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PRIVATE BANKING SECTOR BRACES ITSELF FOR A SHAKE UP

The private banking sector is bracing itself for a shake up that will see further market consolidation in the next few years. Signs are that a significant percentage of international banks are circling around private banks with acquisition intentions, according to the PricewaterhouseCoopers 2005 Global Private Banking/Wealth Management Survey launched today.

The fight for survival in the fragmented wealth management industry will also be fuelled by national/local banks looking to achieve scale through less costly means by either poaching top performing teams from competitors or seeking joint ventures and as a result, a number of mid tier players may be forced to exit the market.

Luc Discry, Financial Services Leader, PricewaterhouseCoopers said:

> "We believe there will be significant repositioning in the market. More and more, size will matter as international banks go on an acquisition trail and local/national banks look to achieve scale through less costly growth strategies. Our analysis shows that the large wealth managers are beginning to benefit from scale in both profitability and asset growth. However, the real battle is taking place at the coal face as banks fight it out for a larger slice of the growing cake of super rich clients."

Since its inception in 1993, the PricewaterhouseCoopers Global Private Banking/Wealth Management survey has highlighted key global market trends and provided an analysis, and looked at the differences between the ways in which participants provide services to high net worth individuals. With 130 wealth managers and wealth management institutions participating, a record number, the 2005 survey covers Europe, North America, Asia, South America, The Middle East and a number of offshore centres.

This year's PricewaterhouseCoopers Wealth Pyramid shows that all tiers of wealthy client groups, from the affluent with $100k to $500k total assets to the top tier of ultra high net worth individuals with more than $50million of assets, have seen their personal wealth increase. Survey respondents indicated that ultra high net worth individuals (more than $50 million in assets) represent an average of 19% of funds under management, compared with 11% two years ago. Very high net worth individuals

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(assets of $5 million to $50 million) now represent an average of 30% of funds under management compared with 26% in 2003.

There is fierce competition for share of the wallet of these core client groups - some 64% of participants expect to hold more than 40% of the assets of their clients by 2008, compared with 45% today. The European and Asian participants are expecting the largest increase over the three year period. This is clearly of benefit to wealth managers who will achieve increased income with only a marginal increase in costs.

Wilfried D'haese, Partner Tax Consultants at PricewaterhouseCoopers, commented:

> "Wealth managers are set for a competitive few years in their quest to gain market share. Not all private banks can outperform the market, or indeed gain and retain their clients. The provision of comprehensive, integrated wealth management planning and investment performance are two rising differentiators. Tax planning remains at the core of the wealth management proposition and is becoming an imperative critical driver for onshore and offshore products. Wealth managers will need to ensure that their advisers are up to scratch with their knowledge of international tax and domestic tax, which the results of our survey show to be currently surprisingly low."

However, whilst organisations have indicated that revenue growth will be good, margins are coming under pressure. Looking three years ahead, 32% of participants see margins falling against 18% expecting them to rise, and 47% believing they will be maintained. This compares with 28% who are experiencing falling margins today, 25% who are managing to increase margins, and 46% who are holding them still. The increasing pressure on margins corresponds with responses elsewhere in the survey which indicate that control of costs will be important, but staff and regulatory/compliance costs are still set to rise. In terms of profitability, loans, discretionary asset management, proprietary mutual funds, hedge funds (single strategy and funds of funds), private equity and derivatives/structured products are the most profitable products. This partly explains the reluctance to move to 'open architecture' in areas such as discretionary asset management and mutual funds, as well as why alternative investments have become core products.

A significant number of CEOs surveyed identified the distributor model as either a primary or secondary focus for their strategic direction - nearly 80% in Europe, 50% in the Americas and 77% in Asia. Many are also focusing on being producers, indicating that clear strategic choices need to be made to be able to compete effectively and to differentiate in the marketplace.

Luc Discry concluded:

> "Open Architecture is still a masquerade for most wealth managers and in reality only exists at the margin. Many wealth managers still manufacture product either themselves or via their parent. This shows that at least for now 'open architecture' is more a myth than reality, particularly in small- to medium-sized organisations. From banking services to specialist advisory services with respect to asset management, banks are mainly providing proprietary products.
> Within asset management, they are tending to manage advisory/discretionary accounts themselves, while outsourcing more of the most specialist areas such as alternatives, for example private equity and hedge funds. In trust and fiduciary services, there is a split between

those regarding this as an essential part of their advisory services, and those choosing to outsource to specialist trust organisations.

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"If wealth managers wish to realise their strategy of becoming 'trusted advisors', they need to offer the best possible products and services to their clients. They need to focus on what they do well, and try not to be all things to all men. The rewards for success are enormous but the risks of failure should not be under estimated."

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Notes to Editor

1. To download the executive summary of the 2005 PricewaterhouseCoopers Global Private Banking/Wealth Management Survey, please visit www.pwc.com/wealth

2. Since its inception in 1993, the PricewaterhouseCoopers Global Private Banking/Wealth Management survey has highlighted key global market trends and provided an analysis, and looked at the differences between the ways in which participants provide services to high net worth individuals. With 130 wealth managers and wealth management institutions participating, a record number, the 2005 survey covers Europe, North America, Asia, South America, The Middle East and a number of offshore centres.

3. As in prior years, further analyses of the findings providing greater depth and data will be released on a quarterly basis from September 2005.

4. PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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