

The 2009 Global Private Banking and Wealth Management Survey

“A new era: Redefining ways to
deliver trusted advice”

Belgian Results

A new era of wealth management

What did we see in terms of responses to this year's survey and how was this different from what we have seen in prior years?

The emergence of
'Nouveau Classic' banking

—

Trusted advice at the heart
of the business.

Changing business
operating models

—

A drive for process
efficiency and service
improvement.

The impact of the increasing
power of governments and
regulators, including recent
moves around tax
transparency and
impending regulatory
change.

6 dimensions were covered - Key headlines

Performance in crisis – what to do now?

After several years of accelerating growth, the economic crisis has brought wealth management's expansion to a screeching halt. Placing clients at the centre of the business model, providing objective advice and possessing a strong brand are now key to success. Taking care of the client provides its own rewards – the most profitable wealth managers have significantly lower ratios of clients per CRM across each wealth segment.

Client service – disciplined segmentation lifts quality

Servicing strategies must define and address specific client segments, with differentiated offerings designed to support clients' needs throughout all stages of their lives. Disciplined segmentation will not only help wealth managers tackle today's client service challenges, but also allow services to be offered to specific clients in a more cost-effective manner.

Products and services – delivering “Nouveau classic” banking

Wealth managers are seeking to redefine trusted advisor status. In the wake of investment frauds, transparent product offerings, together with robust suitability and due diligence processes, are critical not only to drive customer value but also to protect the reputations of wealth managers. Product and service offerings need to be clearly aligned with client preferences and financial goals, while also being operationally efficient for the wealth manager.

The people agenda – a new strategy required

Today's economic crisis presents challenges for which CRMs have neither the experience nor the training. If quality of advice is to be the real differentiator, CRMs need to develop stronger advisory skills, as well as expanding their knowledge in areas such as tax and risk. As governments and regulators drive change in reward structures, long-term compensation and development packages must encourage client-centric behaviours and CRM loyalty.

Operations and technology – delivering client value and cost efficiency

COOs at successful wealth managers must make changes to their operating models to reduce costs, while simultaneously investing to support and drive business growth. Many COOs surveyed believe there are significant cost savings that can be made over the next two years and place process efficiency towards the top of their agendas. With two-thirds of CEOs identifying acquisitions as continuing to be a part of their growth strategy, there will certainly be significant challenges around the integration of operations.

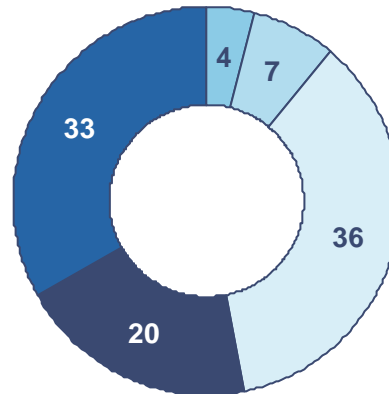
Risk management – protecting the client promise

Robust risk management is the guardian of every wealth manager's reputation. Poor risk management when selecting products for clients has been an evident weakness – undermining many established wealth management brands. In this new era, risk management must come of age. Its application must be holistic and driven by clients' expectations.

Background to the Survey

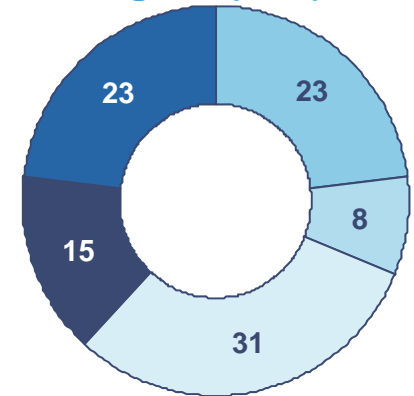
- First survey completed in 1993
- Data collected from 238 wealth managers in 40 countries, **with 16 participants in Belgium**
- Input across all senior management as well as client facing relationship managers
- Participants ranged from universal global banks to specialist boutiques
- Private client study completed to capture the views of the users of wealth managers

Average percentage of AuM within each wealth segment Belgium (US\$)



- >\$50M
- \$20-50M
- \$1-20M
- \$500,000-1M
- \$100,000-500,000

Size of participants in terms of AuM Belgium (US\$)

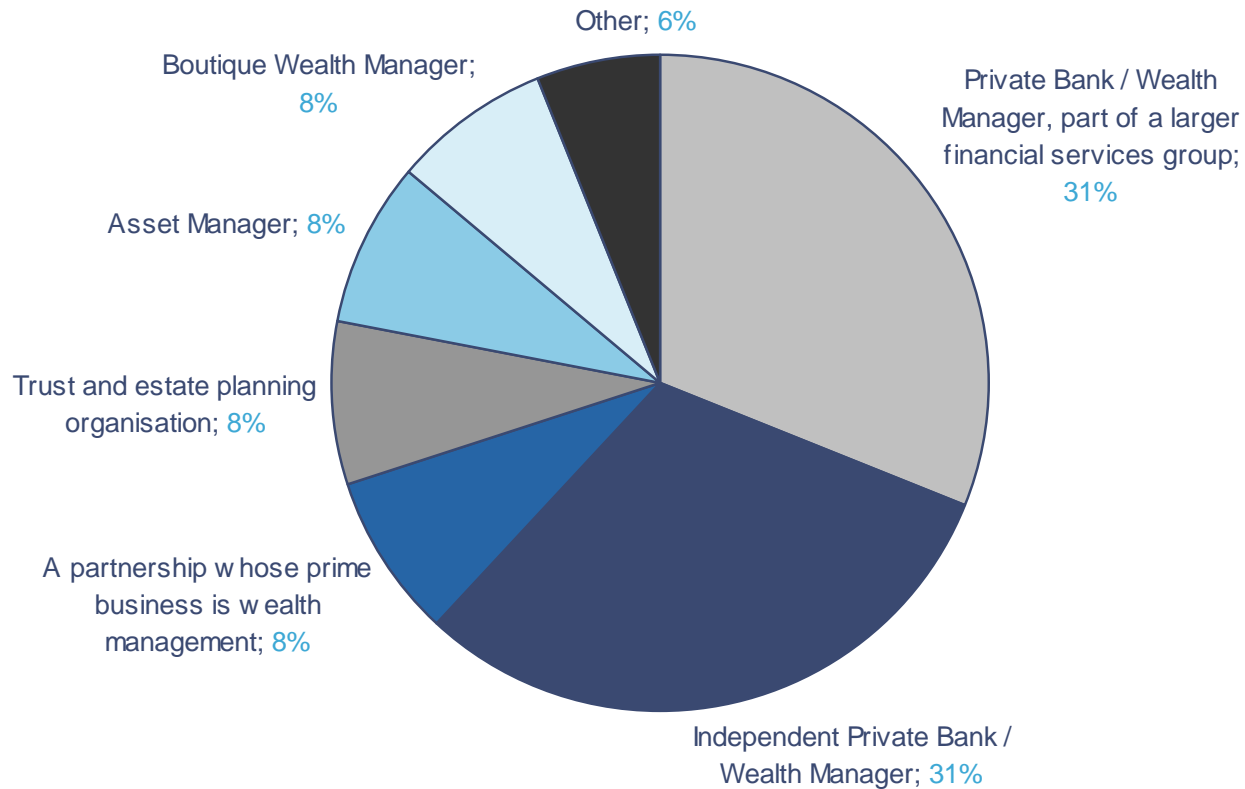


worldwide data

- 33% ■ \$10-50bn
- 14% ■ \$5-10bn
- 27% ■ \$1-5bn
- 26% { ■ \$0,5-1bn
- { ■ \$0-0,5bn

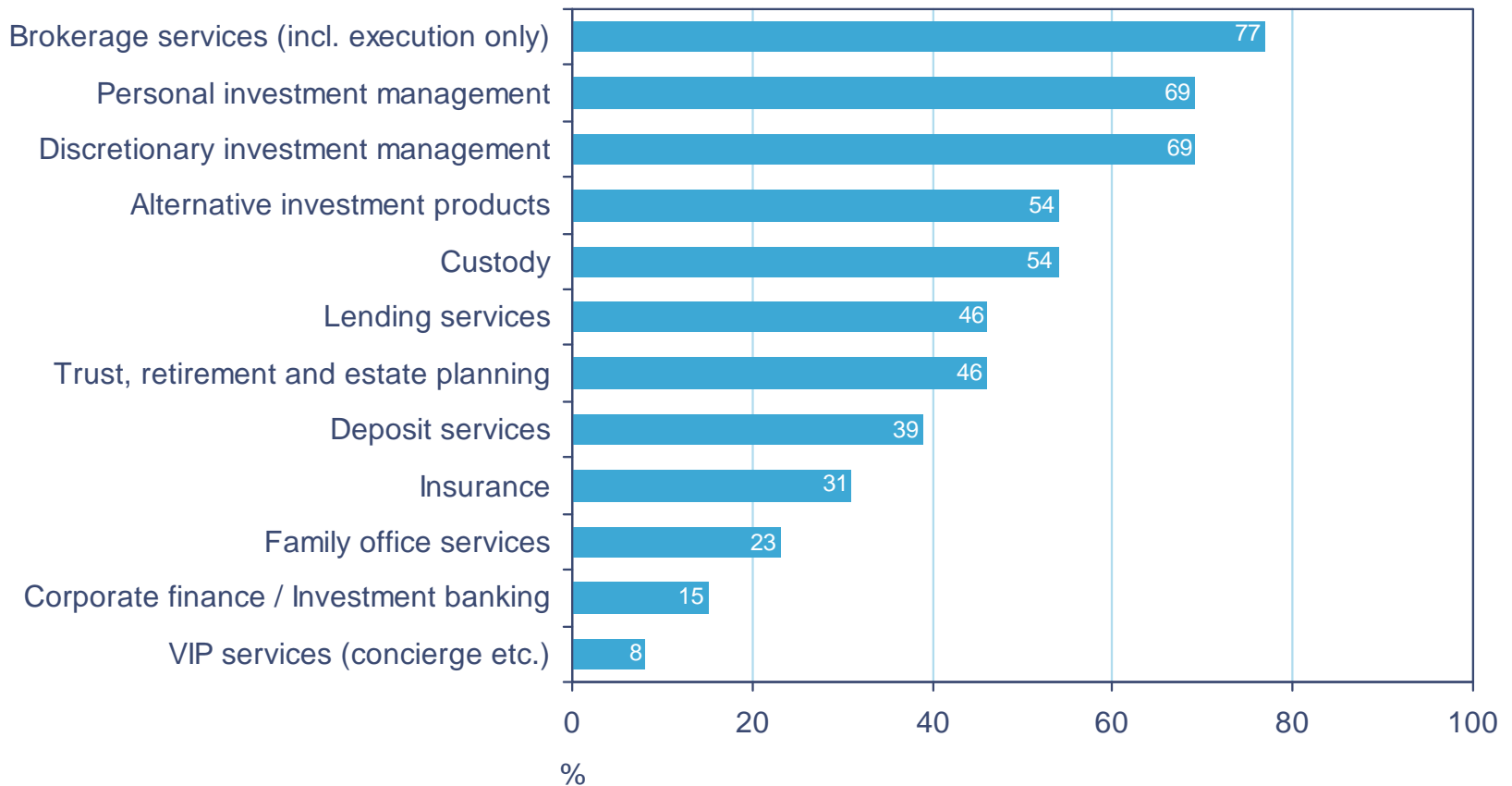
Background to the Survey

Categories of Belgian participants



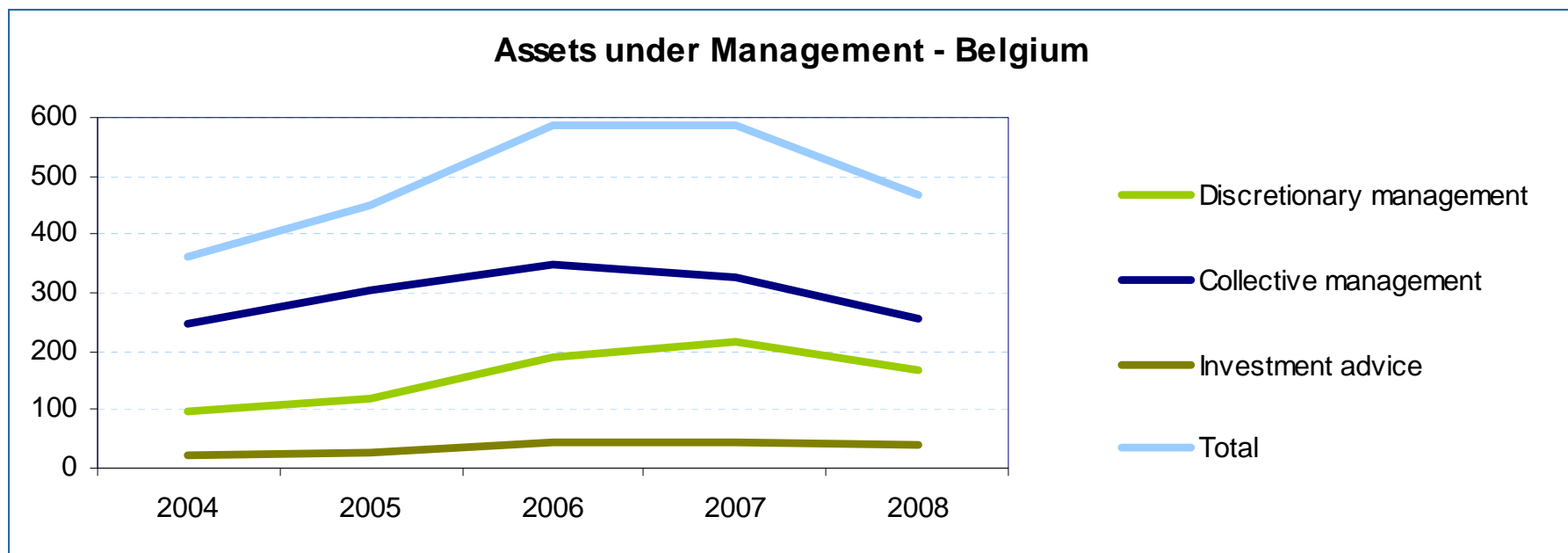
Background to the Survey

Services provided by Belgian participants



Assets under Management - Belgium

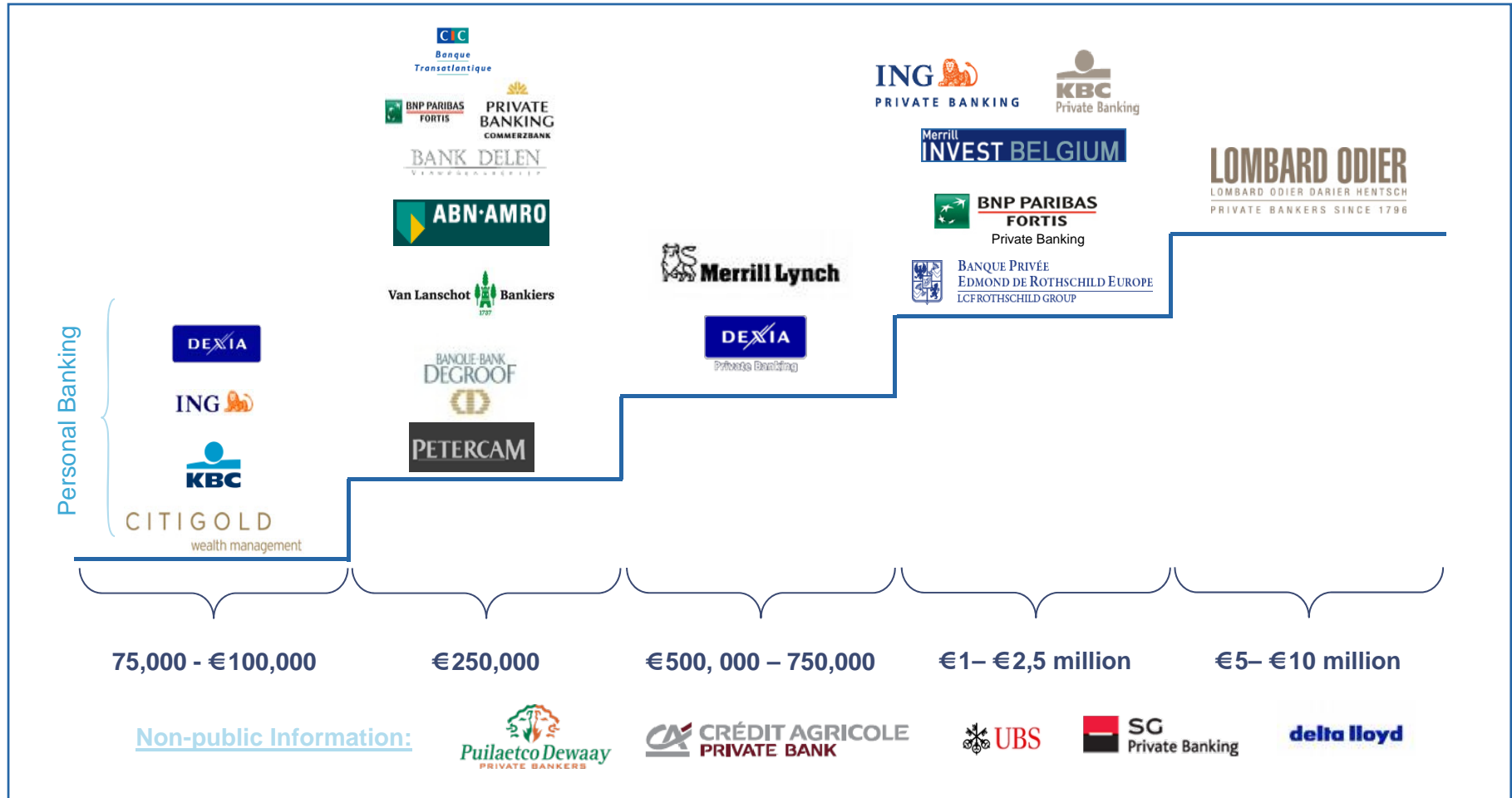
Important decrease of the AUM level in Belgium compared to 2007 : - 20,2% due mainly to the impact of the Financial crisis on the discretionary and collective management!



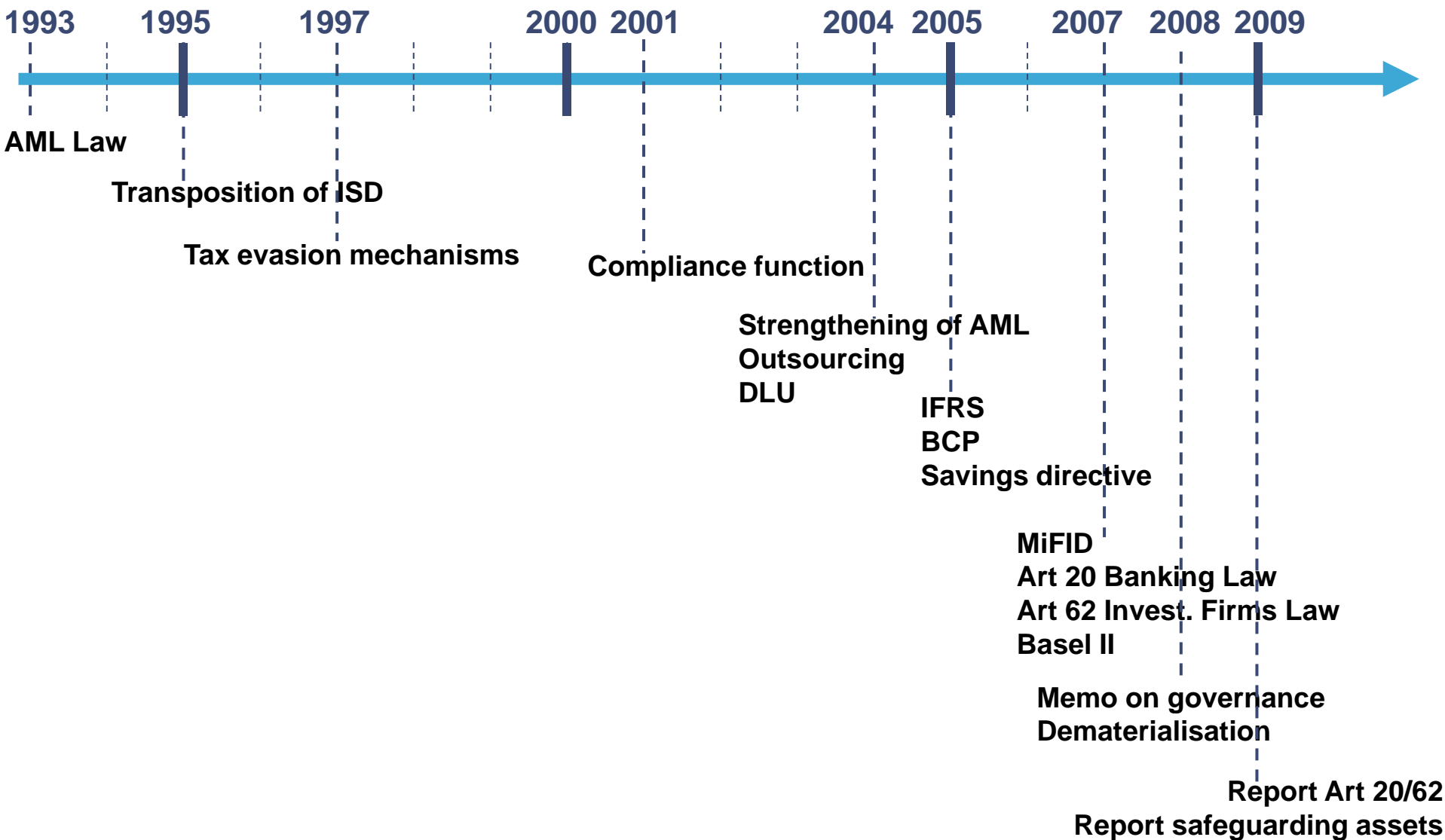
(in billions Euro)	2004	2005	2006	2007	2008
Discretionary management	95,3	118,5	189,8	214	168,99
Collective management	245,3	305,4	349,7	328,5	257,02
Investment advice	21,7	27,3	45,4	43,75	41,9
Total	362,3	451,2	584,9	586,25	467,91

Players present in Belgium

Entry tickets in Belgium (based on public information)



Evolution of the regulatory framework (non exhaustive)

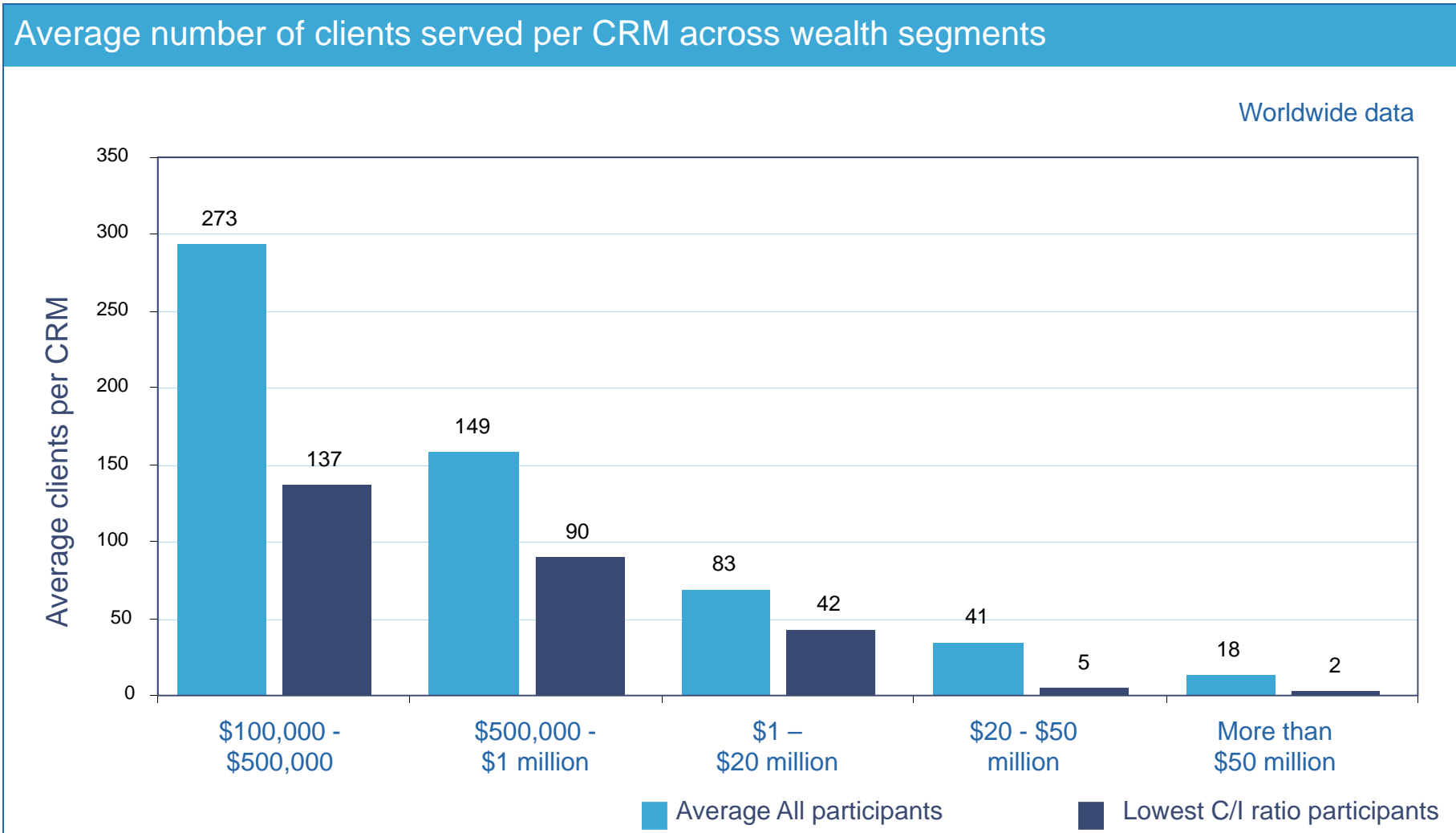


1

Performance in crisis

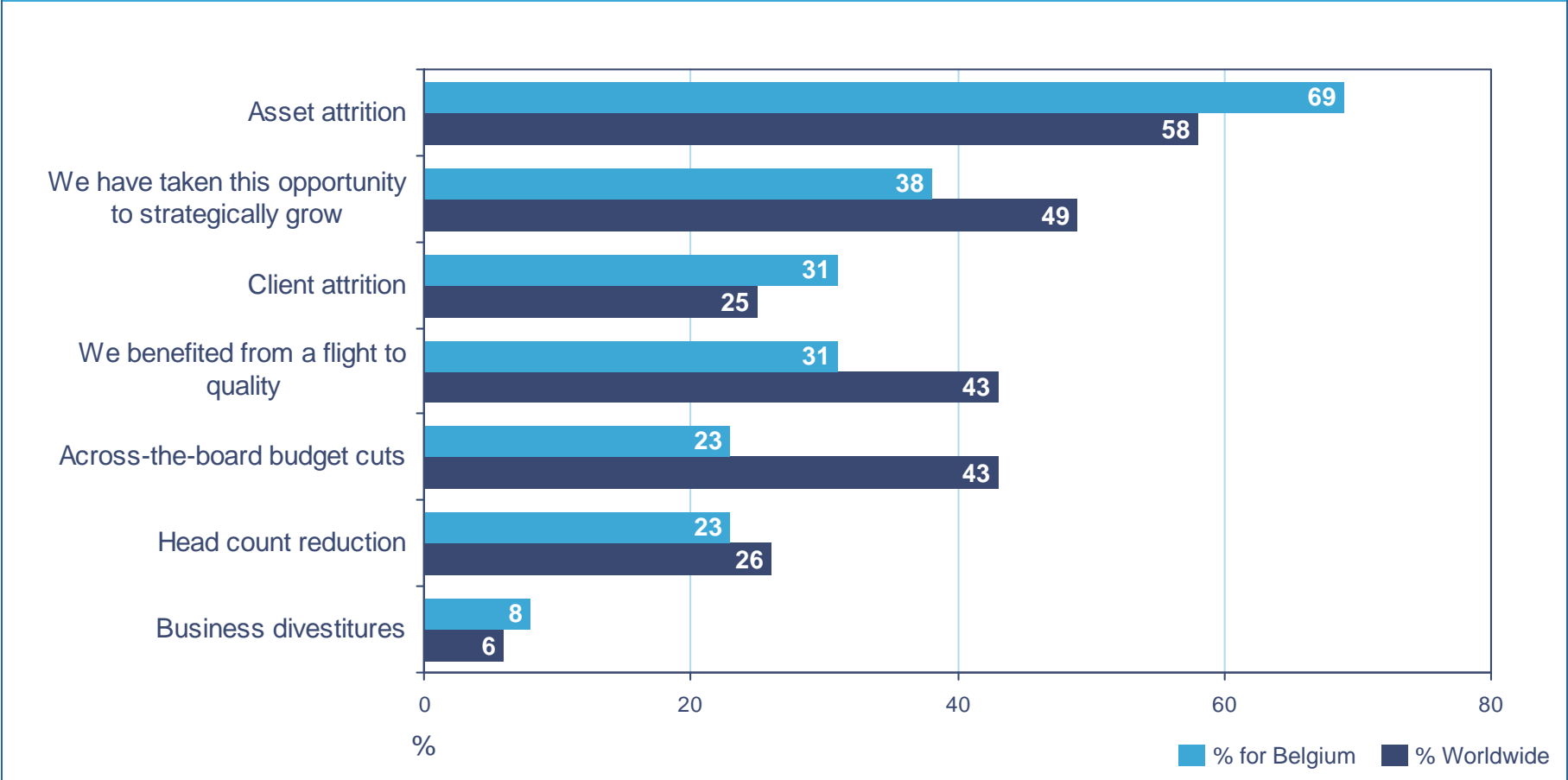
What to do now?

The most profitable wealth managers have significantly lower ratios of clients per CRM in the different client segments. Taking care of the client really does pay.



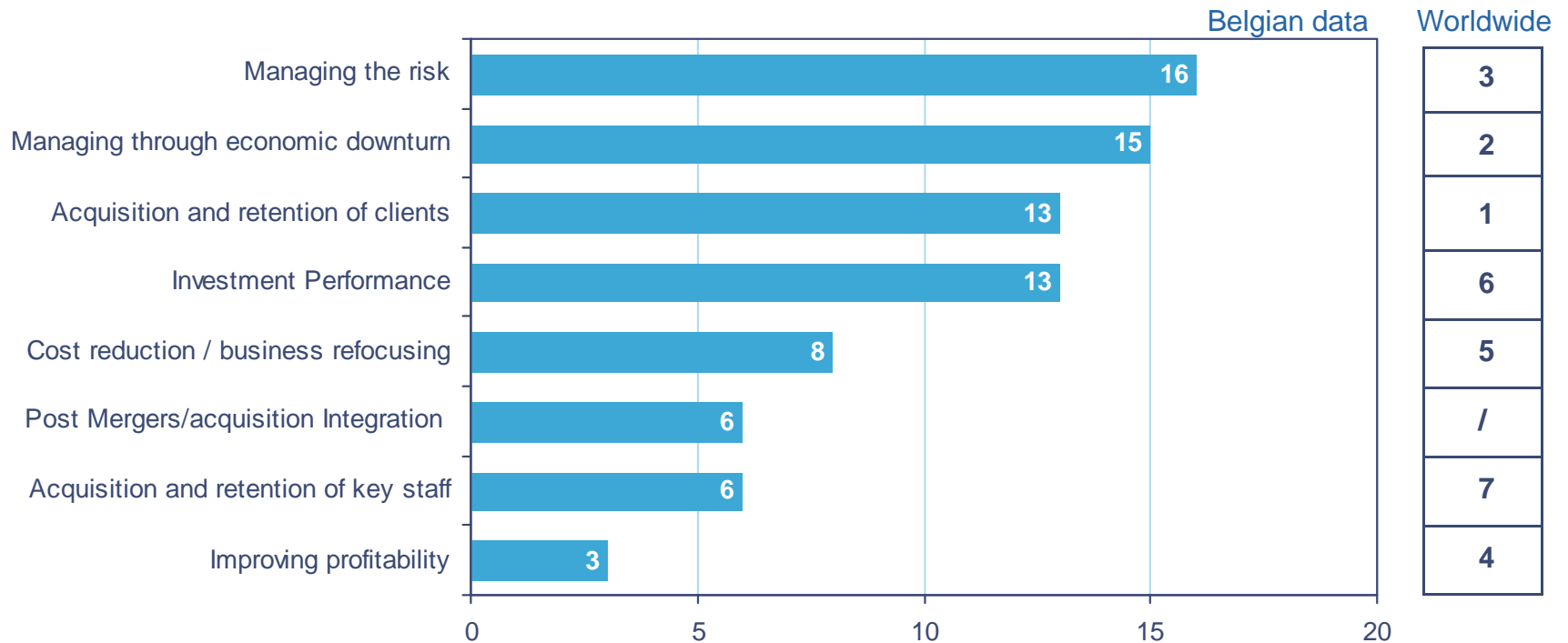
Wealth managers clearly saw the effects of the crisis on their businesses. There were a number of stress points across the business landscape.

Which of the following areas has the current economic crisis had an impact on within your organisation?



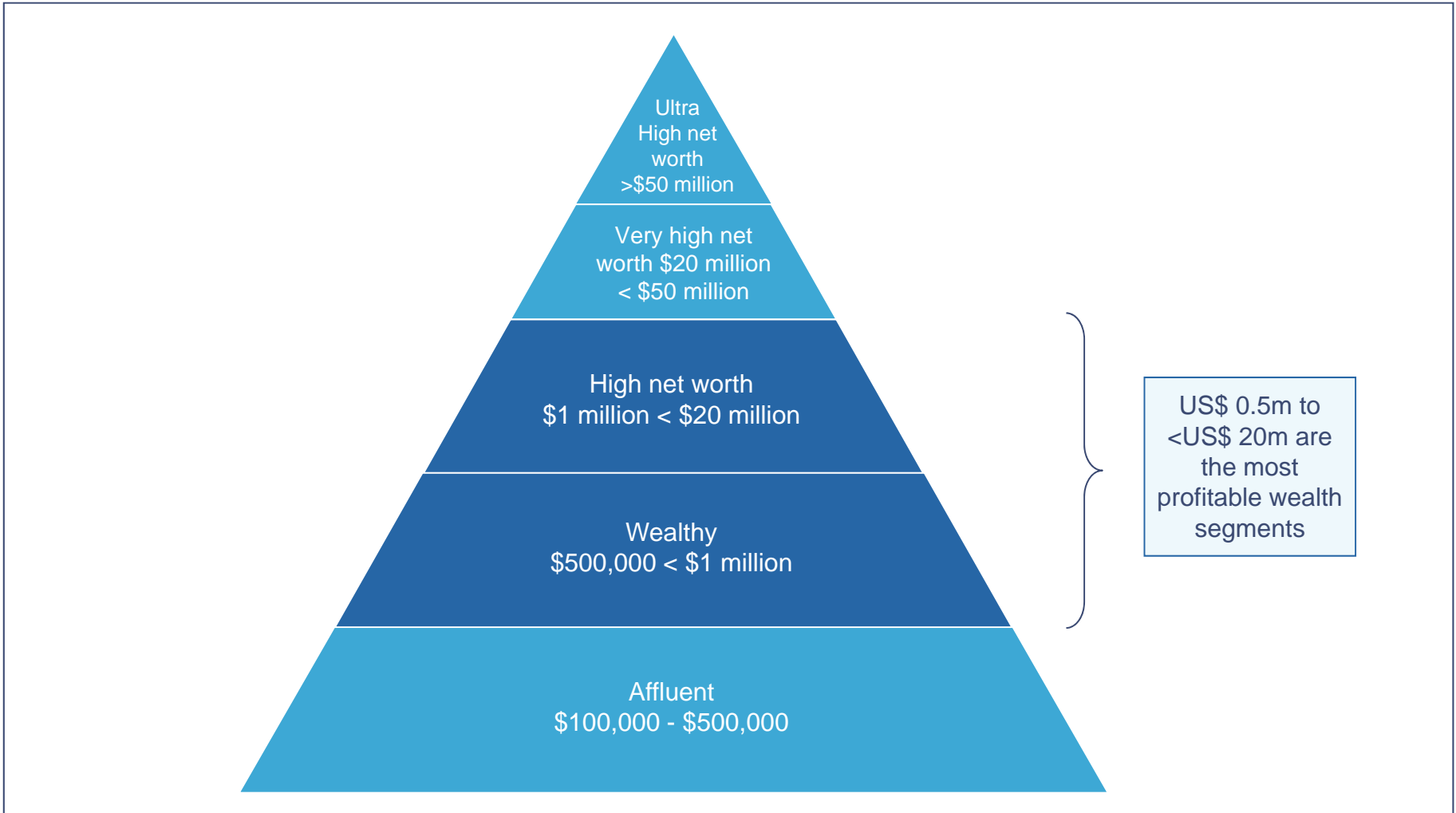
59% of the CEO's believe the economy will rebound during the 1st semester of 2010. Until then, managing risk through economic downturn and acquisition/retention of clients will be their top priorities.

Which of the following are the most important strategic areas on which you as CEO currently spend time?



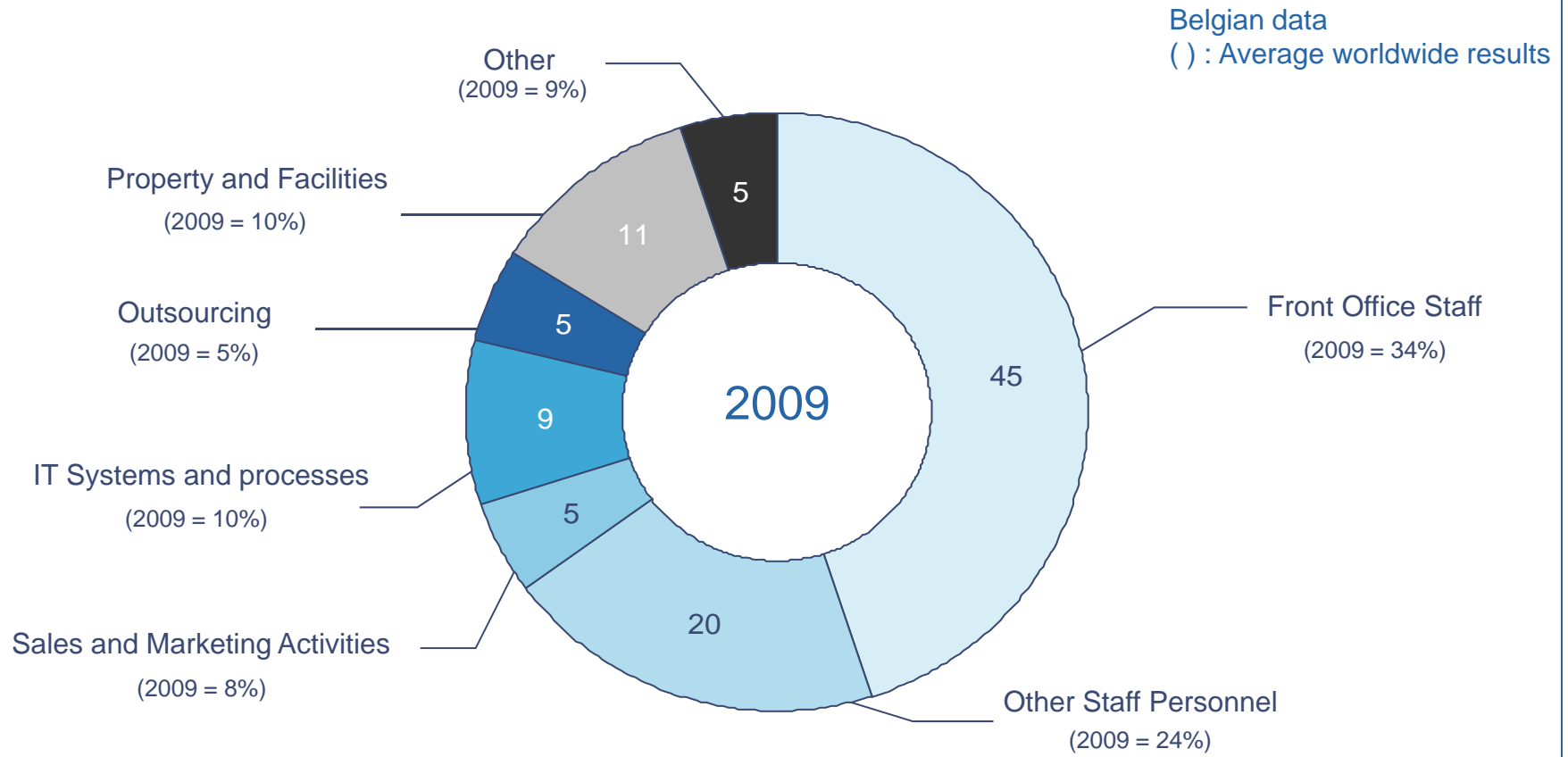
Sum of Belgian Weighted Ranked Responses

33% of Belgian wealth managers provide services across all 5 of the wealth segments. Organisations need to determine the profitability of their client base and which clients to target.



The cost distribution will be adapted to eliminate all possible costs not related to wealth management core activities

The cost distribution of an average Private Banker / wealth Manager

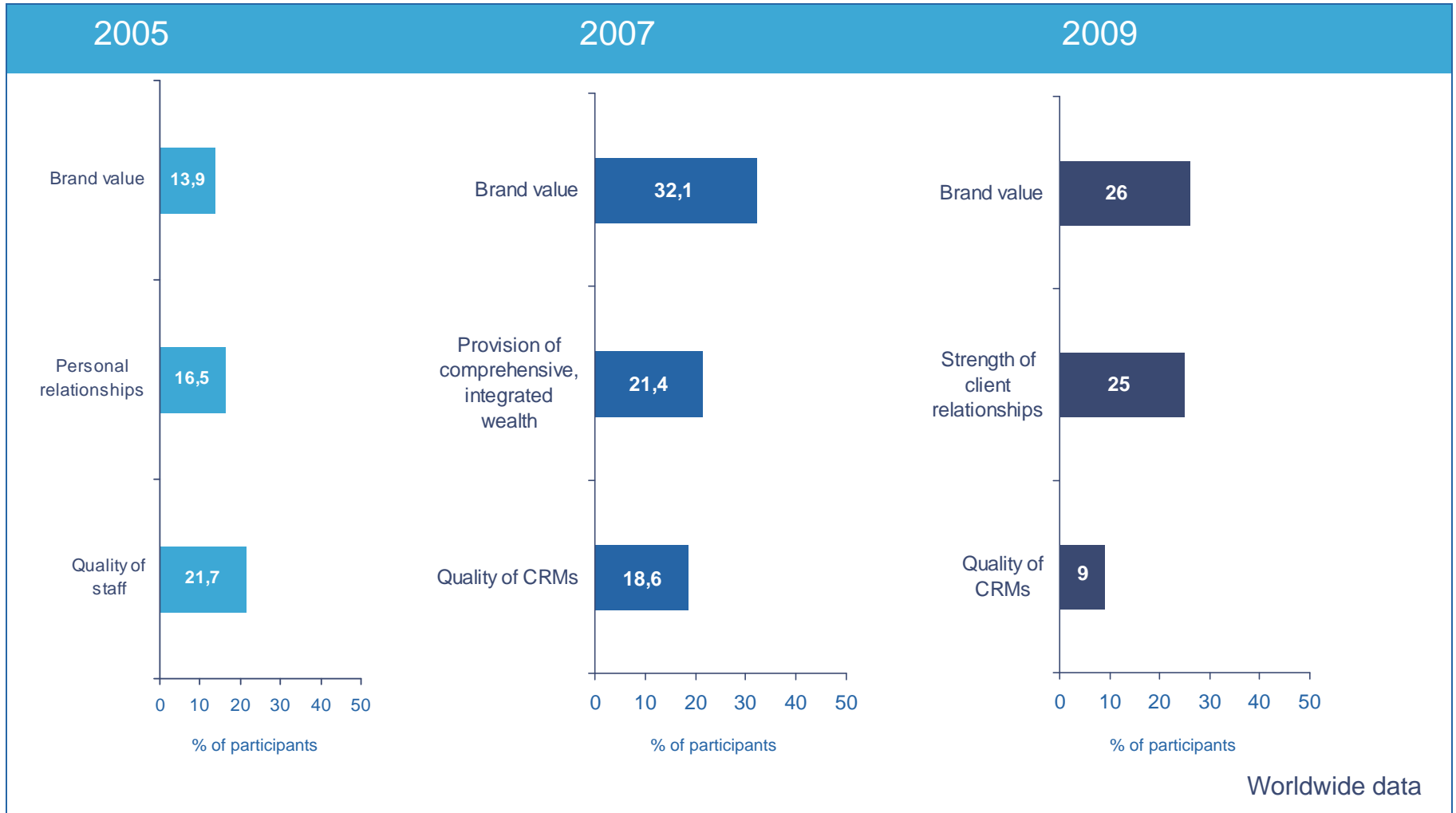


2

Client service

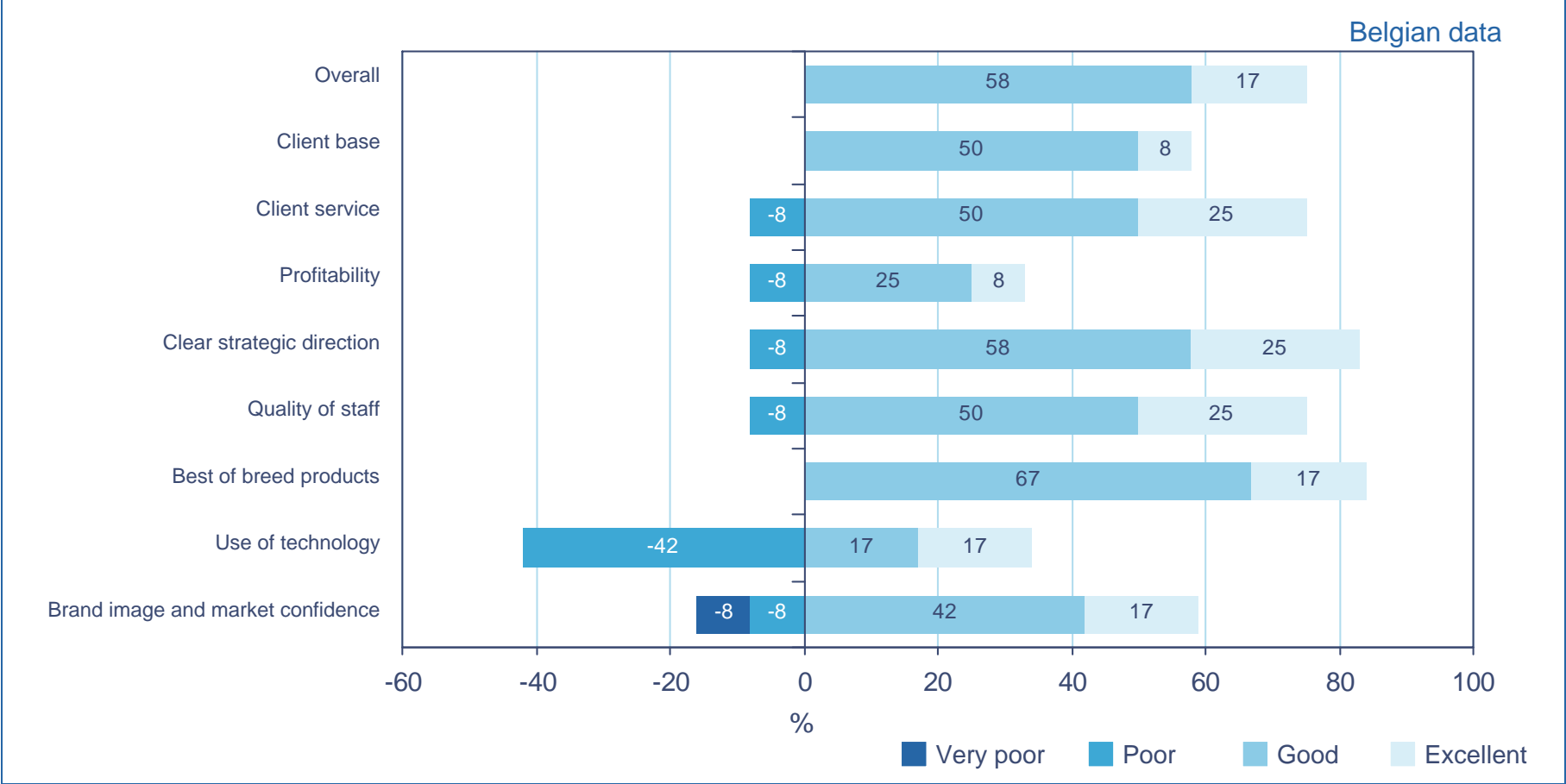
Disciplined segmentation lifts quality

At a global level, brand value remains the key differentiator in 2009 with strength of client relationships becoming increasingly important.



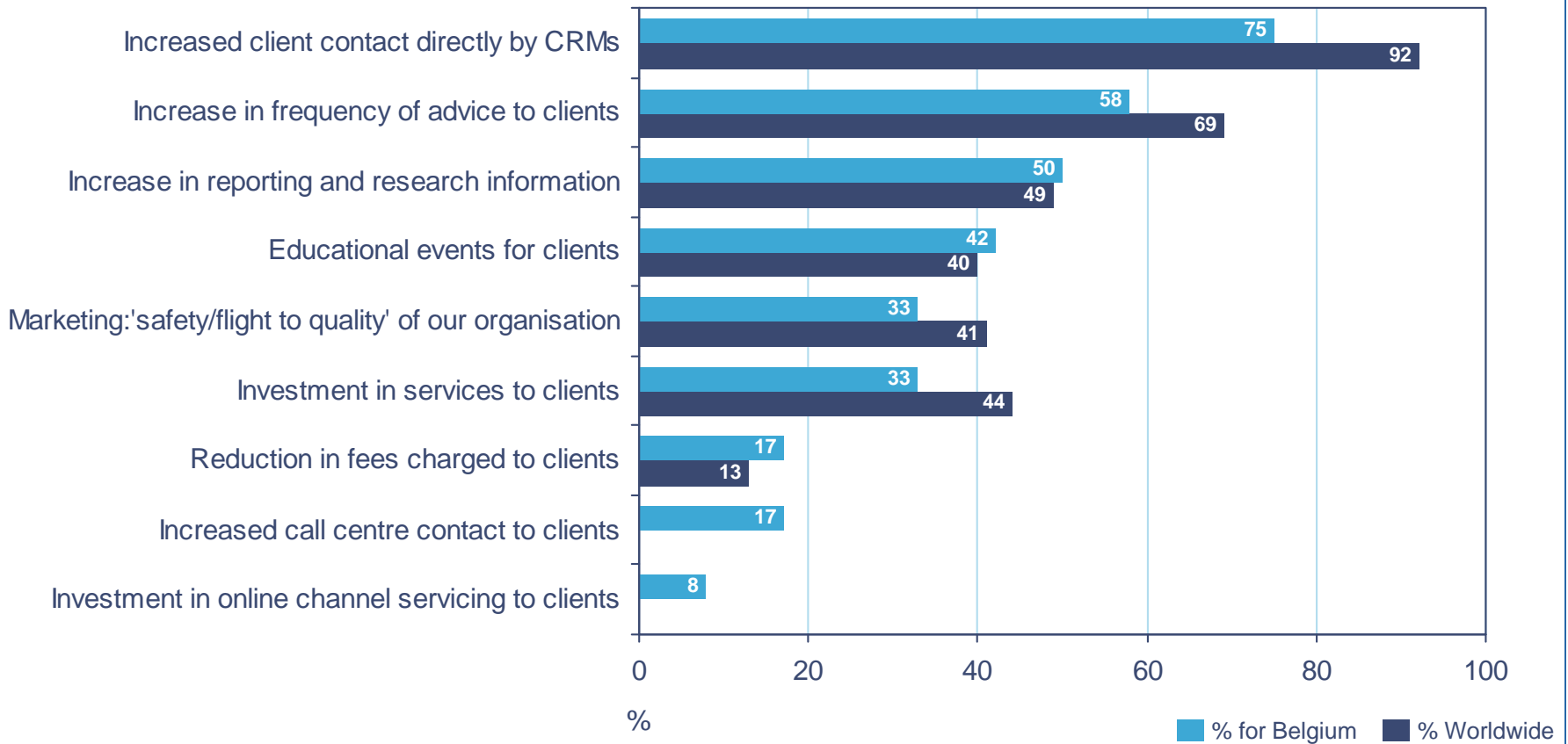
CEOs are still very complimentary of their own organisations. Use of technology, as in 2007, is an area of weakness. It is also interesting to see how few rate themselves as excellent.

How would you rate your own organisation in the following areas?



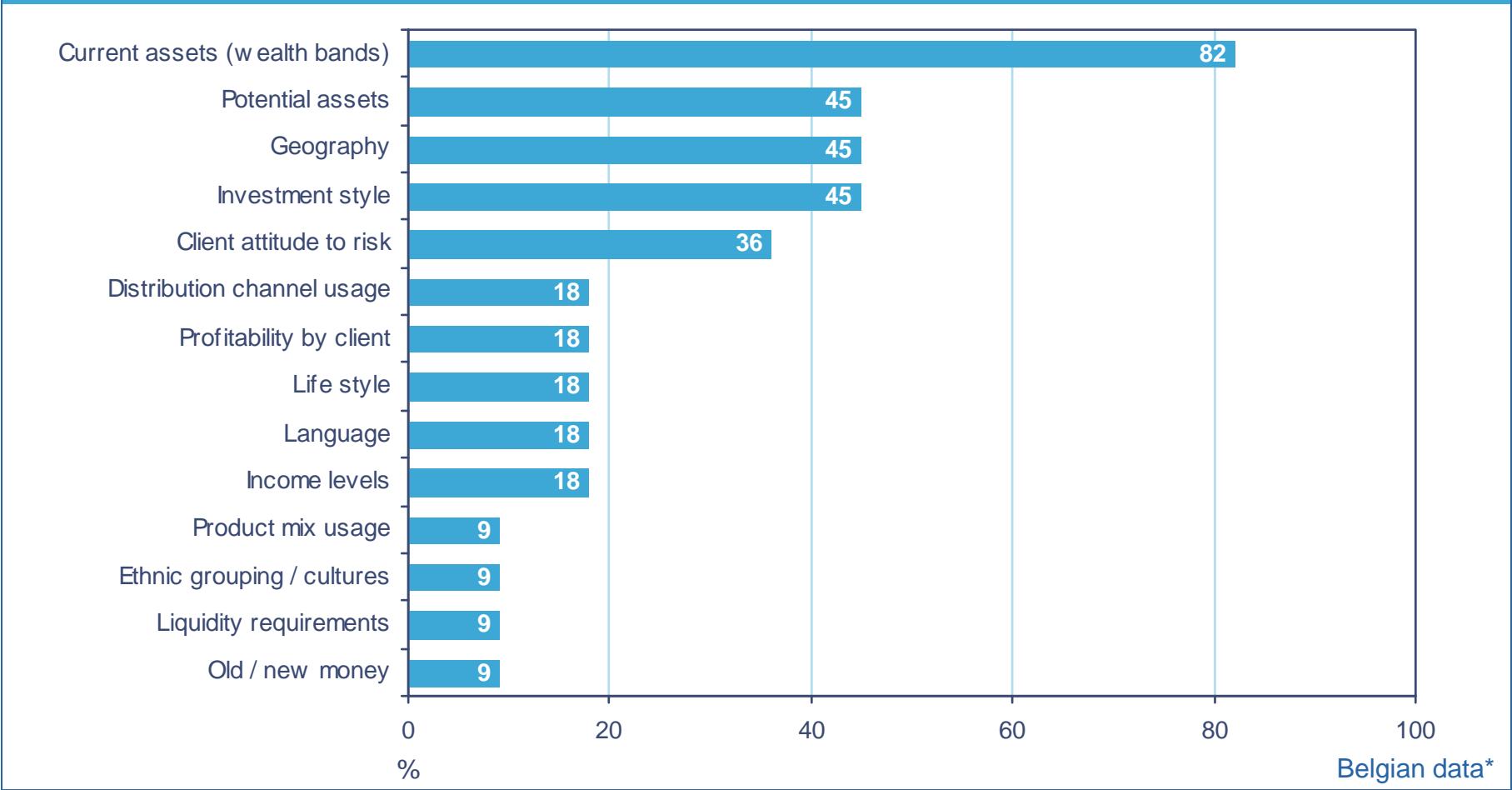
Over 75% of wealth managers have increased interactions with clients. In the current economic environment direct, proactive contact from CRMs is highly valued by all clients.

Given the current global economic crisis, what have been your organisation's tactics to retain clients?



Many wealth managers are starting to apply behavioural criteria such as 'investment style' or 'attitude to risk', giving CRMs a far more complete and multi dimensional picture of clients' values and behaviours.

In segmenting your organisation's client base, what are the criteria that you currently using?

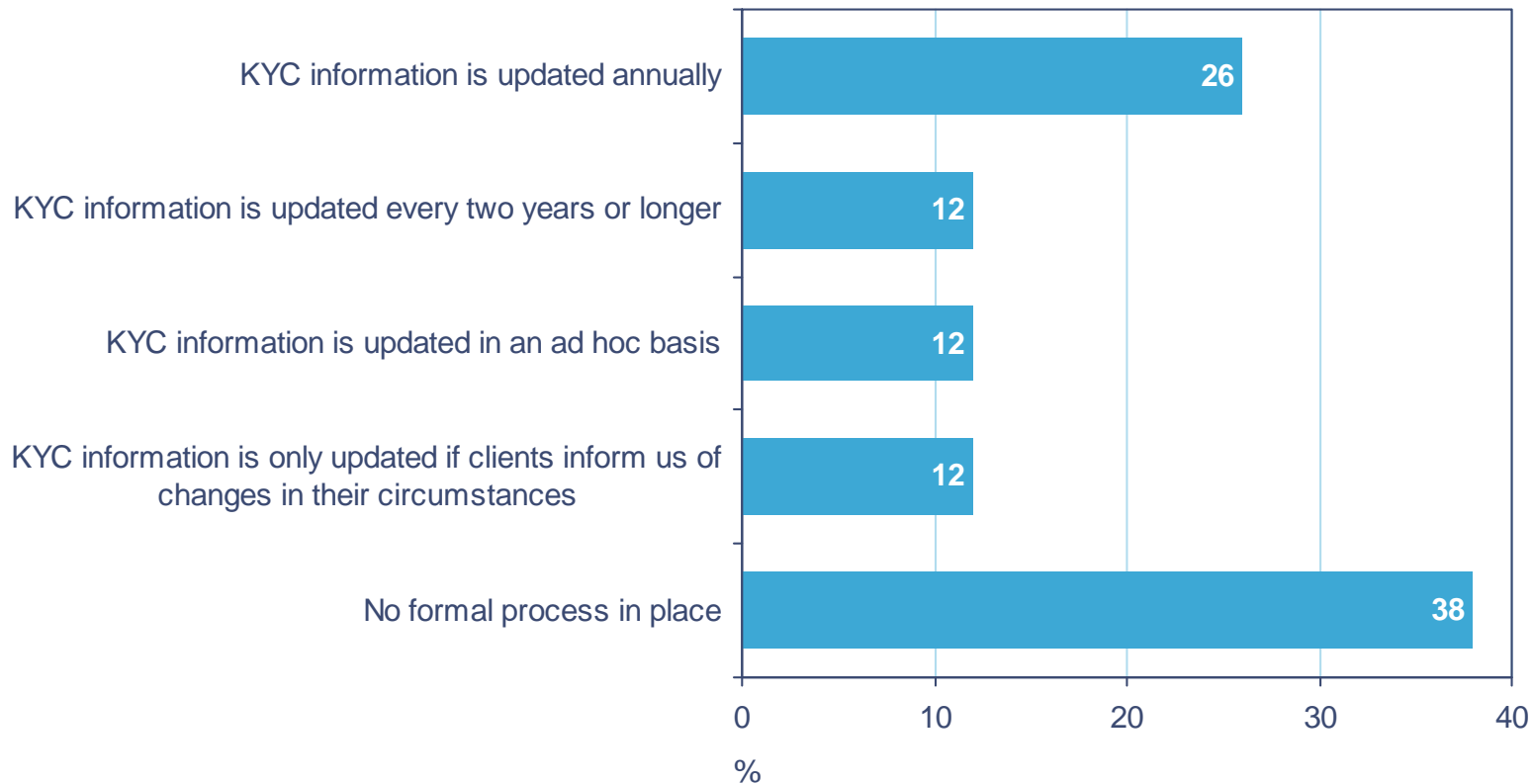


Belgian data*

Still 38% of wealth managers does not have any formal process to manage their client “key” information.

Does your organisation have a formal process whereby clients' Know Your Customer ('KYC') information is updated with changes in their circumstances and approved as correct by an account officer?

Belgian data



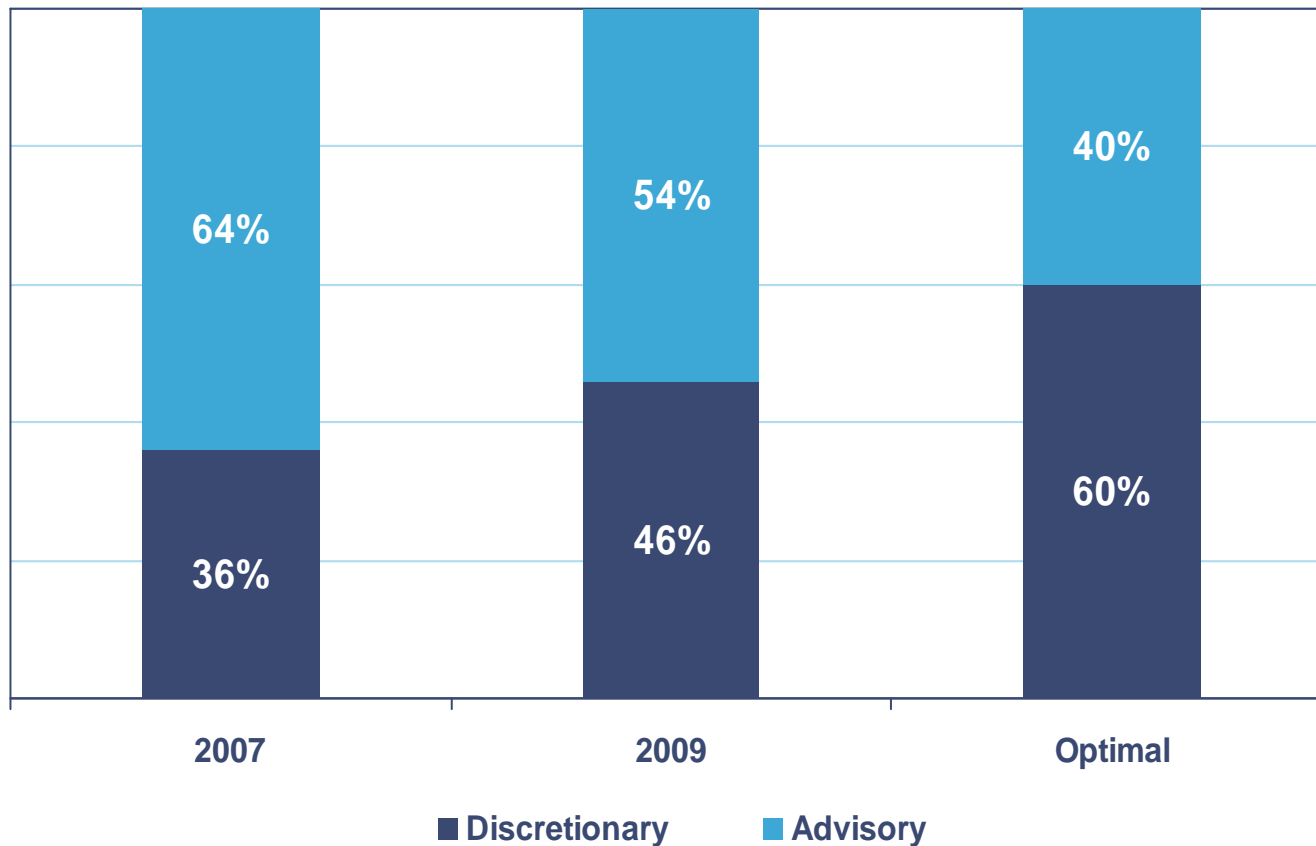
3

Products & services

Delivering 'Nouveau Classic' banking

Positive evolution of the portfolio mix of the wealth management business in Belgium compared to 2007

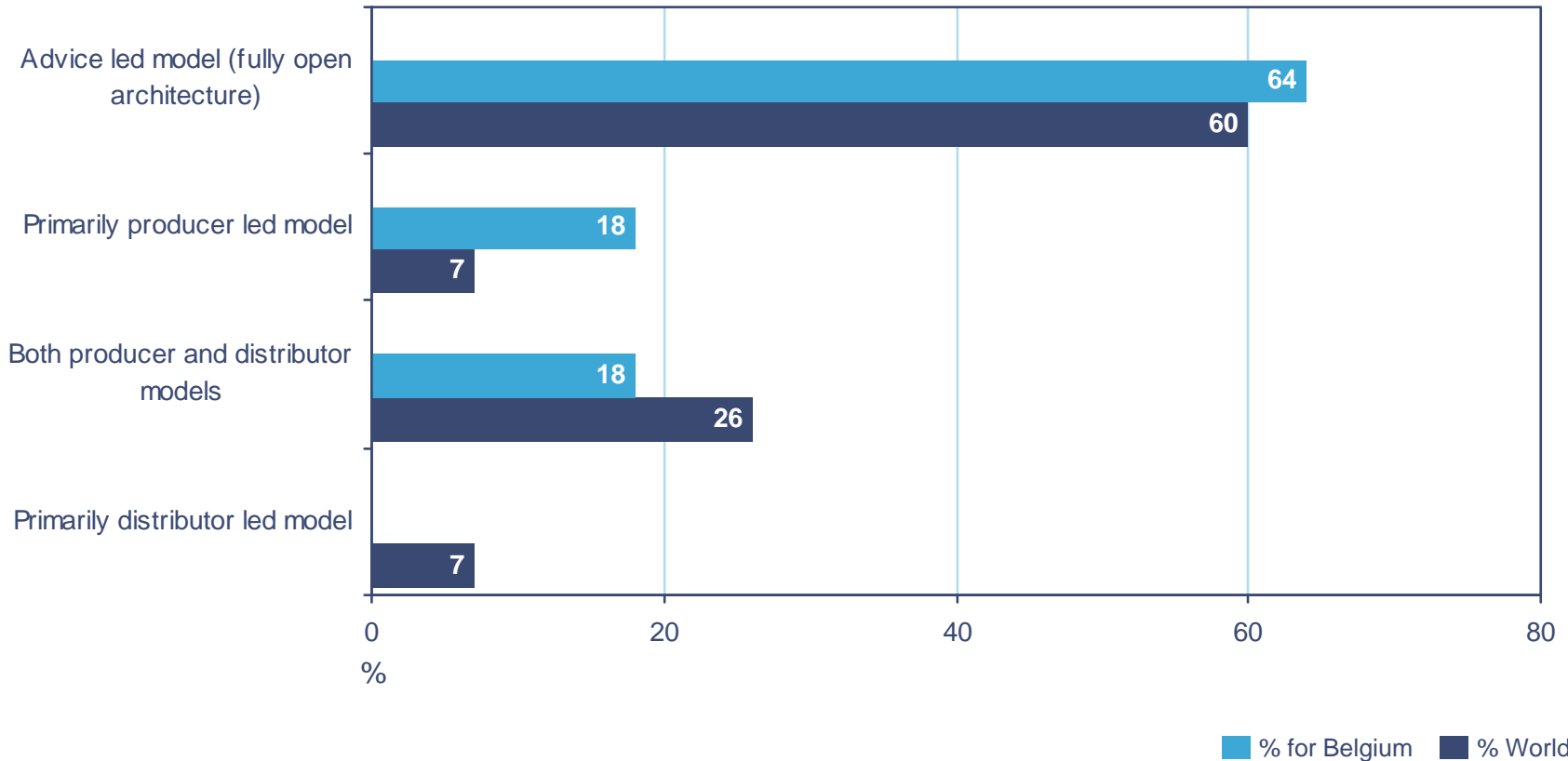
Organisation's discretionary / advisory portfolio mix.



Belgian data

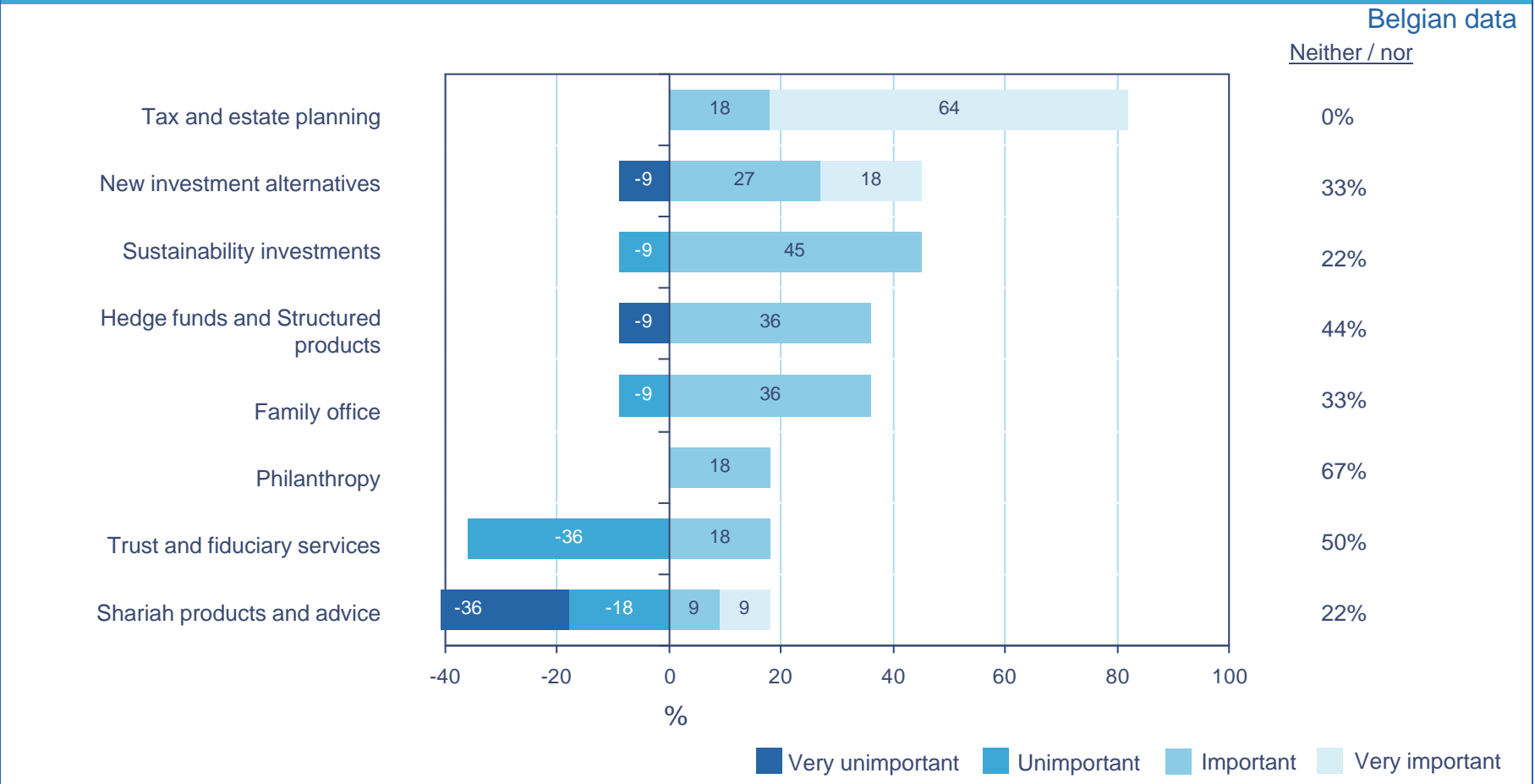
Wealth managers continue to leverage a hybrid architecture approach with combined with quality, independent advice is a value adding proposition for both clients and wealth managers.

Which of the following best describes your business model in two years' time?



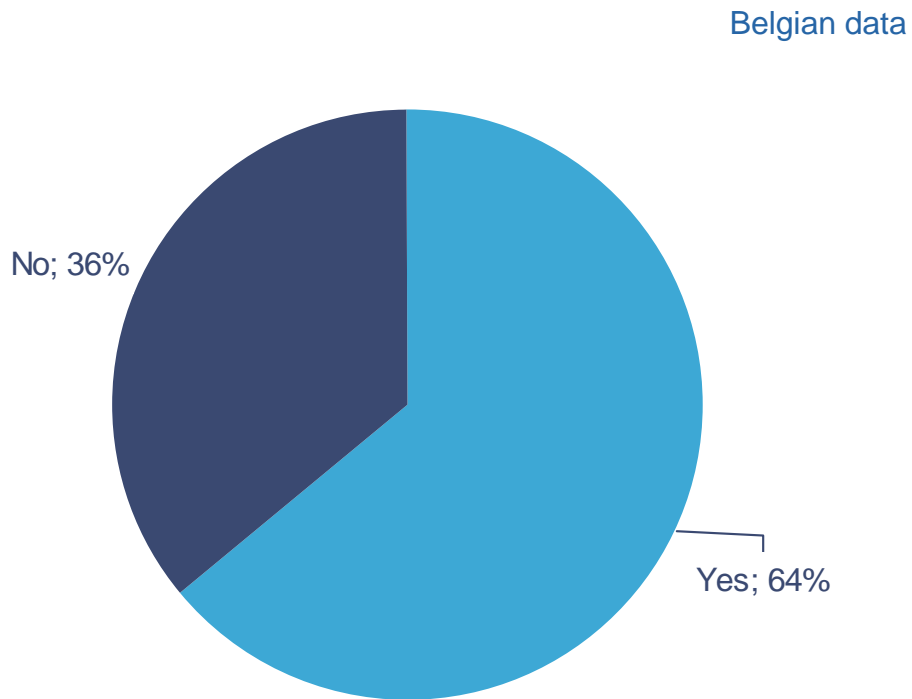
Products and service offerings need to be clearly aligned with clients needs and segments.

How important do you rate the following product/service offerings in terms of serving your clients over the next two years?



The move to greater transparency will define successful client relationships and become the new gold standard.

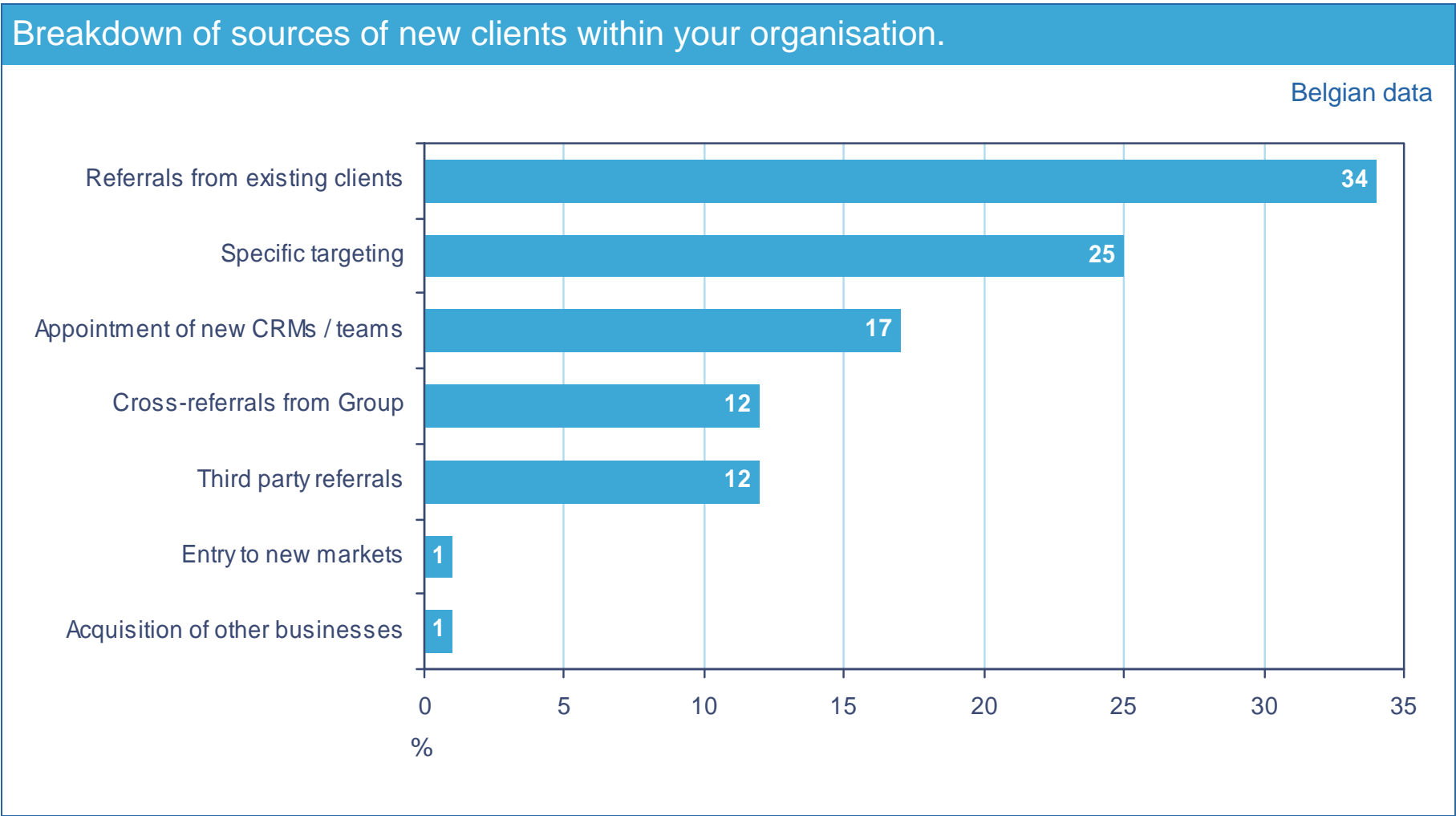
Does your organisation **currently** offer aggregated account statements to clients?



Wealth manager obligations:

- Real time client information flows
- Robust due diligence around products and 3rd parties
- Assurance over credit, market, operational and counter-party risks
- Inducements – disclosure and compliance of arrangements with Art 26 of MiFID level II Directive
 - CESR survey
 - Stand still will not be an option

Wealth management companies will continue to develop through an increase in the share-of-wallet from existing clients and their ability to win clients from competitors, rather than by acquiring new customers.



4

The people agenda

A new strategy required

The people agenda is no longer a top priority. The focus is on the selective poaching of CRMs who have the talent and experience needed to navigate through these difficult times.

Demand for / decrease of CRMs expected over the next two years

Worldwide data

Global

Decrease of 24%

EMEA

Decrease of 45%

Asia Pacific

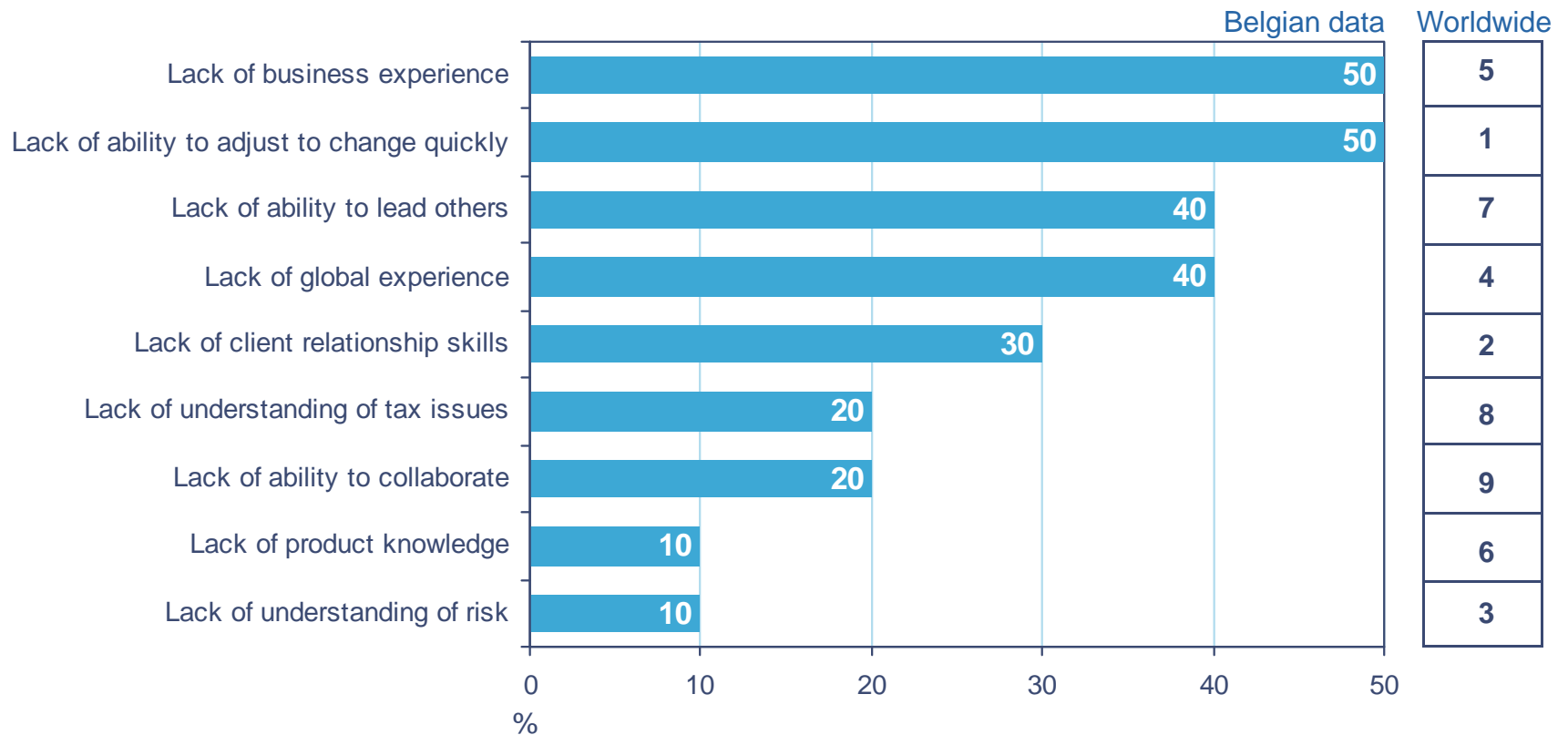
Decrease of 17%

The Americas

Decrease of 1%

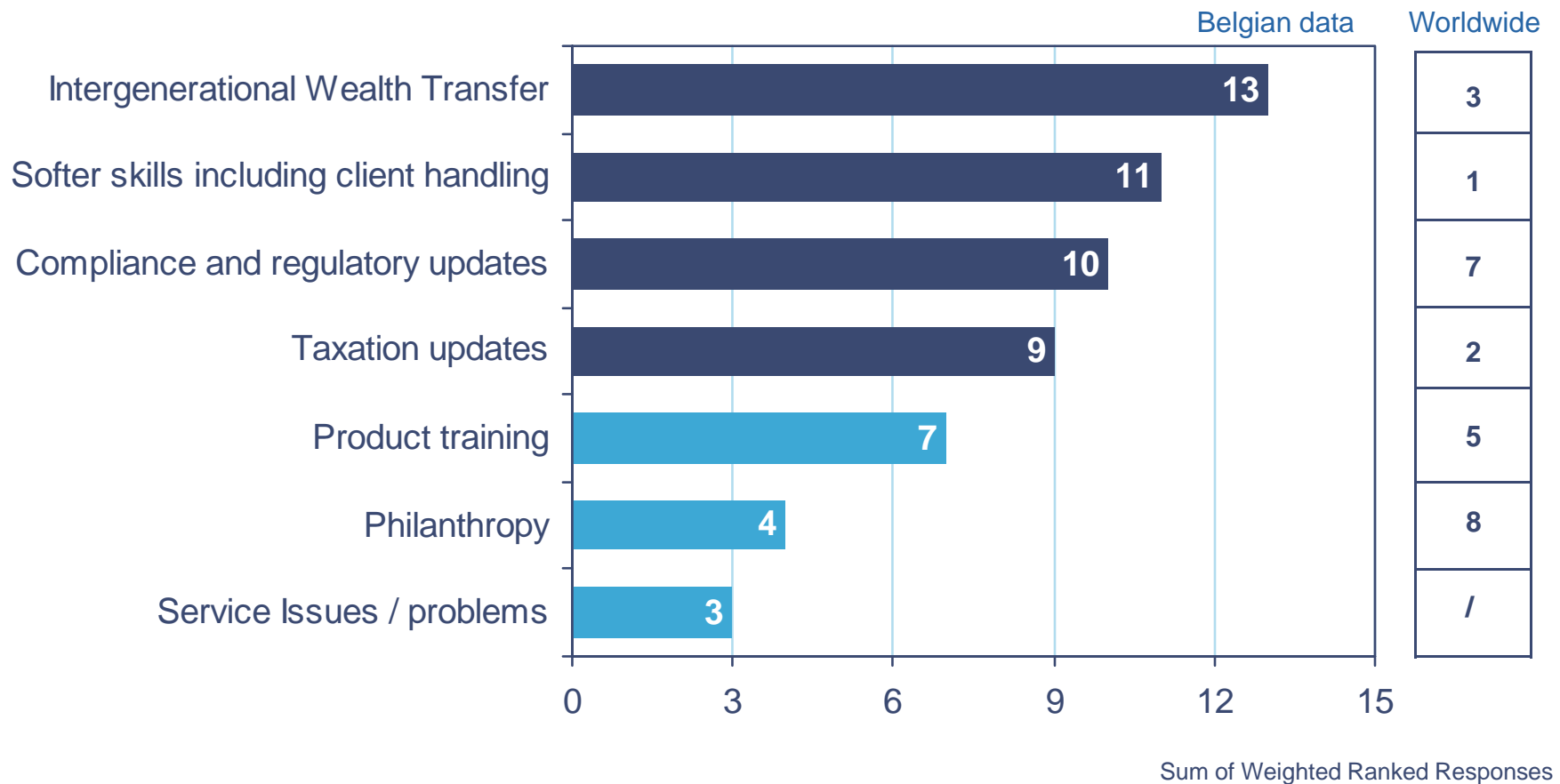
Today's economic crisis presents challenges for CRMs – new skills are required. Only 17% of CEOs consider their CRMs high calibre in terms of meeting their client needs.

In your opinion as business head, what are the greatest areas of weakness for your organisation's CRMs?



38% of CRMs receive less than 5 days training per year. CRMs recognise that relationship management skills is an area which they need to develop.

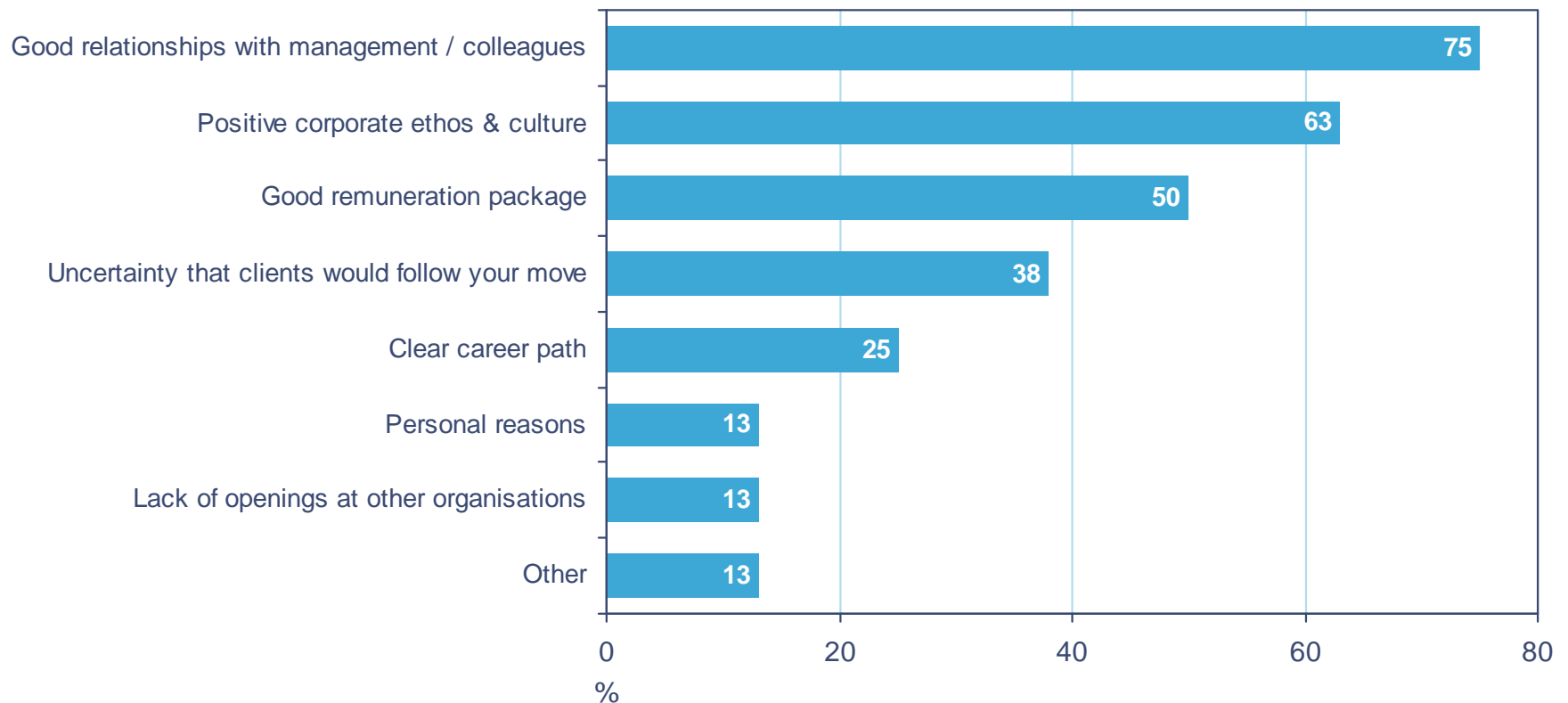
In which of the following areas would you like to receive further training over the next 12 months?



Talent needs to be nurtured for the long term. For 72% of wealth managers the average length of CRMs' service is less than 5 years. Furthermore, only 50% of wealth managers have a formal employee retention programme.

What are your reasons for staying with your current organisation?.

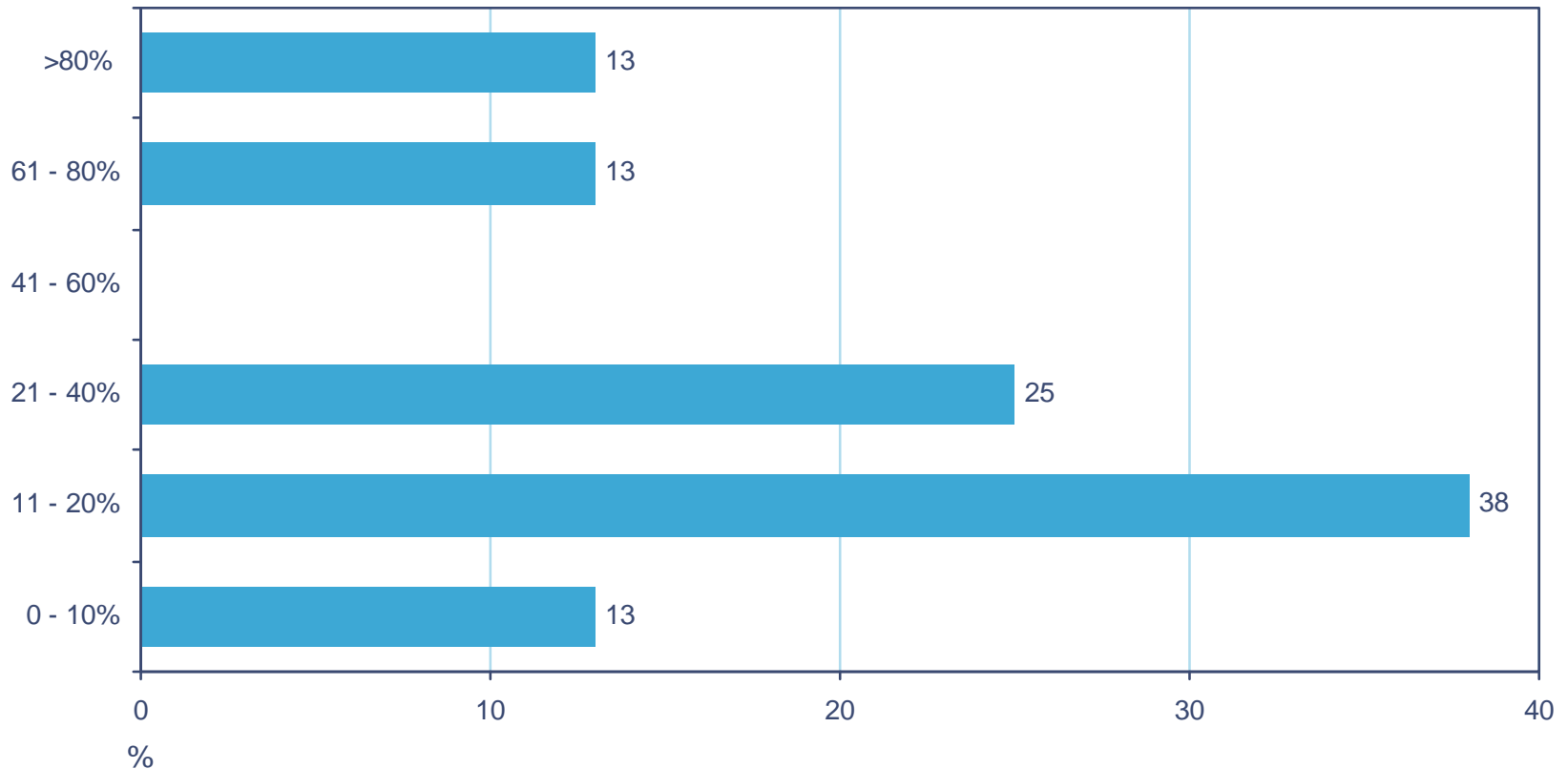
Belgian data



A CRM who leaves for a competitor is likely to take part of the firm's client base with him. Most of the time, less than 20% of clients will follow the CRM.

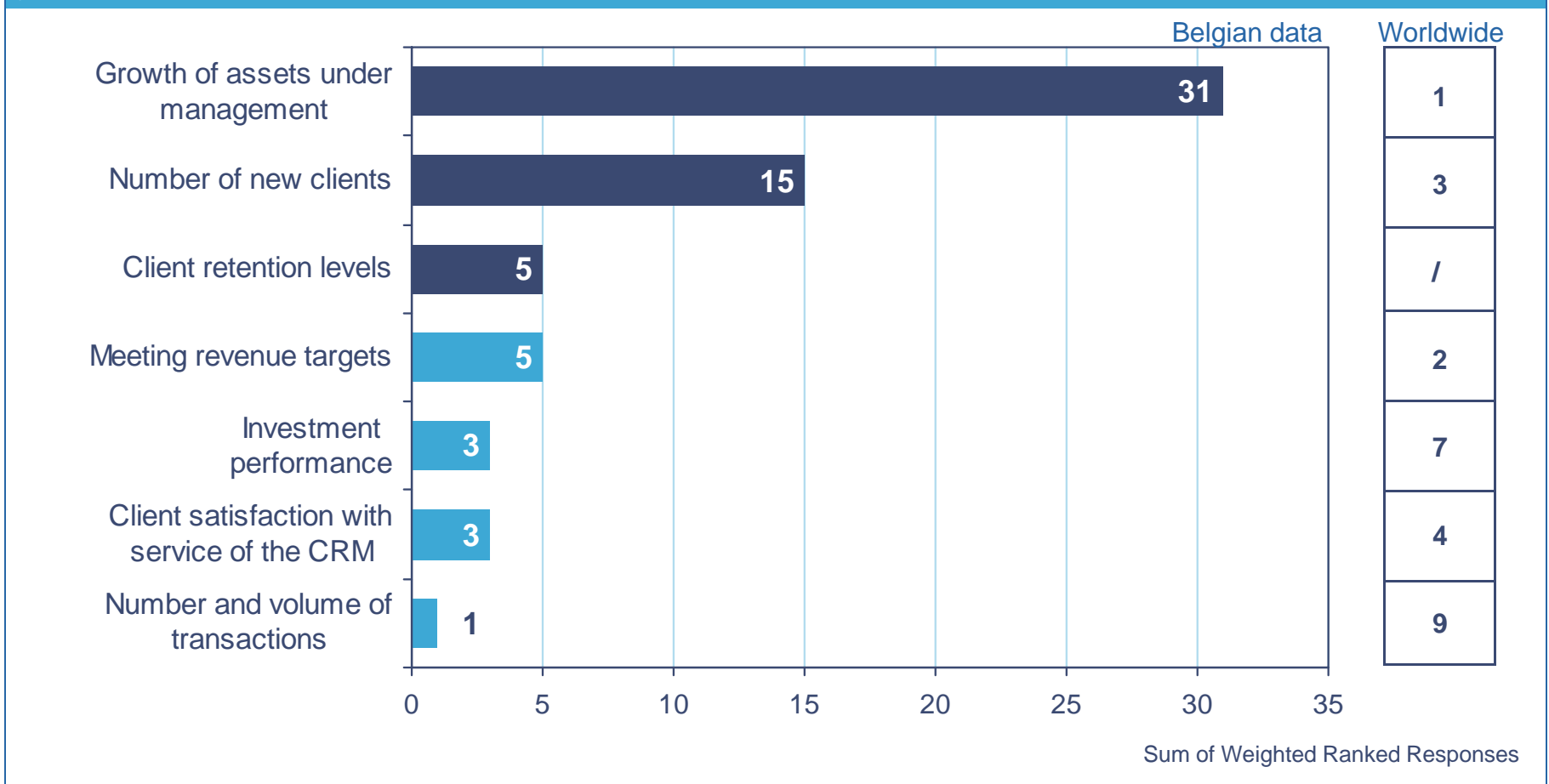
As a CRM, what percentage of your current clients' Assets Under Management do you believe would follow you to your new organisation over the next 2 years?

Belgian data



Revising performance measurement metrics and linking these directly with individual reward, will help create clear career paths for CRMs.

How important are each of the following criteria in the measurement of your performance as CRM?

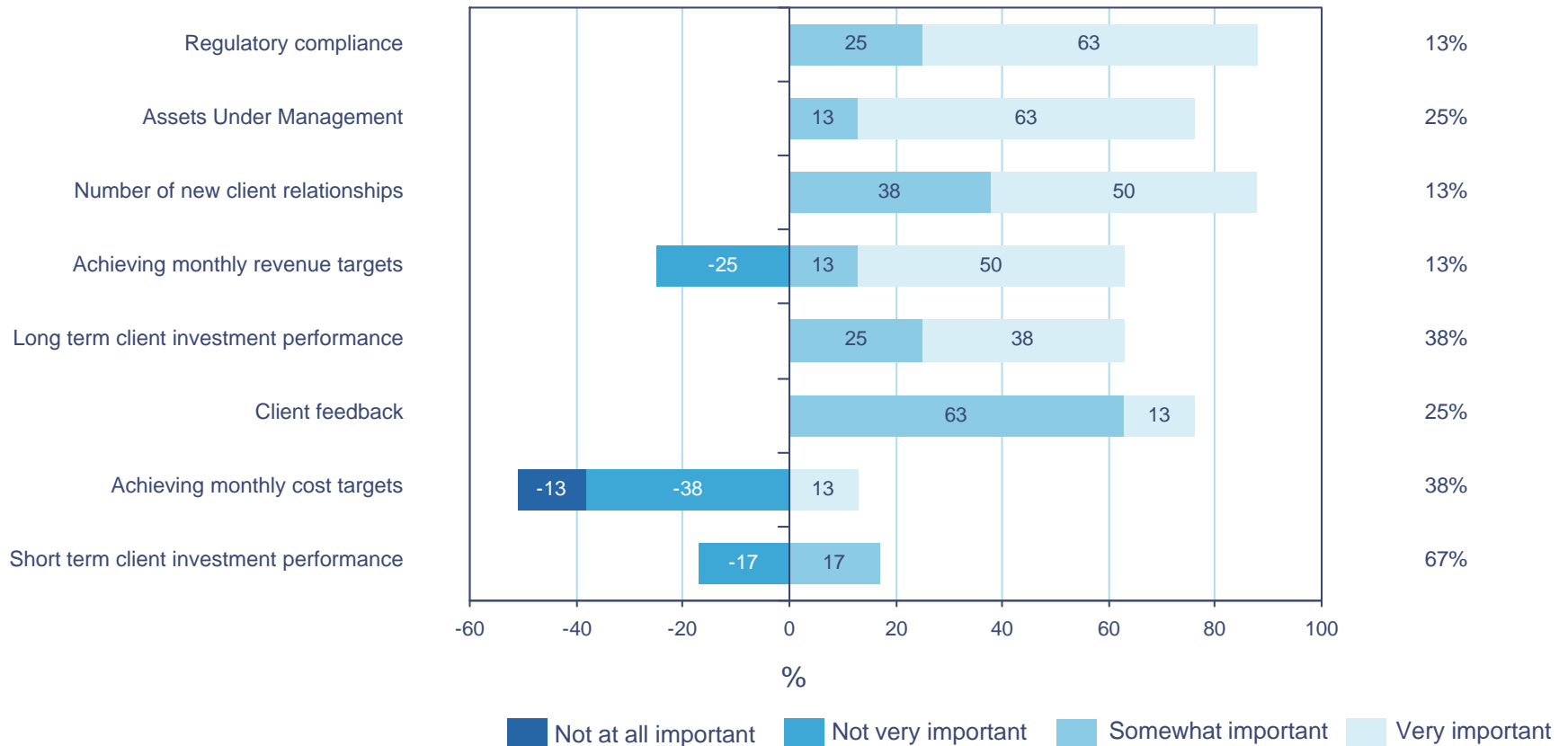


Reward is now under the microscope. The appetite for change is mixed. 50% of wealth managers have no plans to change compensation schemes over the next 2 years.

What are the important factors in determining your CRMs' performance related compensation?

Belgian data

Neither / nor



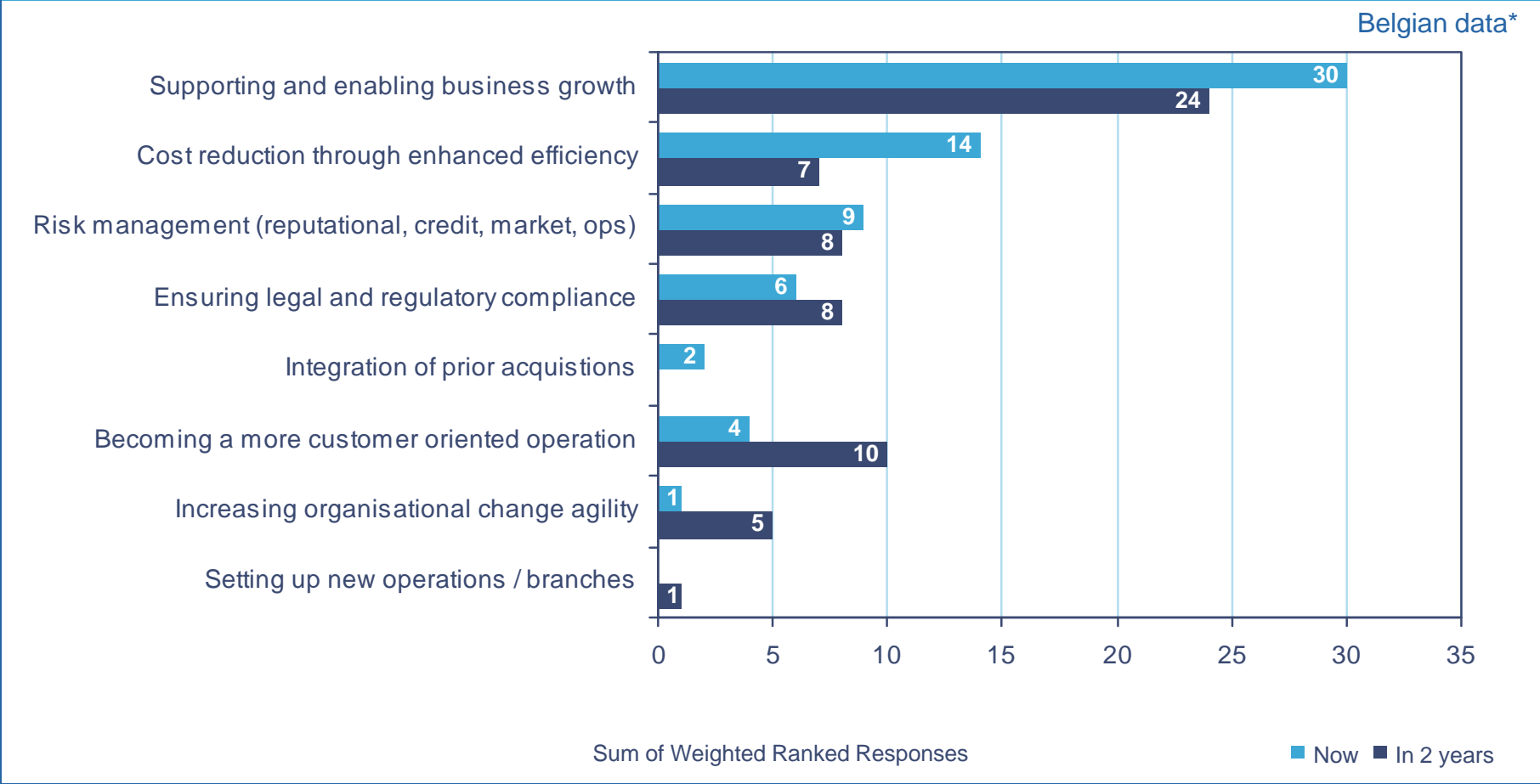
5

Operations and technology

Delivering client value and cost efficiency

Continued investment in new technology and streamlined processes that are client-centric is required for all growth strategies to work. Indeed, 73% of wealth managers plan to undertake a major upgrade of systems over the next 2 years.

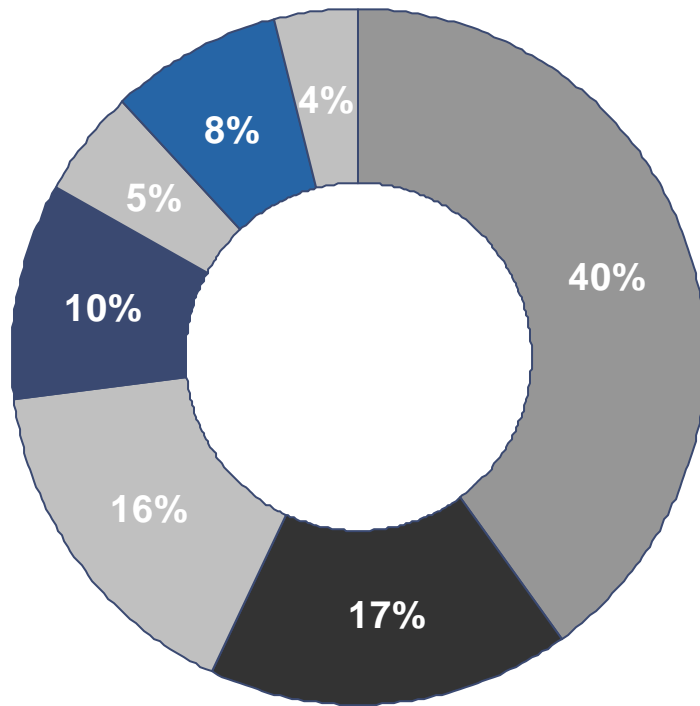
As COO, what are your top 3 objectives for your business?



16% of CRMs' time is spent on administration and resolving errors. 65% of CRMs do not believe that they have sufficient time to adequately service their clients.

In which of the following areas do you, as CRM, spend your time?

Worldwide data

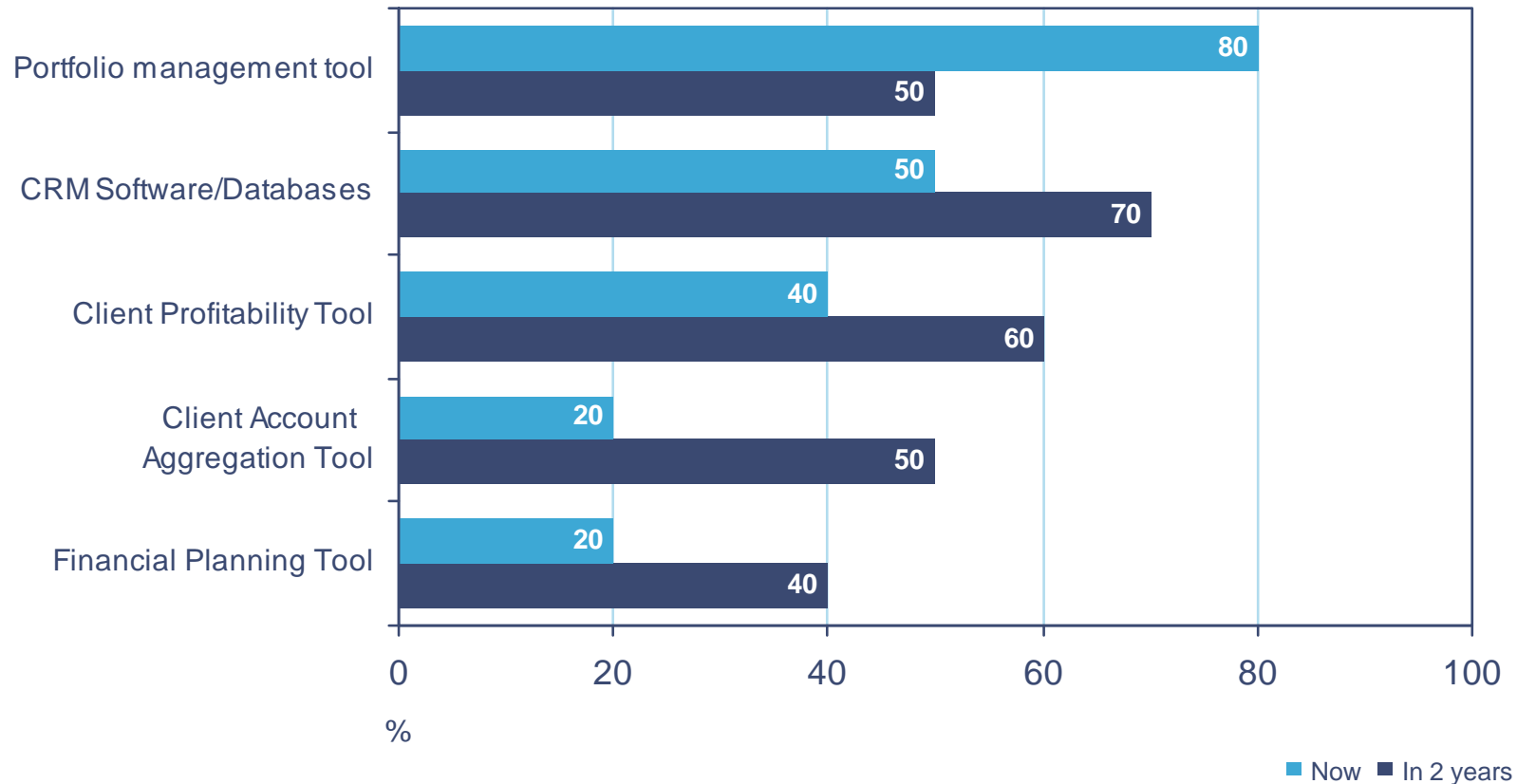


- Contact with existing clients
- Marketing and prospecting
- Administration and error resolution
- Portfolio management
- Compliance
- Investment research and analysis
- Training

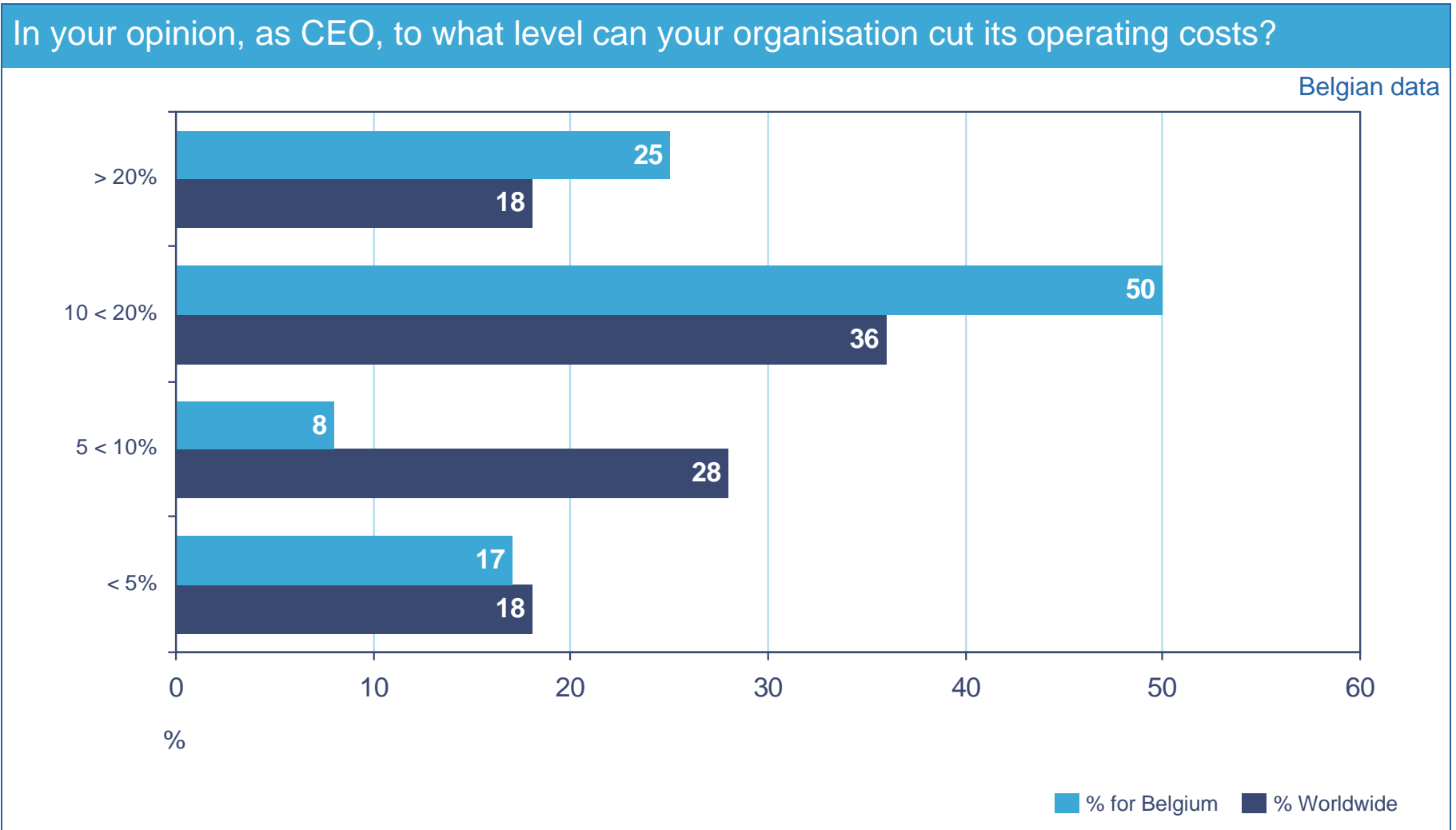
The increase in the use of front office tools should better support CRMs in delivering service to clients.

Which of the following front office tools do you expect to have in place in 2 years' time?

Belgian data

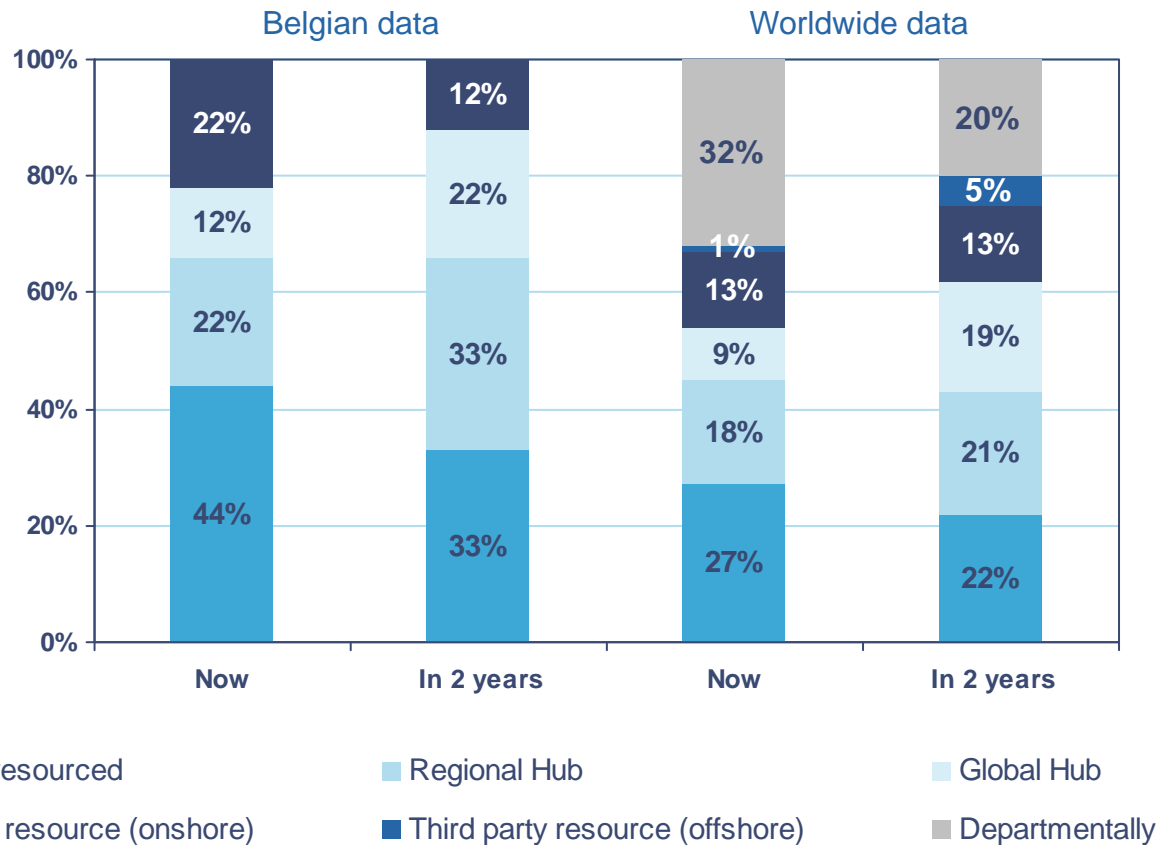


More than 75% of the CEO's consider they could cut the operating costs of their organisation by 10% to more than 30%



COO's want to play the card of 'economy of scale' and are reallocated their IT capability to regional or/and global hub

How is your current IT capability predominantly sourced and do you, as COO, expect this change in 2 years time ?



6

Risk Management

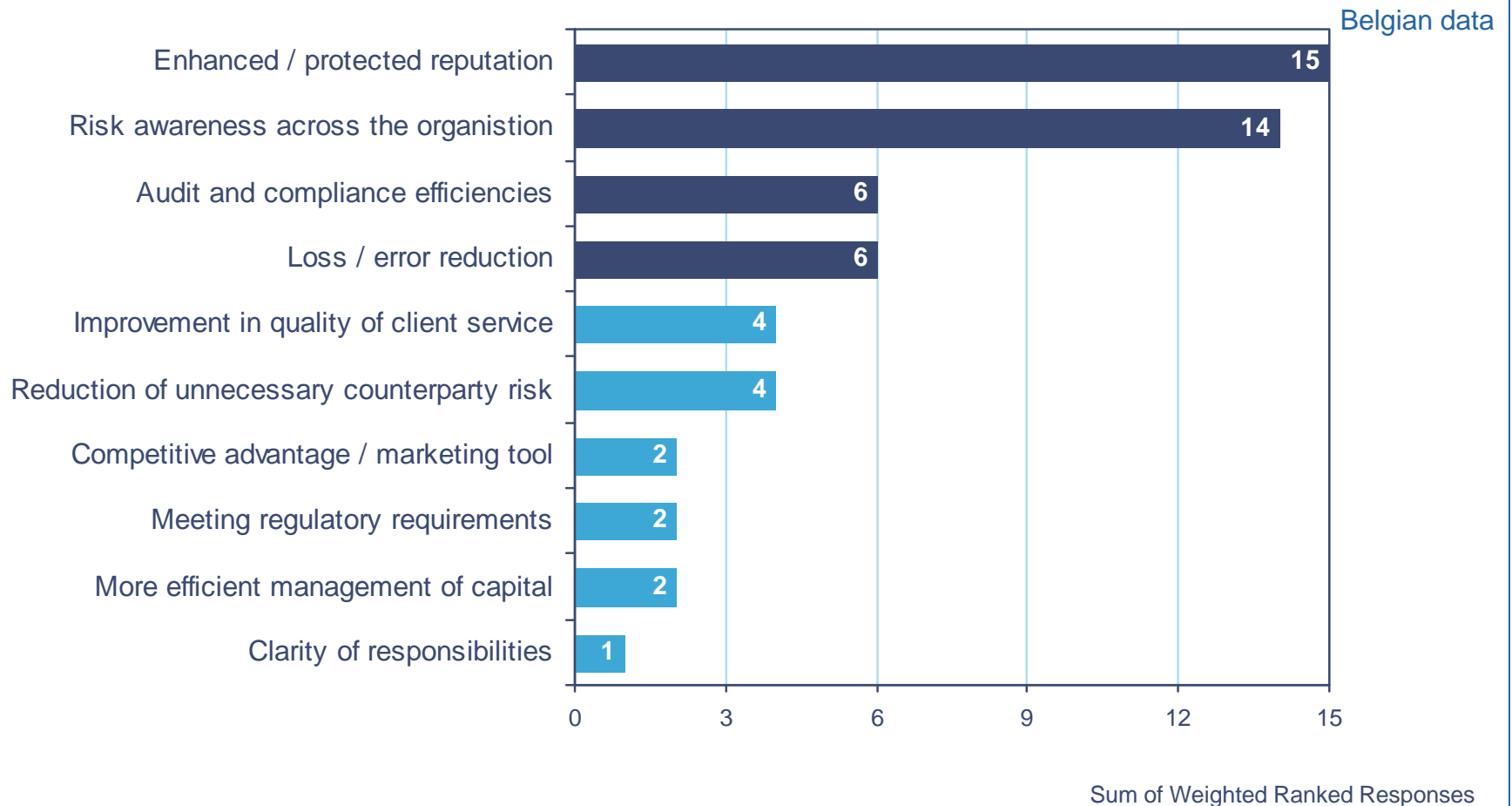
Protecting the client promise

68% of the organisations have implemented their risk management framework during the last 3 years.



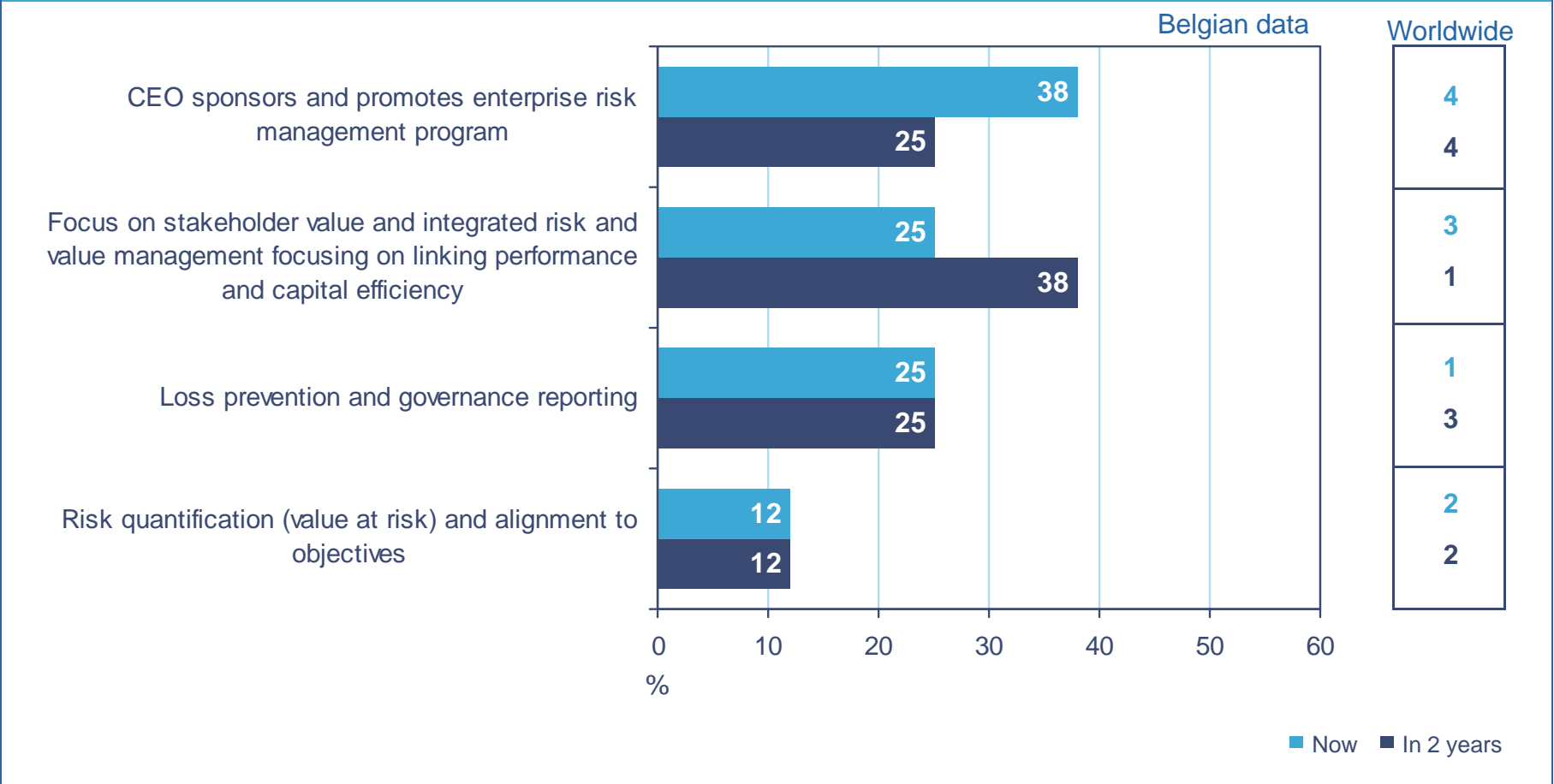
Risk management framework has brought visible benefit within organisations by protecting their reputation and enhancing the risk awareness across the organisation.

What are the top 3 benefits your organisation has achieved through risk management?



Risk is becoming one of the top priorities on what CEOs are spending their time. Wealth managers are working to update and evolve their frameworks.

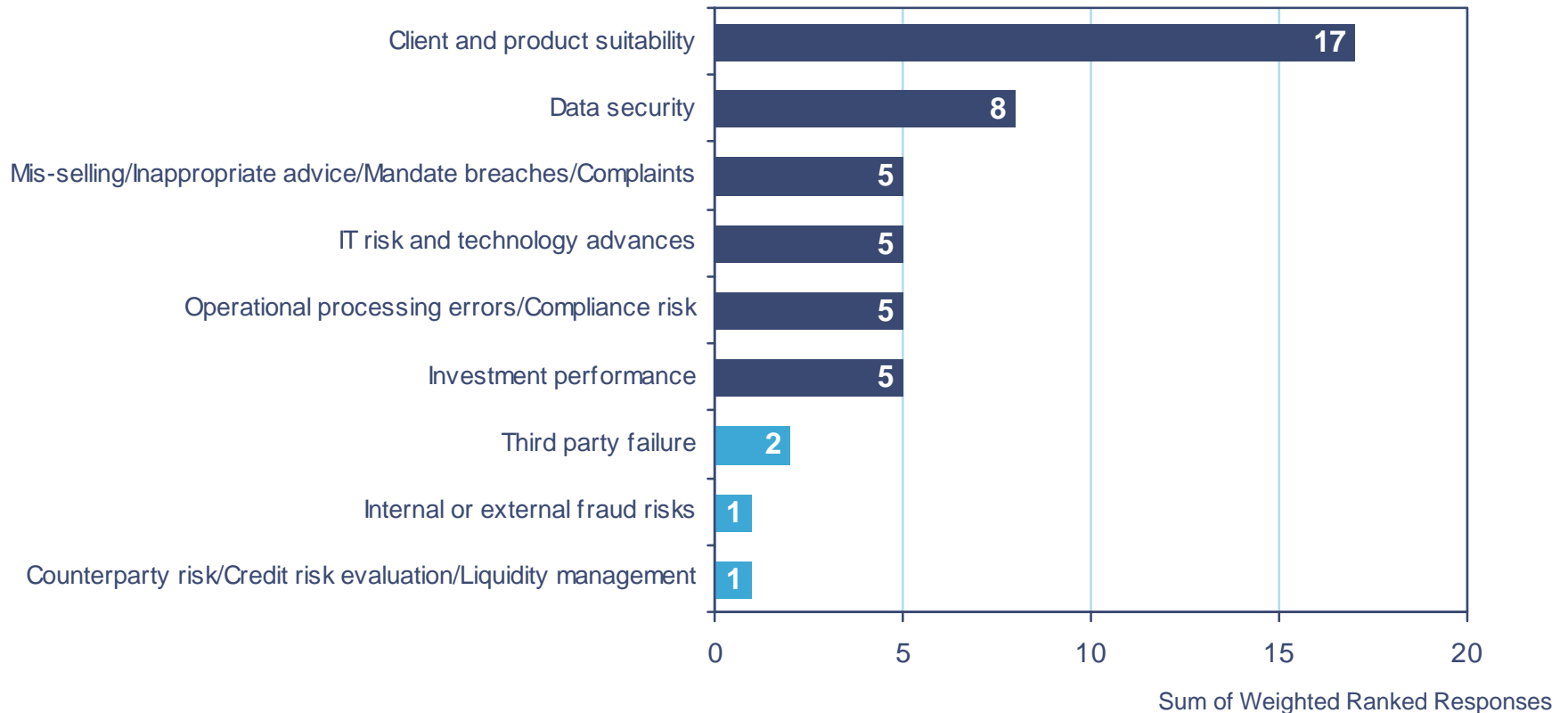
Which of the following best describes your organisation's approach to risk management, now and in two years time?



Transparent product offerings together with robust due diligence processes are critical, not only to drive customer value but also to protect the reputation of wealth managers.

What do you believe will be the key areas of risk needing to be addressed by your organisation in two years' time?

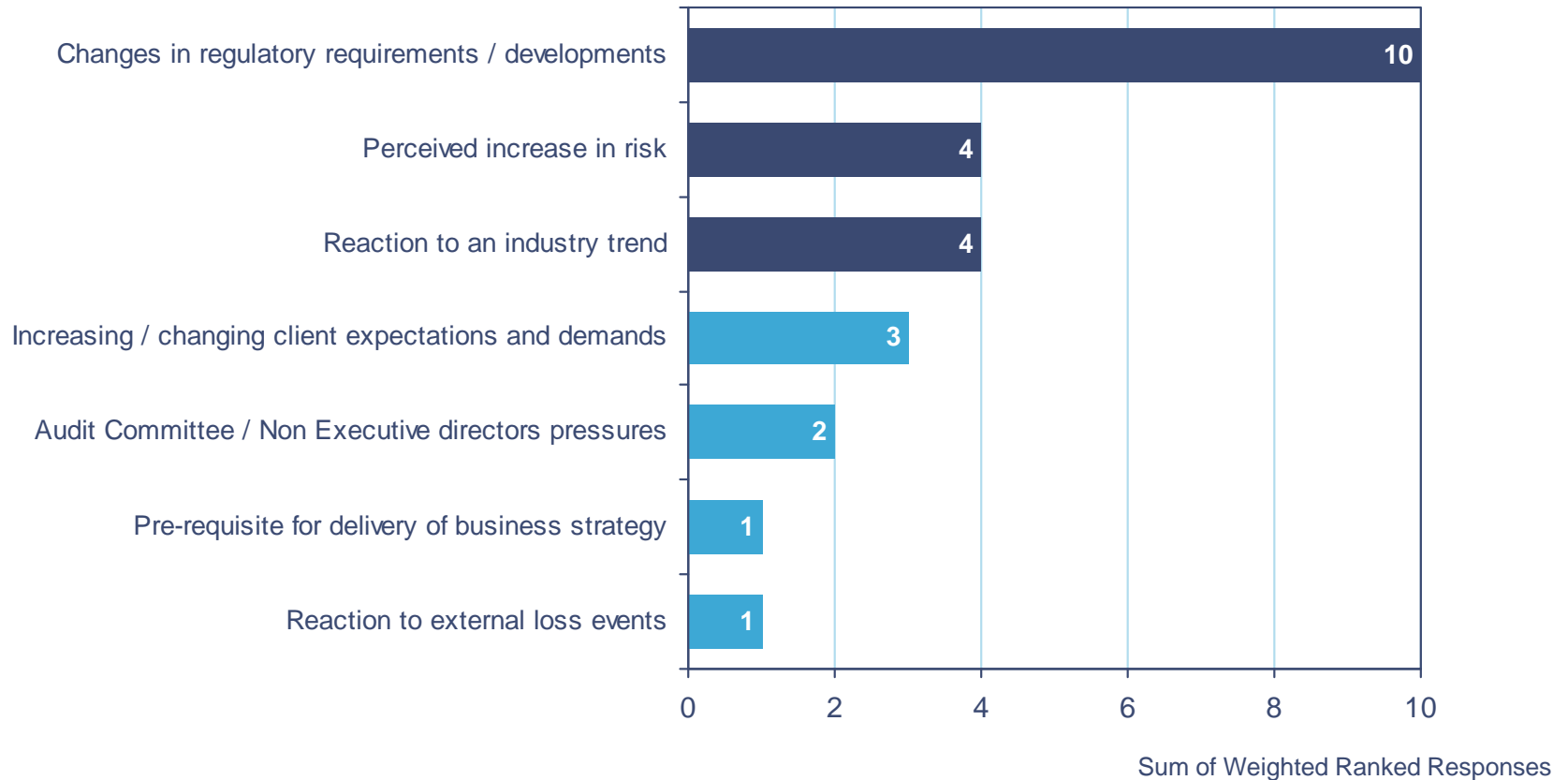
Belgian data



Following the financial crisis, regulators will tend towards extra layers of control. The regulatory burden and associated costs will only increase.

What do you believe will be the top drivers for change to your approach to risk management over the next two years?

Belgian data



Post MiFID developments

- Final CESR's position on inducements following the survey undertaken several months ago
 - Stand still is certainly not a viable option
 - Impacts on current business models
 - Greater transparency and disclosure are expected
 - Transfer pricing impacts
- Further clarification on complex / non complex products
- Further clarification on investment advice
- MiFID review at EU level in 2010
- Alternative Investments Fund Managers Directive

A new Tax environment

- Level-playing field as regards exchange of information for tax purposes → Internationally agreed tax standard (full exchange of information on request in all tax matters without regard to a domestic tax interest requirement or bank secrecy for tax purposes)
- Promotion of good governance in the tax area
- Fight against the harmful tax competition within the EU but also at OECD level → fight against tax havens and new anti-abuses provisions
- Expected extension of the scope of EU Savings Directive (in terms of products offers – eg some insurance products – as well as in terms of beneficial owners – fight against specific structures like Trust and Foundations)
- Possible new waves of repatriation of cash
- Impact of the financial crisis on the Budget of States – need to find new revenues → new tax measures in the pipeline with as possible reshuffling of clients portfolio

Regulatory framework – additional thoughts

- Basel II / CRD requirements
- Memorandum on governance
- Art 20 / Art 62 report on internal control, risk management and compliance framework
 - This should be viewed as a continuous work in progress where the framework is constantly assessed and improved keeping in mind the proportionality principle
 - Ensure integration of methodologies – operational risk management/ compliance / internal audit
- Report on safeguarding of assets
- Assess the risks associated with third parties/service providers and the level of assurance you may expect from them
 - Outsourcing of securities services, brokers (adherence with best execution commitments), custodians, IT

Some thoughts on areas of future regulatory development

- Though current developments are mainly at macro-economical and supervisory levels (EU draft legislation to strengthen financial supervision in Europe , de Larosière, Lamfalussy, etc ...), some direct impacts for investment firms may be (in)directly derived
- Enhanced focus on
 - Regulatory risk management
 - The agility to adapt on regulatory changes and supervisors' expectations
 - Alignment of disclosures and selling practices for all investment products
 - Packaged Retail Investment Products (PRIP)
 - Alternative Investment Funds Manager Directive

Some thoughts on areas of future regulatory development

- Rebuilding customer trust is key – Increasing need for transparency and improved communication
 - Information from and to the clients
 - Reinforced product due diligence
 - Interaction/cooperation of the compliance officers involved in the “originate and distribute” business model
 - Complaints handling
 - Conflicts of interest
 - Increasing requests from institutional clients for:
 - Internal control due diligence
 - Access to/insight in asset management processes
 - Requests for third party internal control assurance
- Areas of uncertainty
 - Status of Family Offices in Belgium
 - A single supervisory authority for consumer protection in Belgium?

A new era of wealth management has begun...

Sum Up

The emergence of 'Nouveau Classic' banking

- Continued move to open architecture
- Banks move to charging a fee for consultation / advice opposed to commissions
- Clients are demanding transparency and wanting to know where their money actually is
- CRM's – lack of experience to deal with volatile markets
- Importance of Brand Value

Changing business operating model

- Focus on reducing costs
- Continued need to focus on platforms and systems
- Product – focus on intergenerational wealth transfer

Regulation pressure

- Regulators push the “Know you customers and your products/services”
- Regulation driving strategy

Thank you

Josy Steenwinckel

Partner, PricewaterhouseCoopers Belgium

Tel: + 32 (0)2 710 72 20

E-mail: josy.steenwinckel@pwc.be

Denis Caprasse

Director, PricewaterhouseCoopers Belgium

Tel: + 32 (0)2 710 72 16

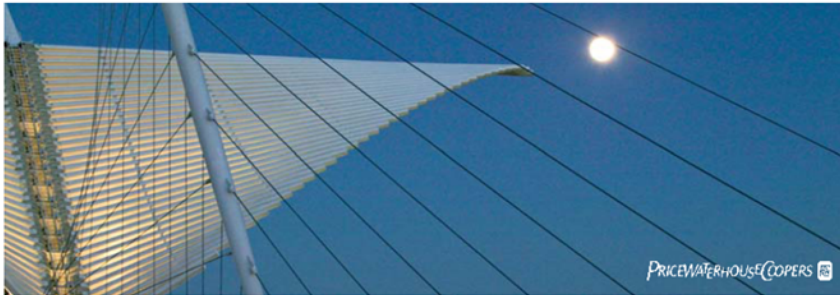
E-mail: denis.caprasse@pwc.be

Financial Services

A new era: redefining ways to deliver trusted advice

Global Private Banking and Wealth Management Survey 2009

July 2009



Available from
www.pwc.com/wealth