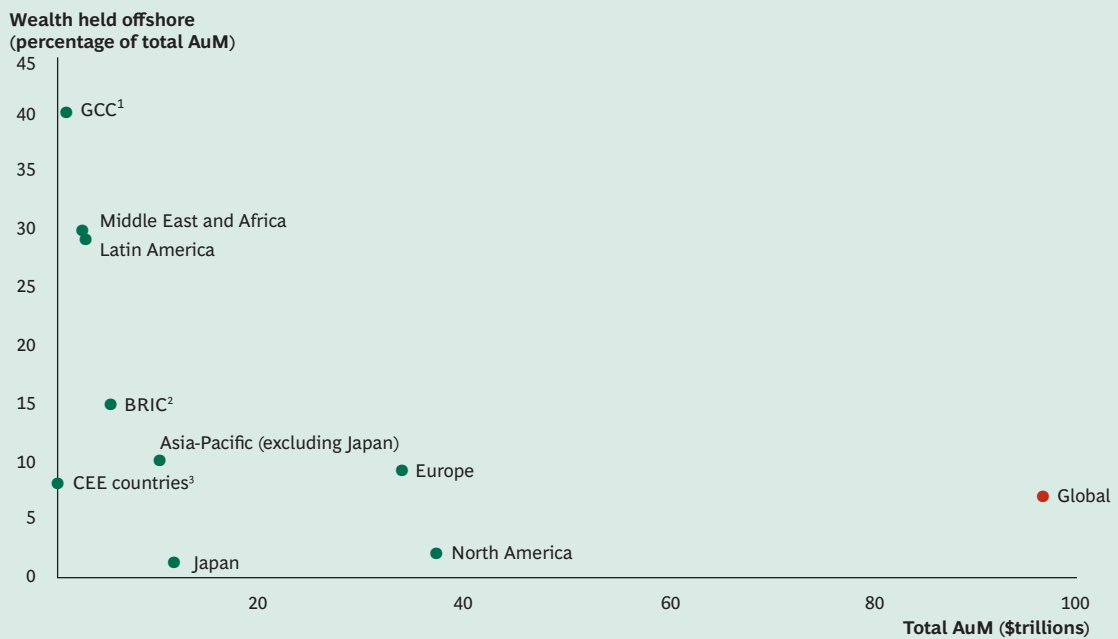
- Established wealthy (more than \$5 million in AuM)
- Affluent (\$0.1 million to \$1 million in AuM)
- Emerging wealthy (\$1 million to \$5 million in AuM)
- Nonwealthy (less than \$0.1 million in AuM)

Source: BCG Global Wealth Market-Sizing Database, 2007.

Note: Percentage changes and global totals of AuM are based on complete, not rounded, numbers. Compound annual growth rates (CAGRs) are measured in U.S. dollars.

^aFor consistency, the households and AuM for 2001 were recalculated using the same number of countries and the same methodology used in 2006 calculations.

Exhibit 4. Emerging Markets Held the Highest Proportion of Wealth Offshore



Source: BCG Global Wealth Market-Sizing Database, 2007.

¹The Cooperation Council for the Arab States of the Gulf (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

²BRIC = Brazil, Russia, India, and China.

³The Central and Eastern European (CEE) countries included are the Czech Republic, Hungary, Poland, and Slovakia.

example, compared with only 2.0 percent in North America. (See Exhibit 4.) In certain regions, however, offshore investing has begun to lose some of its appeal, creating new opportunities to manage onshore wealth. (See the sidebar “Latin America’s Onshore Opportunity.”) Globally, offshore wealth is projected to decline to 6.3 percent of total wealth by 2011.

In 2006 onshore wealth grew faster than offshore wealth. Investors in Western countries—particularly those in Europe, who owned more than 40

percent of all offshore AuM in 2006—faced growing regulatory pressure to curtail offshore investing, while tax amnesties made it easier to repatriate offshore wealth. Furthermore, investors in emerging markets are being drawn to more attractive onshore investments.

Still, the vitality of the offshore market should not be underestimated. Many of the world’s wealthiest investors continue to relocate both their companies and their private domiciles to locations with more favorable tax structures, usually as part of

Latin America’s Onshore Opportunity

Latin America accounted for only about 3 percent of global AuM in 2006, but rapidly growing wealth, coupled with a steady increase in onshore investing, makes the region an attractive destination for international players.

Offshore investments have long been prominent in Latin America—especially among investors in Argentina and Venezuela—but they have been losing ground to onshore assets. Investors have gained confidence in certain local economies, which have prospered, and certain local banks, which have become more professional and have developed attractive onshore investments. The growth of affluent households with AuM between \$100,000 and \$1 million has also been a boon to onshore investments, because these households are more likely than richer households to keep their wealth onshore. In addition, offshore investments have faced increasingly restrictive regulations.

The move toward onshore assets has been more pronounced in some areas. Brazil and Mexico are by far the largest onshore markets in the region, owing, in part, to their well-developed economies. In Brazil, onshore options have benefited from the country’s strengthening currency and high interest rates, which have stayed well above 12 percent. Even more important, onshore investments held in the local currency have generated strong gains for investors. As a result, we expect growth in the country’s AuM to be driven primarily by onshore investments.

Throughout Latin American, local players and large international banks dominate the market for managing onshore

wealth, whereas international wealth managers have traditionally focused on the region’s offshore activities. To tap Latin America’s burgeoning onshore market, global wealth managers will need to take the following steps:

- They should design an entry strategy that matches their ambitions for growth. Modest growth could be achieved by establishing local subsidiaries or representative offices, but expansive growth may require a stake in a local institution.
- Wealth managers must set clear goals for the region, determining how much share they want to capture across how much of the region. Then they must decide which countries and client segments to target. Wealth managers should recognize where relatively unstable political and economic environments, for example, in Argentina, still favor offshore investments and where the total pools of AuM are still comparatively small, for example, in Chile.
- Wealth managers should develop offerings to suit client segments. They should also anticipate changes in investment behavior. Are investors moving away from conservative assets such as cash and gravitating toward investments such as equities? Are market conditions, for example, political and economic stability, becoming more conducive to onshore investing?
- Players must field teams whose members are knowledgeable about local markets, clients, and contacts.

a succession plan or following company divestitures.

Forecast for Market Growth. We expect global wealth to grow at a steady pace and to surpass \$100 trillion in 2007.⁶ (See Exhibit 5.) Average annual growth rates should stay above 5 percent through 2011, taking total wealth to \$128.6 trillion. Given the strong economies of Asia-Pacific and Japan, we expect wealth to grow fastest there, but the distribution of wealth across regions should stay about the same.

Despite the prospects for continued growth, wealth managers must be prepared to deal with short-term volatility and stagnating markets. They should therefore monitor the risks of performance fluctuations relative to how and where their clients' wealth is invested. For example, in regions where investors hold a high proportion of equities, players will need to develop strategies for managing the risk of volatile market performance.

Millionaire Households

About 9.6 million households had more than \$1 million in AuM in 2006. (See Exhibit 6.) North America was home to nearly half of the world's millionaire households, Europe accounted for about one-quarter, and Asia-Pacific accounted for about one-fifth. Latin America and the Middle East and Africa together accounted for only 6.9 percent of these households.

The United States had, by far, the highest number of millionaire households, followed by Japan, the United Kingdom, and Germany. (See Exhibit 7.) Remarkably, China ranked fifth, having rapidly passed major European economies such as France and Italy. Of the top 15 cities ranked by the number of millionaire households, 10 were in the United States,

6. Because our calculation of global wealth accounts for 62 countries and 96.2 percent of worldwide GDP, we believe that it is possible that the wealth of all countries surpassed \$100 trillion in 2006.

Exhibit 5. Global Wealth Is Projected to Exceed \$100 Trillion in 2007

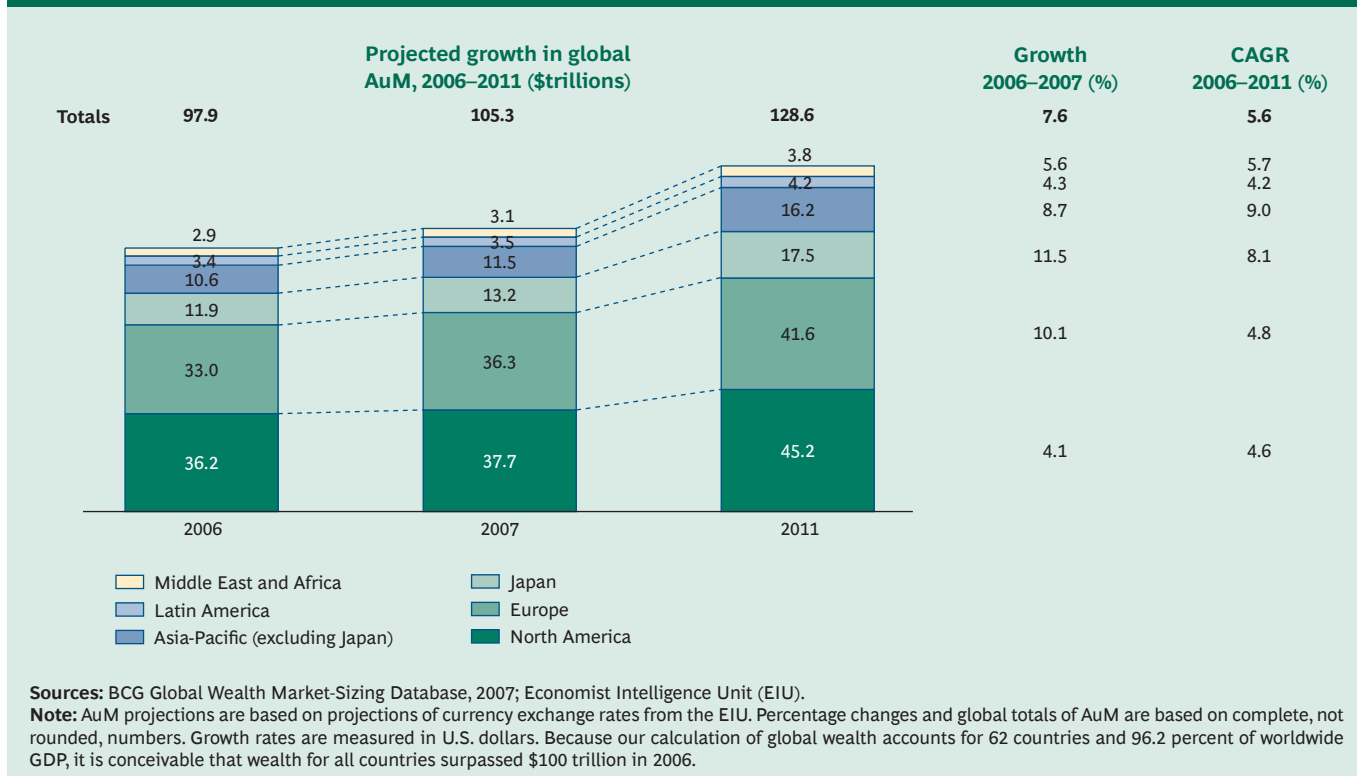
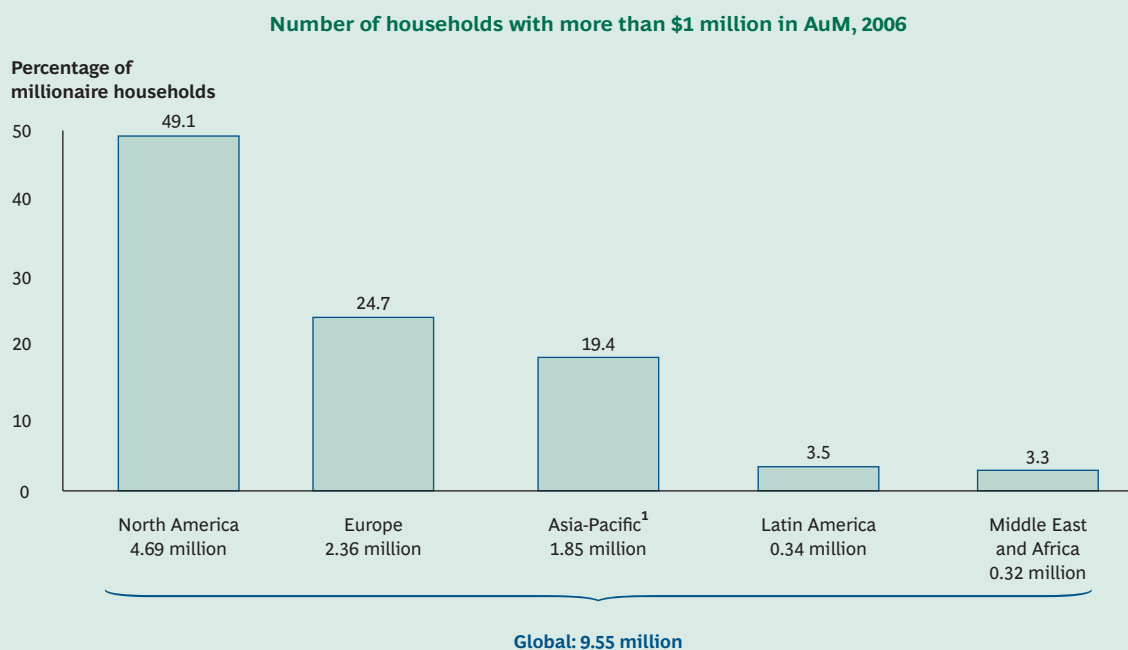


Exhibit 6. North America Was Home to Almost Half of All Millionaire Households



Source: BCG Global Wealth Market-Sizing Database, 2007.

Note: The global total of millionaire households is based on complete, not rounded, numbers.

¹Asia-Pacific includes Japan in this instance.

Exhibit 7. Small Countries Had Some of the Highest Concentrations of Millionaire Households

Number of millionaire households, by country			Millionaire households as a percentage of all households		
1	United States	4,585,000	1	United Arab Emirates	6.1
2	Japan	830,000	2	Switzerland	6.1
3	United Kingdom	610,000	3	Qatar	5.2
4	Germany	350,000	4	Kuwait	4.8
5	China	310,000	5	United States	4.1
6	Italy	270,000	6	Singapore	3.8
7	France	265,000	7	Taiwan	3.0
8	Taiwan	220,000	8	Belgium	3.0
9	Switzerland	205,000	9	Israel	2.7
10	Brazil	190,000	10	United Kingdom	2.4
11	Netherlands	145,000	11	Ireland	2.4
12	Belgium	135,000	12	Bahrain	2.2
13	Australia	135,000	13	Hong Kong	2.1
14	Spain	125,000	14	Saudi Arabia	2.1
15	Canada	110,000	15	Netherlands	2.0
Global total			Global percentage		
9,555,000			0.7		

Source: BCG Global Wealth Market-Sizing Database, 2007.

Note: Millionaire households are those with more than \$1 million in AuM.

3 in Europe, and 2 in Japan.⁷ The concentration of millionaire households, however, was starkly different. Small countries and city-states had the highest densities of millionaire households as a percentage of total households. The United Arab Emirates and Switzerland led the ranking, with millionaire households accounting for 6.1 percent of all households—almost nine times the global percentage.

The total number of millionaire households grew by 14.0 percent last year, but growth rates varied widely and included some extraordinary increases. In four CEE countries—the Czech Republic, Hungary, Poland, and Slovakia—the number of millionaire households grew by 33.7 percent in 2006. In Europe, the number grew by 26.4 percent. Asia-Pacific (excluding Japan) and Latin America also had above-average growth, at 19.3 percent and 16.3 percent, respectively. In North America, the number of millionaire households grew by 9.0 percent.

Regional and Country Highlights

A comparison of wealth markets, by region and country, highlights the extraordinary growth of AuM in emerging economies—albeit from a relatively small base—along with the unique characteristics

and changing dynamics of one of the world's most prominent wealth markets, the Middle East.

Brazil, Russia, India, and China—the BRIC Countries. China and Brazil had the highest CAGRs in AuM from 2001 to 2006, even though the latter lacked strong growth in GDP. (See Exhibit 8.) China's wealth market, a standout among the BRIC countries, is expected to outpace all other wealth markets over the next five years, with a projected growth rate of 17.4 percent per year. Its growth is being driven by, for example, ongoing industrialization and investments in infrastructure that will lead to improved productivity, higher salaries, and strong underlying economic growth. China's wealth market will also benefit from the gradual appreciation of the renminbi against the U.S. dollar, the growing concentration of wealth among the richest households, the continuing rise of entrepreneurs, and a strong export industry.

CEE Countries. From 2001 to 2006, four of the top six fastest-growing wealth markets were in CEE: Hungary, Poland, Slovakia, and the Czech Republic. Over this period, they achieved a CAGR of about

7. The top 15 cities, ranked in descending order by the number of millionaire households, were: New York, London, Tokyo, Los Angeles, Chicago, Osaka, San Francisco, Washington, Philadelphia, Boston, Dallas, Detroit, Paris, Milan, and Atlanta.

Exhibit 8. Emerging Markets Achieved Strong Growth in AuM Despite Conservative Asset Allocations

CAGR in AuM, 2001–2006 (%) ¹			AuM held in cash (%)		
1	China	23.4	1	Hungary	72.0
2	Brazil	22.4	2	Pakistan	70.5
3	Hungary	22.3	3	Slovakia	69.2
4	Poland	22.1	4	Indonesia	67.9
5	Slovakia	22.0	5	China	65.2
6	Czech Republic	19.9	6	Czech Republic	62.5
7	Australia	19.1	7	India	62.4
8	Ireland	17.3	8	Poland	62.3
9	Norway	17.2	9	Russia	60.1
10	Spain	16.8	10	Portugal	59.5
Global average		8.6	Global average		41.3

Source: BCG Global Wealth Market-Sizing Database, 2007.
¹CAGR was calculated by measuring growth in U.S. dollars.

20 percent. Growth rates were especially impressive last year, with Poland posting the world's highest growth in AuM—38.2 percent. The Czech Republic had the lowest annual growth rate of the four countries, but its AuM still grew by 21.3 percent in 2006.

We expect these four countries to maintain above-average growth in AuM—about 10 percent per year over the next five years—even though each had an extremely high proportion of wealth held in cash in 2006, all well above the global average of 41.3 percent: ranging from 72.0 percent in Hungary to 62.3 percent in Poland.⁸ The distribution of wealth in these four countries, by household, was similarly distinct. In each country, the share of AuM owned by non-wealthy households was exceptional; in Poland, for example, nonwealthy households owned two-thirds of AuM, compared with the global average, which was less than 14 percent. Still, we expect AuM to grow faster among wealthy households in these four countries.

The Middle East. Despite a lack of extraordinary growth in AuM, the Middle East's wealth market has maintained a high profile. Its extremes are quite different from those that define CEE wealth markets. In 2006, for example, Middle Eastern countries had some of the highest concentrations of AuM among wealthy households; in the United Arab Emirates, for example, more than 95 percent of AuM was owned by wealthy households. (See Exhibit 9.) Moreover, several Middle Eastern countries had extraordinary levels of average household wealth. The United Arab Emirates had the second-highest average household wealth—more than \$400,000.

In Middle Eastern countries, the asset mix was not as conservative as in most BRIC and CEE countries, but the share of AuM invested in equities remained below the global average. Bahrain had the highest

Exhibit 9. In Some Markets, AuM Was Owned Almost Exclusively by Wealthy Households

Share of AuM owned by wealthy households (%)¹

1	Switzerland	97.9
2	Singapore	96.8
3	Netherlands	96.1
4	United Kingdom	96.0
5	United Arab Emirates	95.5
6	Ireland	95.4
7	Qatar	94.1
8	Japan	94.0
9	United States	93.8
10	Kuwait	93.5

Global average **86.3**

Source: BCG Global Wealth Market-Sizing Database, 2007.

¹Wealthy households are those with at least \$100,000 in AuM.

proportion of wealth invested in equities, 38.0 percent, while Saudi Arabia had the lowest, 29.5 percent.

The practice of offshore investing remains popular in the Middle East, but the proportion of onshore AuM has been rising. We expect this trend to continue, in part because more wealth is being created onshore as a result of higher incomes and investment gains from real-estate projects and capital market transactions, but also because onshore investing has become easier and more attractive. Investors can access domestic investments—such as *sukuk*, which are the Islamic equivalent of bonds—and a range of shari'a-compliant products. They also have better access to global investment instruments, while heightened barriers to the U.S. market have pushed some AuM back onshore.

In the near future, increased privatization and IPOs will provide further incentives to invest domestically. Nonetheless, offshore investments will remain attractive to investors in the Middle East, particularly in households with more than several million dollars in AuM.

In the near future, increased privatization and IPOs will provide further incentives to invest domestically. Nonetheless, offshore investments will remain attractive to investors in the Middle East, particularly in households with more than several million dollars in AuM.

8. Cash includes AuM held in cash and deposits, as well as money market funds.



The Middle East

Pursuing Growth in a Challenging Market

The GCC comprises six states on the Arabian Peninsula—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The GCC region, whose combined population was close to 40 million in 2006, is attractive to global wealth managers, largely because its wealthy households are, on average, far richer than those anywhere else in the world. The average AuM of a wealthy household in the GCC region neared \$1 million in 2006, compared with the global average of less than \$400,000. At the same time, however, the region is fraught with challenges for both local and international players. Entrants, in particular, should heed the lessons of wealth managers that have already found success in the GCC countries.

Market Overview

The rise in oil prices has been a major driver of economic growth in the GCC region, but governments have also been diversifying their economies to develop sustainable income sources beyond the oil industry. The size and attractiveness of GCC wealth markets vary.

Saudi Arabia is by far the largest market in the region, in terms of both population and GDP, and like most other GCC nations, it has started to liberalize its financial market. The United Arab Emirates, however, is the region's financial and business

center. It has a fast-growing banking market and a relatively diversified economy.

Dubai is considered the front-runner in economic diversification. The country's investments in infrastructure have helped increase personal incomes and wealth, providing significant opportunities for domestic and foreign wealth managers. Dubai serves as an attractive entry point for wealth managers, because foreign players can establish a presence at the Dubai International Financial Centre (DIFC), which offers world-class regulation and its own judicial system, allows for full foreign ownership and profit repatriation, and is tax-free. Foreign players that utilize the DIFC, however, are shut out of the local retail-banking market, which includes individuals who have less than \$1 million in net assets and small businesses with less than \$5 million in turnover. Those foreign players are also restricted from participating in the United Arab Emirates' primary insurance market.

Like the United Arab Emirates, Bahrain is an important regional financial and business marketplace and a good entry point for foreign players. Although it is a small market, its proximity to Saudi Arabia makes it a favorite weekend destination for many Saudis. The Bahrain Financial Harbour includes a range of insurance companies, Islamic financial institutions, and regional investment vehicles. Kuwait, which introduced foreign-bank licenses in 2005, boasts a profitable, increasingly open banking sector.

Qatar and Oman have relatively small wealth markets in terms of numbers of wealthy households. The former, however, is an exceptionally rich market that is becoming more accessible. In 2005 the government launched the Qatar Financial Centre to facilitate onshore and offshore banking, and foreign banks have begun setting up offices to focus on infrastructure and trade finance in Qatar. Oman, although it is a middle-income economy, has a well-established banking sector.

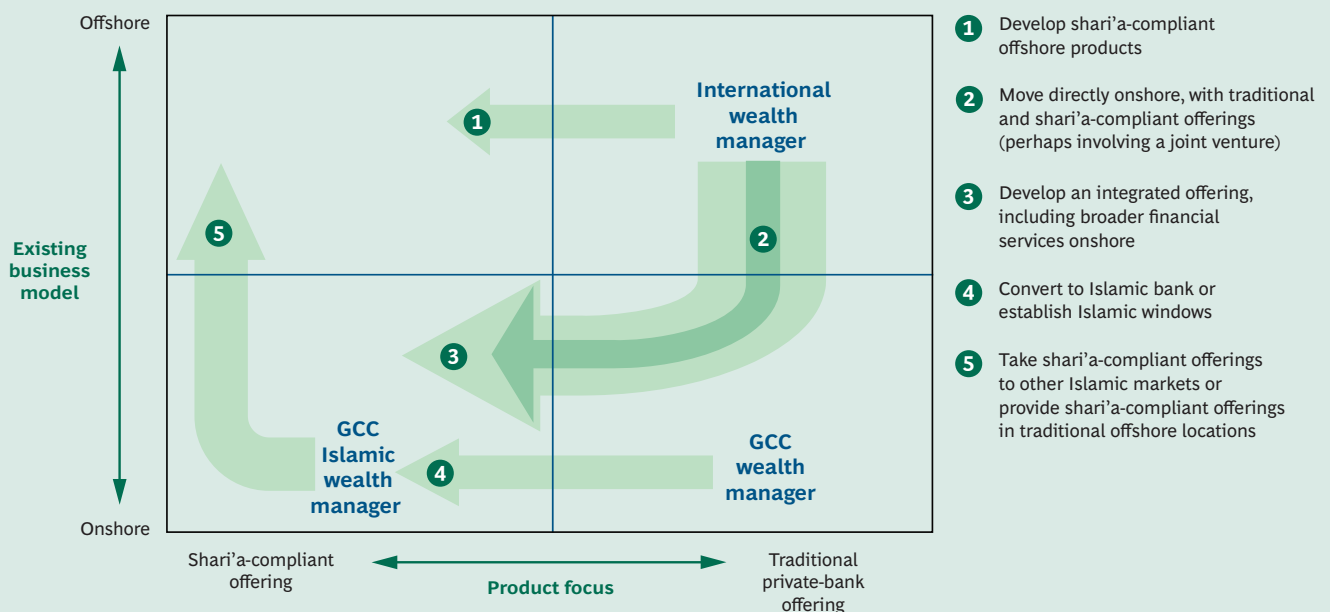
Growth Strategies

Five types of wealth managers are pursuing opportunities in the region: global private banks; global boutiques; regional Islamic windows, which are standalone outposts of international banks; regional conventional banks; and dedicated local

Islamic banks. These players are pursuing a range of growth strategies. (See Exhibit 10.)

- Global private banks and boutiques that have traditionally offered offshore products for GCC investors are *developing shari'a-compliant offshore products*. Some are also going one step further by opening representative offices in the region.
- Increasingly, global private banks and boutiques are *opting for a stronger onshore presence with traditional and shari'a-compliant offerings*. Usually these moves involve forging a joint venture with a local player or opening a branch. Joint ventures not only give foreign players access to established local networks but are, in many cases, the sole method of entry permitted by law.

Exhibit 10. International and Regional Wealth Managers Are Pursuing a Range of Growth Strategies in GCC Markets



Sources: BCG analysis; press research.

- Global players, particularly large private banks, are drawing on their expertise in investment and corporate banking and *developing an integrated offering* that includes broader financial services onshore and meets the full spectrum of clients' needs.
- Many conventional banks in the region are *converting to Islamic banks, and some global players have established Islamic windows in the region* in order to meet increased demand from the public and private sectors. Islamic banks are more profitable than conventional banks, because their funding costs are generally lower as a result of government subsidies.
- Islamic banks have begun to broaden their horizons. Some local banks are *taking shari'a-compliant offerings to other Islamic markets and traditional offshore destinations*. The former group includes countries in which governments strongly promote Islamic banking, such as Malaysia; traditional offshore destinations include such markets as Geneva and London.

Challenges for Wealth Managers

Economic liberalization has stoked competitive fires across the region's wealth markets, and nearly all major international players are at some stage of establishing representative offices or onshore branches. But these wealth managers face tough competition from both entrenched foreign players, which have already proved their commitment to the region, and local players, which can leverage their close relationships with leading families, along with their widespread banking networks.

Intensified competition has given rise to several challenges, including margin pressure, eroding prices, and rapid product commoditization. Foreign players face additional challenges, including growing competition from Islamic banks, whose shari'a-compliant products often mirror both the performance and the variety of conventional offerings. In terms of assets, Islamic banking repre-

sents about 15 to 20 percent of local retail-banking markets in the GCC region. This proportion is expected to grow to at least 25 percent over the next decade. (See the sidebar "The Growth of Islamic Banking.")

Wealth managers in the region, particularly new entrants, also face a tightening market for talent. With a growing number of players converging on a limited talent pool, many wealth managers struggle to maintain service levels and continuity in client relationships. Compensation costs, meanwhile, have soared. RM salaries doubled last year, and turnover rates are high.

Finally, wealth managers, in general, are finding it more difficult to attract new money. GCC clients often use banks for advisory services, but many prefer to invest their new liquidity in booming real-estate opportunities.

Succeeding in the Arab States of the Gulf

Several global players have made inroads into the region. Their experiences highlight five essential factors that can help entrants establish a strong and growing presence. Some of these imperatives—for example, attracting talent and building strong client relationships—apply to all players, international as well as regional.

Understand the Client. New demographic segments are redefining the nature of wealth management in the Middle East. Unlike previous generations of so-called old-wealth clients, a fast-growing segment of refined investors is more concerned with growing, rather than just preserving, their assets. In addition, they are often aware of—and interested in—sophisticated investments, and they take an active approach to managing their wealth. Clients in the region's emerging rich segment, having made their money the entrepreneurial way, prefer to keep their wealth onshore by investing in local private equity and real estate. They, too, have active investment styles and favor wealth appreciation over preservation.

Wealthy investors in the region share several characteristics. Succession is an important and complicated issue, because private and business wealth are closely related and, in many cases, have been managed by families over many generations. In addition, most clients in the region have become more aware of their privileged market position and are, therefore, stronger negotiators. They have also become more discerning, their financial sophistication and know-how growing dramatically.

Win the Race for Talent. Recruiting and retaining top talent is essential. Experienced RMs possess a solid understanding of the local market and culture—including the effects of shari'a laws and principles on product design and services—as well as strong communication and relationship-building skills. Experienced asset managers are also in high demand.

Cultivate Personal Relationships. The right network is crucial to building strong credentials in the region. Entrants will need to court opinion leaders and influential families, whose references and word-of-mouth recommendations are invaluable. They will also need to be patient. Establishing trust takes time, but it is a prerequisite for managing a family's fortune and all the attendant issues.

Make a Clear Commitment to the Region and Ensure Continuity. Wealth managers must show a sincere commitment to the region, even during difficult market situations. This entails maintaining not only a high-profile on-the-ground presence and a strong marketing effort, but also a comprehensive, suitable product portfolio that includes regional products such as real-estate funds. Players should also be prepared to manage Asia-based in-

The Growth of Islamic Banking

Islamic banking became prominent in the 1970s, but its strongest growth has occurred over the past five years, particularly in the region included in the Cooperation Council for the Arab States of the Gulf. It has gained traction because of the growing number of observant Muslims, as well as supportive government initiatives and strong economic expansion in oil-rich Muslim nations. A smaller but arguably more interesting driver of growth has been the increased interest of non-Muslims in shari'a-compliant products.

Islamic banking has grown not only in size, but also in variety. Shari'a-compliant products are moving beyond retail banking into wealth management and investment and corporate banking. Wealth management products and services include shari'a-compliant inheritance planning; Islamic trust funds; planning for *zakat*, which is a welfare contribution or tithe for the poor; and personal services for the haj. More sophisticated offerings include shari'a-compliant equities, Islamic investment funds, and Islamic hedge funds. Islamic private equity has started to grow but remains relatively small. Structured products can also be made to comply with shari'a. (To be labeled a shari'a-compliant product, an Islamic banking instrument must be approved by a shari'a board.)

The growth of Islamic banking has led to the development of sophisticated Islamic products for capital markets. There is increased demand for shari'a-compliant financial instruments, for example, to help banks manage liquidity. In addition, central banks have been issuing *sukuk*, Islamic alternatives to conventional bonds. Similarly, the growth of *takaful* (insurance) assets has increased demand for stable, long-term Islamic financial instruments for investments.

A supportive infrastructure has also evolved to facilitate Islamic banking. Islamic capital-market listings and secondary trading have helped raise awareness and demand for Islamic products, for example, while the development of regulations continues to build trust in Islamic banks.

Islamic banking will continue to expand, both to other countries and into new, broader offerings. Still, Islamic banking assets remain highly concentrated in high-income Muslim economies, while some of the largest Muslim populations live in lower-income economies with limited banking assets. Moreover, despite their rapid growth, Islamic financial services remain geared toward retail banking, and the largest Islamic banks remain in the shadow of their mainstream counterparts.

vestments, which have been attracting assets from the Middle East.

Develop an Integrated Business Model. Larger international players have been using their expertise in investment and corporate banking to provide an end-to-end offering that meets the full spectrum of clients' needs, thereby creating new opportunities for managing wealth. With an integrated business model, for example, a bank can use its investment-banking capabilities to place a client's AuM in large, lucrative deals. Integrated business models are particularly relevant in the Middle East, where private wealth and business wealth are often intertwined.



Wealth Manager Benchmarking

Tracing the Drivers of Performance

Our benchmarking survey of wealth managers uncovered patterns of profitability within regions and business models. The median pretax margin for North American brokers, for example, was less than one-third that of European offshore players, who also outperformed their onshore competitors, albeit slightly. Wealth managers in Latin America and Asia-Pacific had the highest median pretax margins.

Buried beneath these broad patterns, however, were wide variations in the performance of individual wealth managers. Strong performance, the survey found, transcended a wealth manager's region and business model. Instead, it resulted from a player's concerted efforts to manage the most important drivers of performance, such as the growth of new assets, the productivity of RMs, and the cost base.

Benchmarking Study

We coordinated a global quantitative and qualitative benchmarking survey of 111 leading wealth managers overseeing a combined \$9.5 trillion in AuM and \$0.4 trillion in client liabilities. The survey included 58 European and 34 North American players, as well as 13 from Asia-Pacific and 6 from Latin America. These institutions accounted for about 25 percent of the \$33.2 trillion in AuM held by millionaire households.

Most comparisons of performance used CAL as a measure of fee-earning assets within an institution. CAL is calculated as the sum of clients' deposits, brokerage assets, managed funds, and outstanding loans; it excludes pure custody holdings.

European participants, including onshore and offshore private banks as well as the private-banking arms of universal banks in all major European banking centers, had \$3.3 trillion in CAL. North American players—specifically, the private-banking operations of investment banks and brokers, as well as family offices—managed \$6.3 trillion in CAL. Players in Asia-Pacific—the high-end private-banking operations and local subsidiaries of foreign banks, and onshore private banks—had \$0.2 trillion in CAL. Participants in Latin America, which included offshore private banks (that is, private banks with more than half of their AuM held offshore) and the private-banking activities of local and foreign banks, managed \$0.1 trillion in CAL.

Profitability Trends

Although 2006 was a profitable year for most players, profitability varied significantly. Survey participants had a median pretax profit margin of 34.7 percent, and less than 5 percent reported a loss.⁹ (See Exhibit 11, page 26.)

⁹ Pretax profit margin is defined as revenues minus costs and divided by revenues, before taxes.

Our survey identified broad trends in performance, but we also found that players achieved strong performance irrespective of geography or business model. Profitable players came from all regions and included the main types of players in the West: onshore and offshore players in Europe as well as brokers and banks in North America.

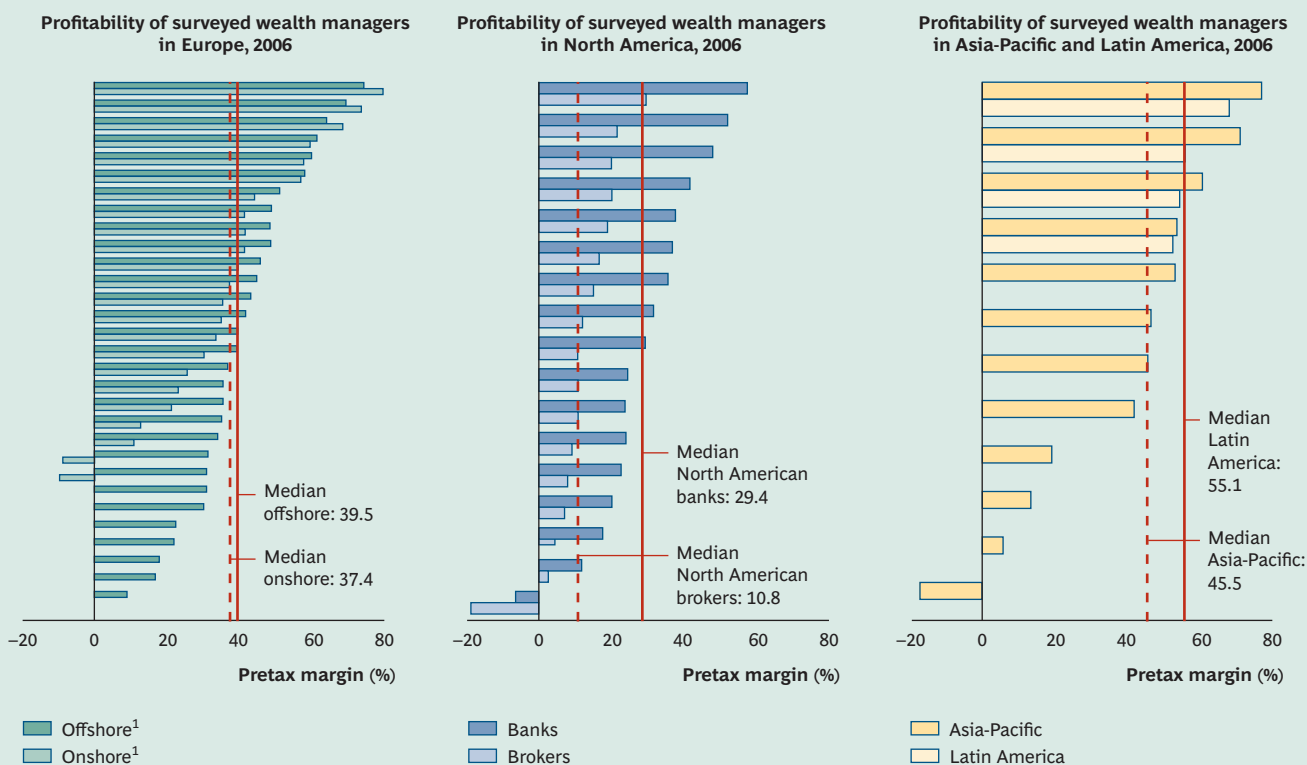
The top three onshore and offshore players in Europe and the top three players in Asia-Pacific achieved pretax margins above 60 percent. The top three players in Latin America and the top two North American banks achieved margins above 50 percent. By contrast, the top North American brokers had pretax margins between 20 and 30 percent.

Europe. Europe's offshore and onshore players improved their median pretax margins by about 13 percentage points between 2003 and 2006, reaching 39.5 percent and 37.4 percent, respectively. The relative performance of these two types of players over the past few years has shown that offshore banks no longer enjoy a substantial profitability advantage.

North America. North American banks increased their median pretax margins from around 26 percent in 2003 to around 29 percent in 2006, while the median pretax margins for brokers fell slightly, from around 12 percent to around 11 percent. Many brokers are trying to reinvestigate their mar-

Exhibit 11. Most Players Were Profitable, but Profitability Varied Significantly Across Regions and Business Models

Overall profitability, across all regions and business models, was 34.7 percent



Source: BCG Wealth-Manager Performance Database, 2007.

Note: Median figures exclude two outliers from Europe, one onshore and one offshore, that had margins below -100 basis points. Profitability is defined as revenues minus costs and divided by revenues, before taxes.

¹For our analysis, onshore players derive more than 50 percent of their AuM from onshore investors. Offshore players derive more than 50 percent of their AuM from offshore investors.

gins by broadening their products and services and aligning their compensation more closely with the value they create. (For more about the wealth market in the United States, see the sidebar “The U.S. Wealth Market: Targeting Client Segments to Improve Performance,” page 30.)

Latin America and Asia-Pacific. Players in Latin America had the highest median pretax margins—around 55 percent, up from around 49 percent in 2003—while the performance of players in Asia-Pacific tapered off. Median pretax margins in Asia-Pacific, having soared from 27 percent in 2001 to 46 percent in 2003, stayed the same between 2003 and 2006, in part because the region’s strong growth in AuM has attracted more competition and increased the cost of serving clients.

Our interviews with wealth managers in Asia-Pacific uncovered several distinct business models operating there. Most are based on the traditional RM model, which targets high-net-worth individuals and requires that RMs have access to a large amount of knowledge about clients and their needs as well as tailored products. This model runs the gamut of player size, from small boutiques to large players. Smaller players use a variant, the relationship-franchising model, under which RMs are treated as if they were separate franchises, each with a discrete network of clients. By contrast, under the industrialized model, the clients of some large players identify less with an individual RM and more with the institution. An alternative to traditional RM models, the product push model calls for RMs to focus increasingly on selling high-margin proprietary products.

Performance Levers

Our benchmarking analysis focused on several performance levers, including growth in assets, the productivity of RMs, and the gradual shift to high-margin products. One major lever, costs, was affected by significant increases in compensation between 2003 and 2006.

Complementing Profitability with Growth. Top-performing wealth managers complemented

high gross margins with strong growth. Players in Latin America achieved median ROA, a measure of revenues divided by CAL, of 96 basis points—the highest regional ROA in our benchmarking survey. They also posted the strongest growth in NNA, at 13.7 percent. (See Exhibit 12, page 28.)

Players in other markets, or with other business models, had difficulty achieving both strong profitability and strong growth. Wealth managers in Asia-Pacific had the second-highest median gain in NNA, at 11.6 percent, but the second-lowest ROA, at 72 basis points. The competitive North American market had the lowest median growth in NNA—4.9 percent. European offshore players had the second-highest median ROA, at 91 basis points, but a relatively low level of NNA growth, at 6.3 percent. These players face more difficult prospects for growth, in general, compared with their onshore competitors.

Improving RM Productivity. Median revenue per RM increased to \$1.2 million in 2006. (See Exhibit 13, page 29.) This measure of productivity, which is central to the performance of wealth managers, varied across regions. European offshore managers generated by far the most revenue per RM, at \$1.7 million, followed by banks in Asia-Pacific and North America—at \$1.3 million and \$1.1 million, respectively—and European onshore players, at \$1.0 million. North American brokers had the lowest median revenue per RM, \$0.6 million.

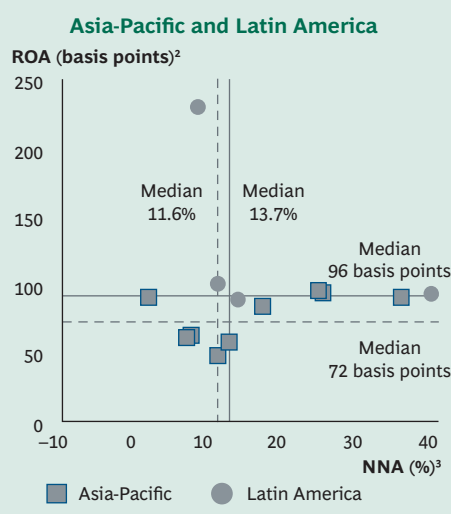
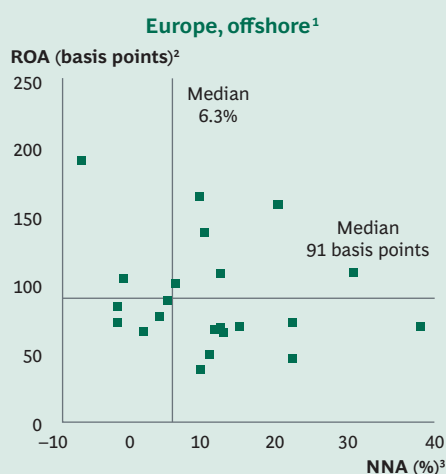
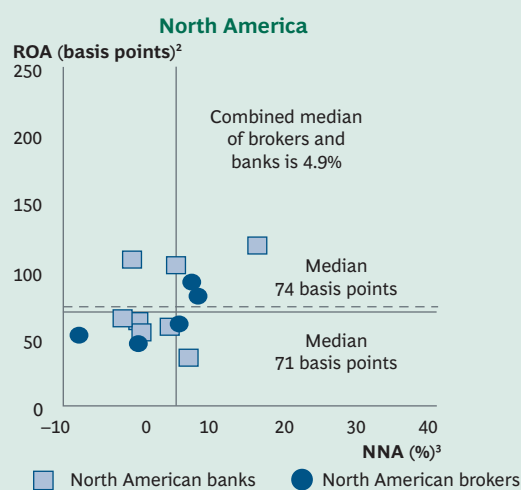
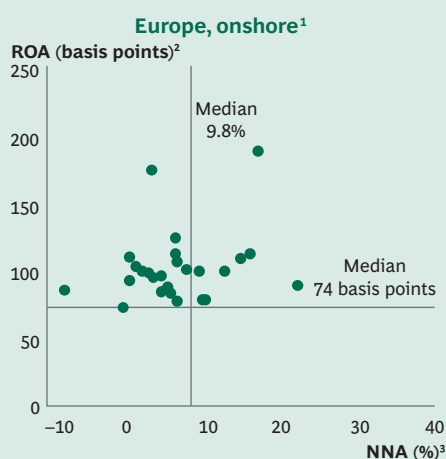
Another measure of productivity, CAL per RM, further highlighted regional differences. European offshore and onshore banks boasted the top median CAL per RM at \$198 million and \$173 million, respectively. (See Exhibit 14, page 29.) Players in Asia-Pacific and Latin America generated about \$150 million in CAL per RM. The median level of North American brokers was well below \$100 million.

CAL per RM—a function of two measures, client size and the number of clients per RM—is linked to a wealth manager’s service model. Again, these measures varied widely across business models and regions. For North American brokers, the median number of clients per RM was more than four times the median number of clients served

by RMs in Asia-Pacific—256 versus 61. At the same time, individual clients in Asia-Pacific had by far the highest median CAL, at \$2.2 million, while clients of North American brokers had the lowest, at \$0.3 million. North American and Latin American banks had the second- and third-highest levels of median CAL per client, at \$1.6 million and \$1.4 million, respectively, while the median client size for European onshore and offshore banks was around \$1.0 million.

Client size has a significant impact on margins, because richer clients generally have more bargaining power and pay significantly lower prices. Clients with more than \$100 million in CAL, for example, generated median revenue per CAL of 27 basis points—about half the amount generated by clients with between \$20 million and \$100 million in CAL. At the far end of the spectrum, clients with less than \$250,000 in CAL provided 258 basis points of median revenue per CAL. Clearly, busi-

Exhibit 12. Wealth Managers in Latin America Complemented High Revenues with Strong Growth in Assets



Source: BCG Wealth-Manager Performance Database, 2007.

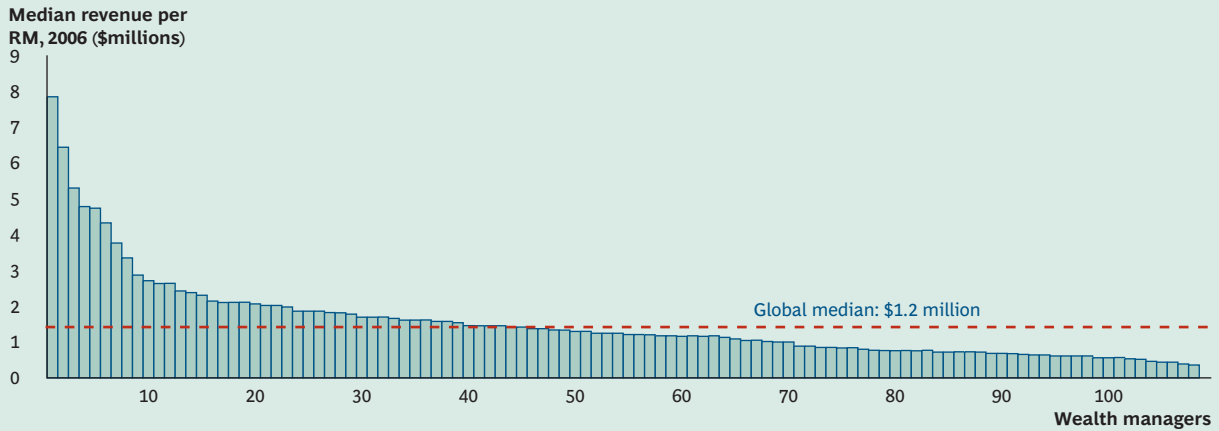
Note: Several outliers were excluded.

¹For our analysis, onshore players derive more than 50 percent of their AuM from onshore investors. Offshore players derive more than 50 percent of their AuM from offshore investors.

²Return on assets (ROA) was calculated by dividing revenues by average client assets and liabilities, 2005–2006.

³Net new assets (NNA) for 2006 were calculated as a percentage of AuM at the end of 2005.

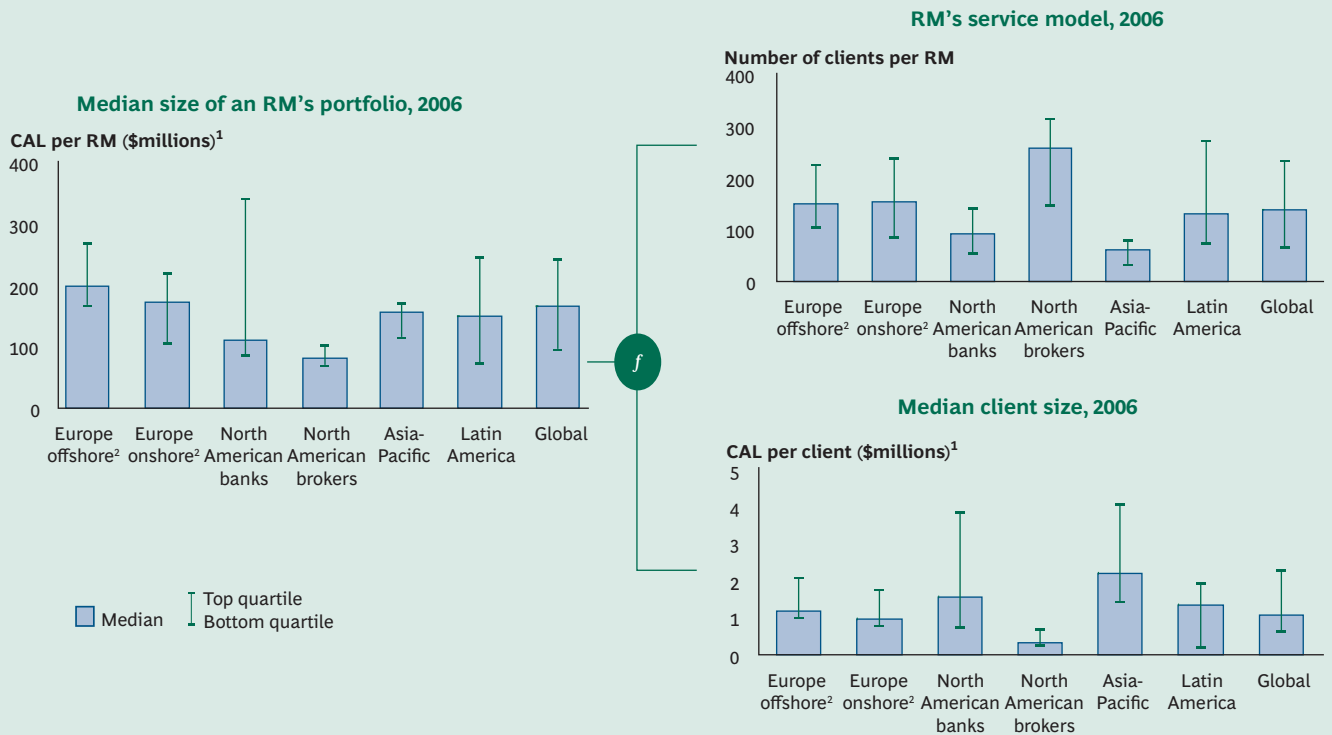
Exhibit 13. RMs in All Countries Generated Median Revenues in Excess of \$1 Million



Source: BCG Wealth-Manager Performance Database, 2007.

Note: Of 111 wealth managers surveyed, 107 provided their median revenue per relationship manager (RM).

Exhibit 14. Both the Number and Size of an RM's Clients Affect RM Productivity



RMs in Asia-Pacific had fewer but wealthier clients

Source: BCG Wealth-Manager Performance Database, 2007.

¹CAL = client assets and liabilities.

²For our analysis, onshore players derive more than 50 percent of their AuM from onshore investors. Offshore players derive more than 50 percent of their AuM from offshore investors.

The U.S. Wealth Market: Targeting Client Segments to Improve Performance

The United States, the world's largest wealth market, accounted for around 35 percent of global AuM in 2006 and was home to almost half of all millionaire households. Its opportunities for growth and profitability have prompted a range of players—including private banks, high-end brokerages, and trust banks—to converge on that market, bringing with them an equally broad range of products and services.

Despite the seductive promise of the U.S. market, many players have had difficulty achieving and sustaining profitable growth, in part because they cannot adequately differentiate themselves. The growth of third-party product sourcing and open architecture has created me-too product and service offerings. In addition, brands have been diluted, with each player promoting itself as a “valued advisor” providing “objectivity” and “quality service.” As a result, wealthy clients are relying on trusted advisors, such as lawyers, accountants, and family members, for help in selecting a wealth manager. Furthermore, a mismatch between business models and client segments has resulted in players’ serving less-wealthy segments with high-cost models intended for richer clients. This approach has hurt profitability.

In addition, the options for establishing a substantial, growing presence in the United States have become limited or

difficult to pursue. Most large acquisition targets are gone, while growing organically from a small base requires a commitment of time and capabilities that few players can spare. Moreover, many players lack the systematic, flawless execution required to spur organic growth through improved productivity and aggressive hiring.

Wealth managers that are generating impressive growth and profitability in the United States have focused on several actions.

Target Specific Client Segments. Each player must focus on specific client segments and then develop a value proposition that will differentiate its offering in the eyes of those clients. These two steps will shape nearly all other aspects of a profitable business model, such as the client acquisition strategy; team structure, capabilities, and costs; breadth of products and services, and level of standardization; sourcing (third party and proprietary); and support services.

Align Front-Office Service with Target Segments. Players should base their RM teaming models on the size of their clients and the complexity of clients’ needs. A mass-affluent model, which focuses on serving clients with \$100,000 to \$1 million in AuM, keeps front-office costs low

ness models that target affluent households, those that own between \$100,000 and \$1 million in AuM, are tapping not only a fast-growing segment but also a highly profitable one—as long as players can manage the cost base and the RM loading.

Focusing on High-Margin Products. To increase revenues and profits, wealth managers have been increasing their focus on high-margin products such as loans, hedge funds, structured products, real-estate funds, and private-equity funds. Mounting evidence suggests, however, that wealth managers are finding it difficult to generate demand for high-margin products among existing clients. Although the share of wealth invested in high-margin products has grown, the median proportion of AuM invested in these products was only 5.5 percent among the players we surveyed. In fact,

about one-quarter of the respondents had no client assets invested in high-margin products. (See Exhibit 15, page 32.)

Moreover, private-equity funds, despite all the attention that they draw from the media, represented less than 1 percent of global AuM in 2006. They also face severe growth constraints, given the limited number—and increasing costs—of buyout opportunities. In fact, the growth of private equity is already slowing, as investment options start to dwindle and the cost of debt rises.

The limitations on private equity bode well for the growth of other high-margin products, particularly in markets such as the United States and certain parts of Asia, where investors have embraced equities and other higher-risk products and appear

by relying on a standardized set of products, often sold through call centers. Teams and dedicated acquirers are too expensive for serving this segment, but product specialists may be used to support complicated products. To generate leads, a wealth manager may rely on other sources under its corporate umbrella. Large clients in the retail bank, for example, might fit the mass-affluent profile.

Acquire, Develop, and Retain the Best RMs. Wealth managers must excel at acquiring, developing, and retaining the best talent in order to succeed in this competitive market. Wealth managers can pursue lateral hires from other players or recruit new people to the business.

The competition for lateral hires is fierce. A differentiated value proposition is as important to winning the best RMs as it is to winning clients, and it should be a priority for wealth managers. Wealth managers must also think about the economics of acquiring RMs, which is driven by how many clients and assets new RMs bring to the business. Typically, RMs bring with them 25 to 60 percent of their client book when they join a wealth manager. The proportion depends on the “stickiness” of the assets—and how wealthy the clients are. Many of the wealthiest clients are long-term clients, and they are therefore more likely to follow their

RMs. Wealth managers can also facilitate the transfer of clients by reaching out to prospective clients and responding to their needs.

To find talent outside the industry, wealth managers look for comparable client-service and selling skills. One wealth manager, for example, searches for new talent in the pharmaceutical and software industries, which employ skilled people selling complex products to sophisticated buyers. Players must coach these new hires intensively and must be prepared to take action if a new hire cannot perform as required. Generally, wealth managers know within 18 to 24 months whether a new RM will succeed and deliver, but it usually takes much longer to transition an RM out of the organization.

Ensure a Consistent Client Experience. Integrated business models, which encompass a wide range of financial services, are likely to include multiple channels, along with large numbers of clients and RMs. Wealth managers must design and implement business processes and service support platforms that will provide a seamless client experience, regardless of channel. They can also ensure a consistent, high-quality client experience by making the RM responsible for end-to-end service delivery.

more willing to accept greater risks in exchange for greater rewards. Players in the United States, in particular, may renew their focus on loans, which have been among their most profitable products. Wealth managers in Asia will continue using structured products to replace large cash holdings in many client portfolios.

Managing Costs. Across regions and business models, performance was inversely correlated with cost-to-income ratios and cost-to-CAL ratios.¹⁰ (See Exhibit 16, page 32.) Much of the increased profitability of European players, for example, can be attributed to better cost management and control. For onshore and offshore players, the combined median cost-to-CAL ratio decreased from 67 basis points in 2003 to 55 basis points in 2006, as banks managed costs more efficiently along the value

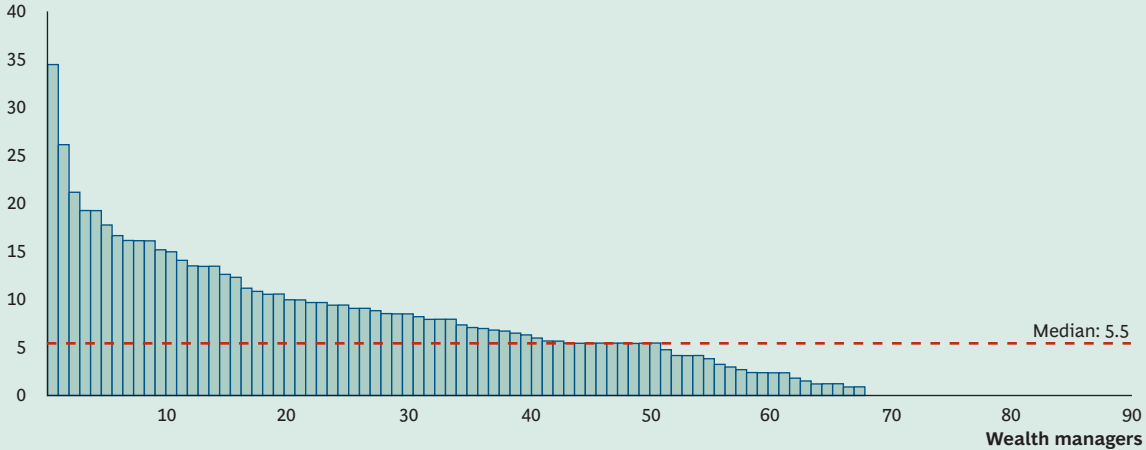
chain—from product manufacturing and fund management to sales and service. From our project experience, we also know that many have focused on front-office initiatives to improve sales force effectiveness and client acquisition.

North American competitors lowered their median cost-to-CAL ratio slightly. In combination, banks and brokers saw this ratio fall from 66 basis points in 2003 to 63 basis points in 2006, but they still had the highest median cost ratios. Players in Asia-Pacific, on the other hand, increased their median cost-to-CAL ratio during the same period, from 48 to 52 basis points.

¹⁰ Cost-to-income and cost-to-CAL ratios are measured as total costs before depreciation, divided by revenues or CAL, respectively.

Exhibit 15. High-Margin Products Still Have Room to Grow

AuM invested in high-margin products, 2006 (%)¹



The median percentage of AuM invested in high-margin products more than doubled between 2004 and 2006, from 2.4 percent to 5.5 percent

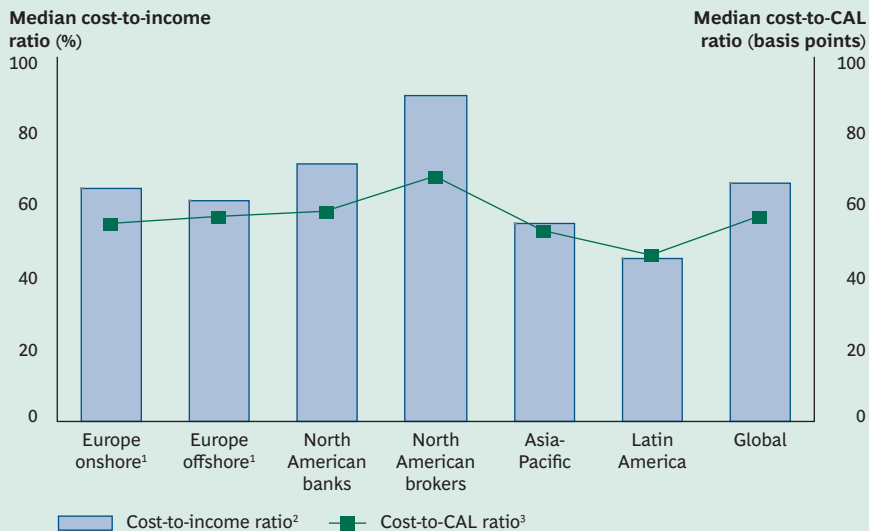
Source: BCG Wealth-Manager Performance Database, 2007.

Note: Of 111 wealth managers we surveyed, 92 participants provided the percentage of AuM that was invested in high-margin products.

¹High-margin products include hedge funds, structured products, and private equity.

Exhibit 16. North American Players Had the Highest Cost Ratios

Cost ratios of wealth managers, 2006



Source: BCG Wealth-Manager Performance Database, 2007.

¹For our analysis, onshore players derive more than 50 percent of their AuM from onshore investors. Offshore players derive more than 50 percent of their AuM from offshore investors.

²The cost-to-income ratio was calculated as total costs, before depreciation, divided by revenues.

³The cost-to-CAL ratio was calculated as total costs, before depreciation, divided by client assets and liabilities.

Rising costs in Asia-Pacific stemmed primarily from an approximately 100 percent increase in RM compensation in the region between 2004 and 2006—the result of strong market growth and a profound shortage of qualified talent. This increase raised compensation in Asia-Pacific nearly to the level of North American brokers. (See Exhibit 17.) The implications are significant for players, particularly new entrants: they will need to allocate greater portions of their budget to establish a foothold in the region, simultaneously competing harder for talent and paying substantial compensation. In general, it could therefore take longer to develop a profitable, sustainable business in Asia-Pacific. (For more on this region, see the sidebar “Asia-Pacific: Source of Growth or Profitability Trap?” page 34.)

The growth of compensation in Asia-Pacific was exceptional but not unique. While European onshore players maintained their RM compensation from 2003 to 2006, average compensation at European offshore players and North American banks increased by around 20 percent. At Latin American banks and North American brokers, compensation increased by 40 percent and 60 percent, respectively.

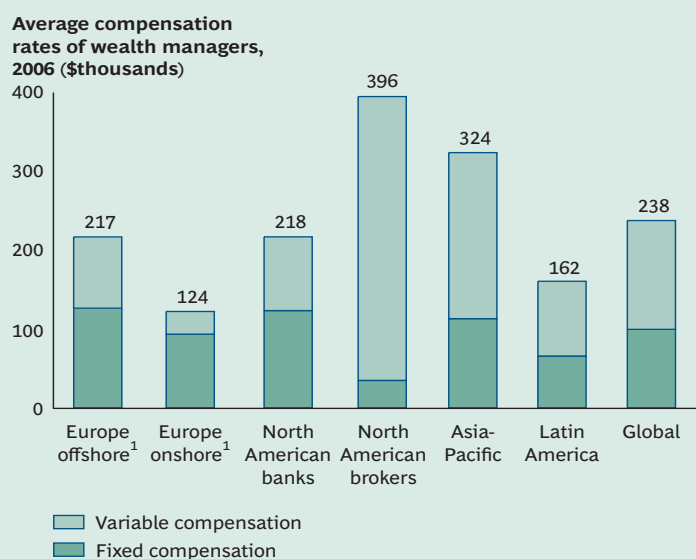
For most players, higher compensation outstripped the benefits of increased productivity. North American brokers had the sharpest contrast between high compensation and low revenue per RM. In fact, median RM compensation amounted to more than 40 percent of median revenue for North American brokers, but these players were still profitable.

Managing New Challenges and Opportunities. Several performance drivers will take on greater

importance in the near future. Most wealth managers will need to manage RM productivity carefully, for example, to offset the sharp rise in compensation and the increasing competition for talent. Managing talent will also pose a greater challenge, given the intensified competition for RMs around the world.

Some players will also face new opportunities as certain client segments become more attractive. Households with \$100,000 to \$5 million in AuM—the affluent and emerging wealthy—will become increasingly important, particularly for players in Asia-Pacific, where their numbers are expected to grow at above-average rates compared with other regions. Serving the affluent households in particular will require careful planning, because this segment includes many households but relatively low household wealth. Wealth managers will therefore need to develop scalable, standardized offerings, and also determine the optimal allocations of clients and CAL to each RM.

Exhibit 17. Compensation in Asia-Pacific Nearing the Average Pay of North American Brokers



Source: BCG Wealth-Manager Performance Database, 2007.

¹For our analysis, onshore players derive more than 50 percent of their AuM from onshore investors. Offshore players derive more than 50 percent of their AuM from offshore investors.

Asia-Pacific: Source of Growth or Profitability Trap?

Given Asia-Pacific's projected increases in GDP and wealth, and investors' decreasing reliance on cash holdings, most wealth managers we surveyed identified Asia-Pacific as the greatest opportunity for growth. In addition, investors have begun moving assets onshore.

A close look at this region, however, reveals that Asia-Pacific is actually quite a challenging market. Despite the strong growth of AuM, both gross margins and profit margins have declined over the last four years. (See the exhibit "Gross Margins and Profit Margins Declined in Asia-Pacific from 2003 to 2006.") Several factors are increasing costs and eroding revenue margins.

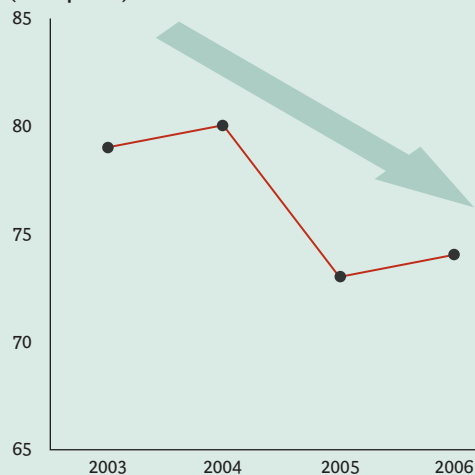
On the cost side, strong demand for RMs, coupled with a short supply of talent, fueled an approximately 100 percent increase in average RM compensation between 2004 and 2006. (See the exhibit "The Average Compensation for RMs in Asia-Pacific Doubled Between 2004 and 2006.") Variable

compensation increased more than threefold. In Asia-Pacific, average compensation as a percentage of revenue per RM rose from 17.0 percent in 2004 to 23.0 percent in 2006; whereas in North America it grew from 20.7 percent to 21.3 percent, and in Europe it fell slightly, to 11.1 percent. Rising costs are just one challenge posed by the competition for talent. To increase RM loyalty, wealth managers have had to develop creative retention measures that go beyond compensation packages.

On the revenue side, margins have tightened as a result of a significant increase in the average wealth of clients, which grew from \$4.1 million in 2004 to \$5.8 million in 2006. (See the exhibit "The Growth of Average Client Wealth Inhibited Price Realization.") Because players actively compete for their business, richer clients wield greater power when negotiating with wealth managers, thus undercutting price realization. As a result, clients can readily compare a range of offerings and take their business elsewhere if they find a

Gross Margins and Profit Margins Declined in Asia-Pacific from 2003 to 2006

Gross margins, 2003–2006 (basis points)¹



Profit margins, 2003–2006 (basis points)²



Source: BCG Wealth-Manager Performance Database, 2005 and 2007.

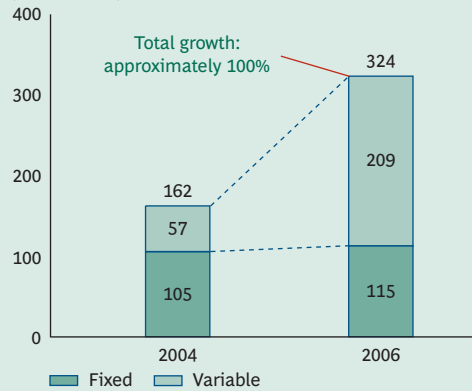
Note: Averages were weighted by total CAL of the wealth manager.

¹Gross margin was calculated as revenues divided by CAL.

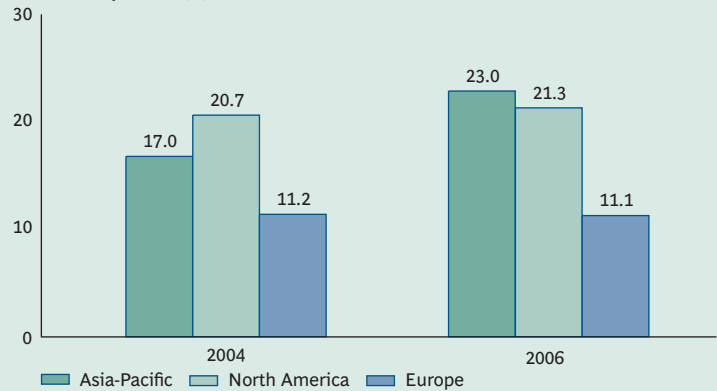
²Profit margin was calculated as pretax profit divided by CAL.

The Average Compensation for RMs in Asia-Pacific Doubled Between 2004 and 2006

Average RM compensation (\$thousands)



Average ratio of RM compensation to revenue per RM (%)



Source: BCG Wealth-Manager Performance Database, 2005 and 2007.

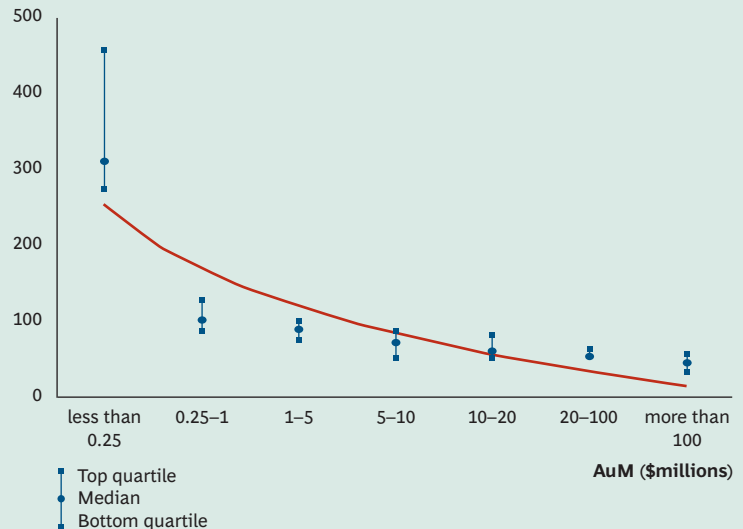
Note: Averages were weighted to reflect the total RM compensation paid by the wealth manager. The percentage of total growth in compensation was based on complete, not rounded, numbers.

The Growth of Average Client Wealth Inhibited Price Realization

Average CAL per client (\$millions)¹



Median gross margin by client segment (indexed), 2006 (basis points)²



Source: BCG Wealth-Manager Performance Database, 2005 and 2007.

¹The average CAL was weighted to reflect the total CAL of the wealth manager.

²Gross margin was calculated as revenues divided by average CAL, 2004 and 2006. The gross margin calculations were indexed by setting the gross margin of the wealth band with AuM between \$0.25 million and \$1 million to 100 basis points.

Asia-Pacific: Source of Growth or Profitability Trap? (continued)

better deal. Wealth managers could instead focus on the region's rapidly growing segment of emerging-wealthy households, which hold between \$1 million and \$5 million in AuM. Most players, however, have yet to develop a differentiated offering for this group.

Given these challenges, wealth managers should recognize that even though Asia-Pacific is experiencing strong growth, success there will demand a long-term, strategic commitment. Profitable growth, which is achievable, will require a clear business model designed specifically for this market and its challenges.

- Attracting and retaining talent, while costly, is essential for any wealth manager that aspires to grow in Asia-Pacific.

Players also need to focus on controlling compensation, which is a major driver of overall costs.

- Wealth managers should counter the revenue- and profit-lowering effects of richer clients by developing stronger negotiation skills; replacing cash holdings with high-margin offerings, including structured products; and focusing on high-growth segments.
- Players should aim to build a large presence. Bigger players seem to be growing faster, in part because they have the scale to recruit and train people to fit into established client-service business models quickly—and thus enjoy higher productivity. By contrast, many of the region's small and medium-size players struggle to sustain productivity.



Growing from Within

Focusing on Human Assets to Drive Growth

There is no single recipe for profitable growth. Certainly, size is not a prerequisite for exceptional profitability or organic growth in wealth management, as is proved by the strong performance of several small and medium-size players. Likewise, top performers used a broad range of business models and were spread across regions. Moreover, products have become less differentiated. They are increasingly susceptible to rapid commoditization—and are thus less likely to drive superior performance.

A simple truth—namely, that wealth management is a people business—penetrates deepest into the heart of performance. Although a player's size, business model, and region may contribute much to its performance, the most decisive factor will be its *human* assets. Human assets can have a particularly strong impact on organic growth, which is a chronically underappreciated lever for performance.

As evidenced by the wide variation in performance among RMs catering to the same markets and regions, most wealth managers have significant potential to grow organically by getting more from their people, particularly their RMs. (See Exhibit 18, page 38.) Three critical activities will help wealth managers make the most of this opportunity. (See Exhibit 19, page 38.) And just as important, taking those actions will ensure that organic growth is achieved profitably.

- Improve sales force productivity by making performance more transparent, introducing a coaching culture, and managing referrals
- Reinvigorate and broaden the role of the team leader, helping to manage the cultural change that accompanies productivity improvements
- Manage and develop human assets by recruiting and training RMs, managing the transition of clients to new RMs, and implementing performance-based compensation

Given their unmatched ability to facilitate performance improvement initiatives, these three actions should be made top priorities, but they should not be taken in isolation. For example, these actions will need the support of tools such as customer relationship management.

Improving Sales Force Productivity

The productivity levels of individual RMs can vary widely within an organization. To lift RMs' productivity, wealth managers typically focus on a range of measures designed to boost organic growth. These might aim to improve client acquisition, for example, or to stem client attrition. To make growth sustainable, wealth managers also focus on increasing profitability, perhaps by improving price

Exhibit 18. Performance Varied Widely Across RMs Catering to the Same Markets and Regions

NNA per RM (\$millions per month)¹

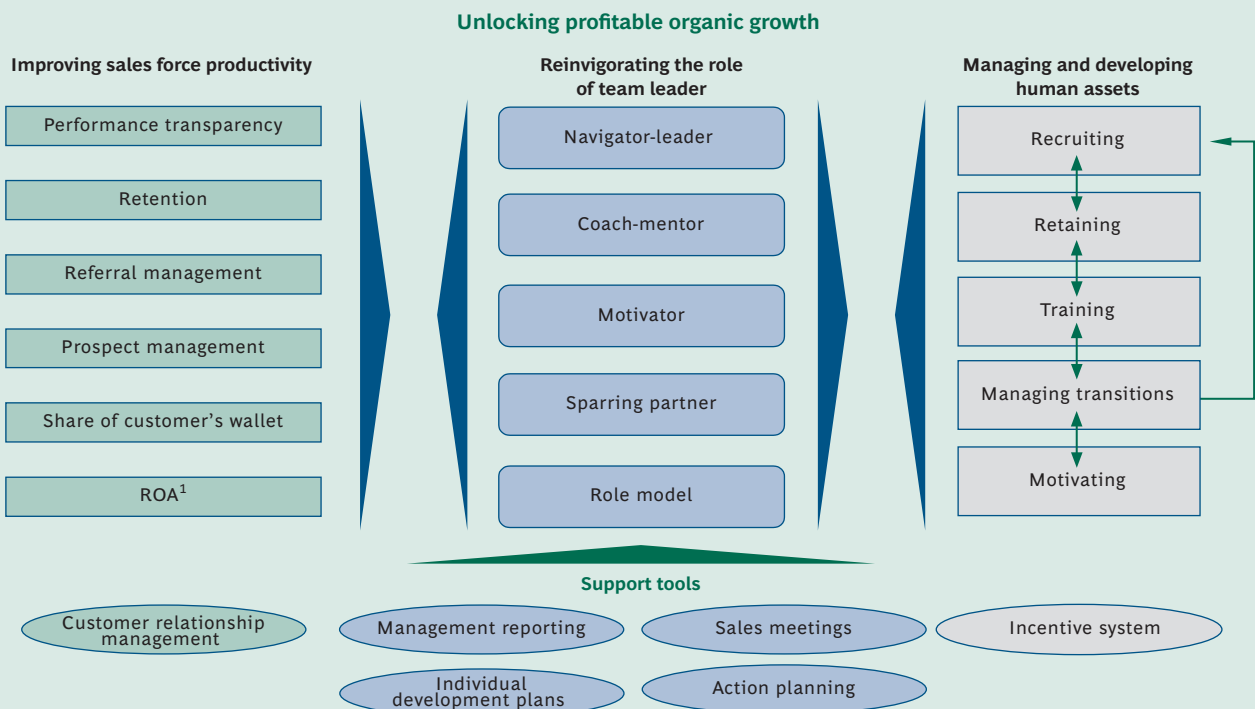


Sources: BCG Wealth-Manager Performance Database, 2007; BCG project experience.

Note: This exhibit is illustrative only.

¹NNA = net new assets.

Exhibit 19. Profitable Growth Will Require Improved Productivity, Strong Leadership, and Better Management of Human Assets



Sources: BCG analysis; BCG project experience.

¹ROA = return on assets.

realization; revising the mix of products within client portfolios; and enhancing negotiation skills.

With so many tools at their disposal, wealth managers risk missing important opportunities to boost productivity if they overlook three initiatives that provide a foundation for subsequent improvements: making performance transparent, introducing a strong coaching culture, and managing referrals.

Making Performance Transparent. Leading wealth managers are making team and RM performance more transparent in order to promote a mindset among RMs—along with a cultural change throughout the organization—that places a renewed focus on striving for productivity improvements. The aim of performance transparency is to identify gaps, define clear measures of improvement, and allow RMs—with help from their team leaders and coaches—to unlock their full potential. To maximize organic growth, performance transparency must be implemented across all RMs, teams, divisions, products, and clients.

Comprehensive performance transparency will help improve productivity in several ways. It will underpin performance-based incentive systems, motivating RMs and attracting top-performing talent from competitors. Greater transparency will also help RMs coordinate their work, develop improvement plans, and monitor their progress against specific targets. For the organization, such transparency will spotlight the successes and failures of initiatives intended to increase profitability and growth.

Introducing a Coaching Culture. Like performance transparency, coaching is an essential management tool that can support nearly all other initiatives designed to improve the productivity of RMs. But a coaching culture has an unsurpassed ability to motivate individuals. Several players have established sales force coaching programs, but most have not yet recognized the potential of systematic coaching.

The coaching process begins with a diagnosis of the status quo. Coaches accompany staff during their daily routines, questioning their methods and

comparing them with internal and external best practices. Next, coaches work with staff to identify strengths and weaknesses, set new performance targets, and develop plans for reaching these goals. Such plans may include training to address capability gaps and share best practices. As they develop these plans, coaches utilize the full range of an organization's productivity levers but tailor them to the needs of individual RMs. Finally, coaches monitor progress against the plans.

One of the most important benefits of a coaching program is the way it improves productivity without imposing rigid practices or standards. RMs can work with their coaches to address shortcomings, but the RMs can retain some discretion over how they meet certain targets and how they work with certain clients.

Wealth managers should pilot any new coaching program in one portion of the organization. Once the coaching program has been tested, tailored, and optimized, it should be rolled out across the organization, using relatively stringent guidelines. A coaching program should be implemented across every level—from divisional and regional heads all the way down to team heads and individual RMs. Such integration will ensure that the approach becomes deeply embedded in the organization. Coaching must be an ongoing, rather than a one-off, initiative; if successful, it leads to the type of cultural change that is necessary to make individual productivity an overriding priority.

Wealth managers must not compromise on the quality of their coaches. A coach should have experience with sales and service activities in financial services organizations. Also, he or she should be skilled at transferring knowledge—even under adverse circumstances—because RMs sometimes bristle at the idea of being coached. A coach must therefore be motivated, patient, and eager to act as a sparring partner.

Successful team leaders possess many of these qualities and often make good coaches. Convincing them that coaching is valuable will be critical, for without their support, a coaching program cannot succeed.

Managing Referrals. Wealth managers, on average, gain about three-quarters of their new clients through referrals. Referrals, therefore, should be a clear priority for management, but many wealth managers lack both a system and the incentives to manage and facilitate referrals.

Even though many RMs find it difficult to approach their own clients for referrals, existing clients are still the most prolific source of referrals, accounting for about 40 percent of referrals on average. Intermediaries such as external asset managers, lawyers, accounting firms, and real-estate companies are the second-most valuable source of referrals. The wealth manager's broader organization provides a third source of referrals. In large banking groups, referrals can be generated by different divisions, such as investment banking, corporate banking, and retail banking. Wealth managers might also generate referrals between their onshore and offshore operations.

Internal referrals can be more difficult to generate in some companies. Colleagues are sometimes reluctant to provide internal referrals to people they do not know very well, for fear of jeopardizing their own client relationships. Investment bankers, for example, might provide referrals only to RMs they trust to provide excellent service. Many wealth managers in the United States, however, have strong incentive systems that partially alleviate these concerns.

When establishing a system for referral management, wealth managers should embrace the following guiding principles:

- *Make referrals a high-profile issue.* Wealth managers should launch a program whose goal is to improve the management of referrals and make referrals a top priority for senior leaders. They should also document and publicize existing referral practices and results across the organization.
- *Build internal networks to facilitate referrals.* Wealth managers should encourage RMs to develop contacts in parts of the organization that might originate referrals. The more their col-

leagues know and trust them, the easier it will be for RMs to generate referrals.

- *Leverage existing referral systems.* Wealth managers should try to expand local referral systems to other regions, accounting for any cultural differences.
- *Establish an incentive system.* Incentives should encourage people to seek and give referrals, and to build internal networks.

Reinvigorating and Broadening the Role of the Team Leader

An earnest effort to increase the productivity of RMs is bound to entail cultural change. Inevitably, making performance more transparent, implementing a coaching program, and establishing a system for referrals will affect the day-to-day activities of RMs. Transparency and coaching, in particular, will require a shift in mindset among RMs, who will be asked to assume greater responsibility for their performance. These changes cannot be taken lightly. Profound improvement in sales force effectiveness will likely require an equally profound—perhaps even jarring—change in sales force behavior.

The team leader should play a central role in managing the change precipitated by productivity initiatives, in part by being a role model but also by being a facilitator. Team leaders are in the best position to help RMs anticipate and manage the new demands and practices imposed by these initiatives. They can explain how the changes affect day-to-day activities and ensure that the initiatives are implemented and followed systematically. At the same time, wealth managers should refocus their team leaders on business development activities—for example, by directing them to work closely with their RMs to improve service to larger clients.

In our interviews with wealth managers, however, we found that most team leaders are reactive rather than proactive when it comes to address-

ing performance issues. At their regular sales meetings, team leaders rarely focus discussion on performance targets or opportunities to improve productivity. The problem stems, in part, from the team leader's seniority. Team leaders are often the most successful RMs, and therefore they have the largest portfolios. Most of them don't devote more than 20 to 30 percent of their time to their role as leader, limiting their contribution to the team.

To be effective, team leaders must take on a number of different roles: navigator-leader, coach-mentor, motivator, sparring partner, and role model. (See Exhibit 20.) To meet these demands, team leaders will need to maintain a smaller client portfolio and prioritize their responsibilities to the team. Some existing team leaders may be reluctant to accept their new roles. Wealth managers will need to provide new incentives and compensation schemes to offset the impact of a reduced client portfolio.

Managing and Developing Human Assets

Productivity gains will be jeopardized if wealth managers cannot develop and retain talent. To in-

crease the size of their pyramid-shaped organizations, for example, wealth managers must continuously develop RMs into team leaders.

The competition for talent has intensified in markets around the world, leading to soaring rates of compensation and turnover. At the same time, RMs at many wealth managers are beginning to retire in greater numbers. Managing human assets has never been so important, yet few players have established a holistic process for managing talent—a process that includes recruiting, retaining, and training; managing the transition of clients to new RMs; and implementing performance-based compensation.

Recruiting and Training RMs. Many wealth managers have been recruiting top-performing RMs whose success is gauged entirely on individual performance. These RMs have few, if any, meaningful links to a team, region, or division. In the short term, this approach seems sensible. It attracts talented RMs who are able to hit the ground running, sometimes with a strong client portfolio. It also motivates them to maximize performance. At the same time, however, it does little to build a collaborative culture or foster loyalty among RMs.

Wealth managers have begun to move away from such models, in part to ensure that RMs identify

Exhibit 20. To Support Productivity Initiatives, Team Leaders Must Play Several Roles

Navigator-leader

- Helps each RM identify his or her strengths and areas for development
- Monitors the performance of RMs

Role model

- Demonstrates clear competence and expert knowledge of products and data
- Provides leadership for both the team and the individual RMs
- Exemplifies the organization's values



Coach-mentor

- Offers mentoring that is tailored to individual needs
- Helps RMs discover ways to achieve their targets and realize their full potential both as a team and as individuals

Motivator

- Challenges RMs and sets clearly defined targets
- Highlights and rewards successes, achieved targets, and performance improvements

Sparring partner

- Questions RMs' results and activities
- Looks beyond the obvious
- Exchanges ideas and adds a new perspective

Source: BCG project experience.

with—and belong to—a distinct and enduring culture. Larger players are focusing less on hiring ready-made RMs, for example, and more on building a culture of apprenticeship and investing in the personal and professional growth of RMs. Medium-size players, which typically have not invested in training junior RMs, are establishing wealth management academies and training programs for talented graduates and RM candidates.

Despite these developments, many players lack a comprehensive process for managing talent beyond initial, ad hoc recruitment and training initiatives. Most do not take a systematic approach to job enrichment, for example. They lack structured programs that allow RMs to transfer, rotate jobs, or gain international experience—even though those opportunities could improve retention. In an increasingly competitive market, such measures could create significant advantage.

Managing the Transition of Clients Between RMs. The combination of rapidly aging work forces and insufficient human-resources planning is creating a perilous situation. Many financial institutions face a potentially dramatic loss of capacity as waves of frontline sales staff and senior and middle managers retire. Wealth managers are not exempt from this problem. Most expect an increase in RM retirements in the near future, but few have adequate processes in place to handle the internal transfer of client portfolios. Many transfers are marred by a lack of preparation, often because the transition process starts too late. Clients are given little, if any, notice that an RM is leaving, and often the new RM has insufficient information about the client—important documentation may be missing or incomplete. In the worst cases, the RM leaves before a new one is assigned.

The process for reallocating clients is also poorly planned. In some cases, the departing RM is given free reign to reassign clients, unfettered by transfer processes or criteria, or even by a requirement to inform the bank that a transfer has been made. As a result, the distribution of a departing RM's client portfolio is anything but strategic or balanced. Senior RMs and team leaders typically gain the most clients during transfers.

To address these problems, wealth managers should develop a clear transition process that's stringent enough to ensure smooth transfers but flexible enough to meet the needs and wishes of individual clients. The following design principles should help shape the process:

- *Enforce clear criteria.* The reallocation of clients should be coordinated centrally according to clearly defined criteria, which might include a client's needs or location. The reallocation should lead to balanced client portfolios across RMs, ensuring that each RM has enough capacity to manage new clients. Because many retiring RMs have older clients, the criteria should also ensure that a new RM will be a good match for a client's progeny.
- *Personalize communication with the client.* Transferring a client is not simply transferring a dossier: it entails handing over a relationship. Ideally, the client should be notified of the transfer at least one year before the RM's departure. Each client should meet with the new RM, preferably during a meeting that includes the departing RM.
- *Monitor the transition.* The transition should be tracked to ensure that the right allocation takes place and that all relevant documentation and background information are provided to the new RMs.
- *Reward smooth transitions.* Incentives should be used to reward seamless transfers. A transition bonus could, for example, include a component that is paid two years after the transfer—provided that the client has stayed with the bank, that all knowledge has been successfully transferred, and that certain AuM-activity or retention targets have been met.

Implementing Performance-Based Compensation. Compensation schemes vary widely across wealth managers. Some favor a top-down approach, with bonuses determined by growth and profitability at a firmwide or regional level, then cascaded down to teams and individuals. Others use a bottom-up approach, with personal and team performance largely determining compensation.

Nontraditional forms of compensation, such as options, are often reserved for senior staff.

Compensation models are starting to adopt a more entrepreneurial approach that treats RMs as if they were individual profit centers and ties bonuses to an RM's individual contribution to the wealth manager's profit. Making a direct link between performance and pay provides a strong incentive for an RM to improve productivity and act like an entrepreneur. Moreover, a performance-oriented culture helps attract successful RMs. For the wealth manager, this approach provides a sharp, unfiltered view of each RM's contribution to revenues and costs—and it therefore facilitates efforts to boost productivity. The downside of this approach, however, is glaring. By elevating individual performance, the entrepreneurial method can corrode team spirit and may lead to an unproductive working atmosphere.

In designing a compensation scheme, wealth managers should strike a balance between promoting entrepreneurial drive and building team identity. The following guiding principles should therefore help shape the design of a compensation scheme:

- Provide a practical and systematic approach to managing total compensation across business units, job families, skill levels, and locations.
- Apply the incentive system consistently across teams and individuals. Do not allow for deviations once the process has been implemented.
- Tie compensation to a few critical drivers of performance, and ensure that individual compensation is linked to the wealth manager's overarching goals.
- Ensure that the incentive system is clearly communicated to and understood by all affected parties, who, at every point, should know where they stand in relation to their targets. To this end, the system should be simple and easy to understand.
- Ensure that bonuses are fair, particularly in relation to an employee's peer group. There should also be fair treatment of integration-related

issues, international staff transfers, and legacy issues.

In the long run, a wealth management business will live or die based on how well it attracts and retains the best talent. But there is a limit to what even the best compensation packages and incentives can do. What matters more is a wealth manager's commitment to building and nurturing a culture of performance. Such a culture will differentiate an organization in an increasingly crowded and competitive market, profoundly affecting its ability to recruit, develop, and retain top talent. With so much on the line, developing a performance culture is an imperative for senior management, especially in defining a strategic business model.



For Further Reading

The Boston Consulting Group publishes other reports and articles that may be of interest to senior financial executives. Recent examples include:

“The Next Billion Banking Consumers”
Opportunities for Action in Financial Services, June 2007

“The Demographic Time Bomb: Human Resources Challenges in Banking”
Opportunities for Action in Financial Services, May 2007

“Marrying Risk and Strategy to Create Value”
Opportunities for Action in Financial Services, April 2007

Bigger, Better Banking: Emerging Titans, Soaring Profitability, and Continued Growth: Creating Value in Banking 2007
A report by The Boston Consulting Group, March 2007

“Capturing the Personal Side of Small-Business Banking”
Opportunities for Action in Financial Services, January 2007

Taking the Client’s Perspective: Global Wealth 2006
A report by The Boston Consulting Group, September 2006

Banking on China: Successful Strategies for Foreign Entrants
A report by The Boston Consulting Group, May 2006

How the World’s Top Performers Managed Profitable Growth: Creating Value in Banking 2006
A report by The Boston Consulting Group, May 2006

Navigating to Win: Global Payments 2006
A report by The Boston Consulting Group, May 2006

Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies
A report by The Boston Consulting Group, March 2006

“Banking on Russia: Risks and Opportunities for Foreign Players”
Opportunities for Action in Financial Services, January 2006

For a complete list of BCG publications and information about how to obtain copies, please visit our Web site at www.bcg.com/publications.

To receive future publications in electronic form about this topic or others, please visit our subscription Web site at www.bcg.com/subscribe.

9/07

BCG

THE BOSTON CONSULTING GROUP

Abu Dhabi	Cologne	Lisbon	New Delhi	Stockholm
Amsterdam	Copenhagen	London	New Jersey	Stuttgart
Athens	Dallas	Los Angeles	New York	Sydney
Atlanta	Detroit	Madrid	Oslo	Taipei
Auckland	Dubai	Melbourne	Paris	Tokyo
Bangkok	Düsseldorf	Mexico City	Philadelphia	Toronto
Barcelona	Frankfurt	Miami	Prague	Vienna
Beijing	Hamburg	Milan	Rome	Warsaw
Berlin	Helsinki	Minneapolis	San Francisco	Washington
Boston	Hong Kong	Monterrey	Santiago	Zurich
Brussels	Houston	Moscow	São Paulo	
Budapest	Jakarta	Mumbai	Seoul	
Buenos Aires	Kiev	Munich	Shanghai	
Chicago	Kuala Lumpur	Nagoya	Singapore	bcg.com