A strong focus on customers and their changing needs will be the key to success in all markets—both emerging and developed.

Winning in wealth management

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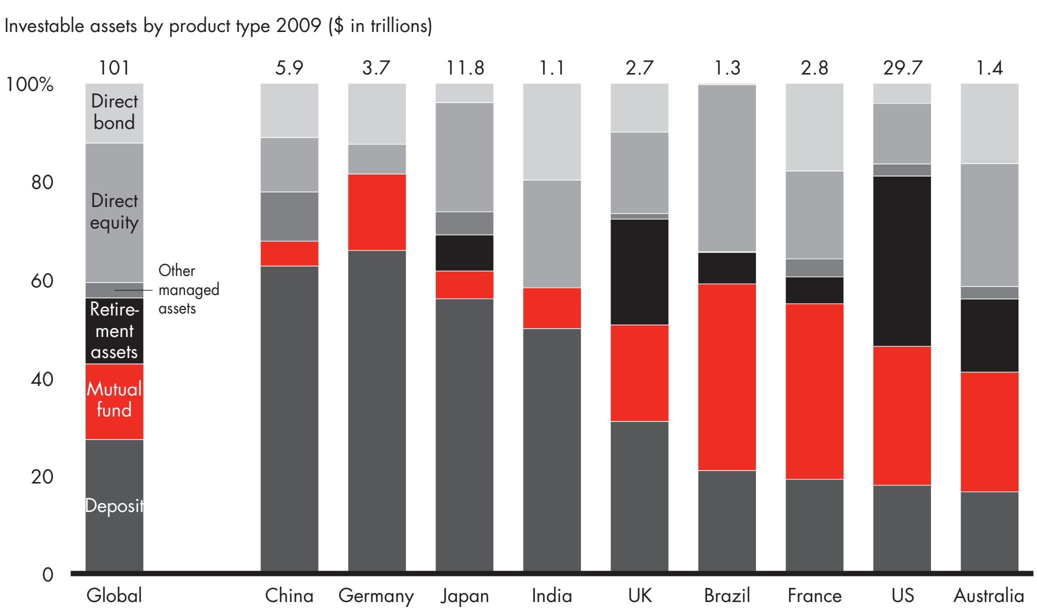
Before the global financial crisis, the wealth management business used a reliable model to expand: Look for large pools of retirement savings or parts of the world like China with fast-growing numbers of newly affluent people, then offer prospects investment options that make them feel special. In the economic recovery, however, forward-looking firms have recognized they need a new strategy.

A big catalyst for change is the rapid evolution of the industry's traditional profit pools. As markets mature, wealth shifts away from deposits toward investments, driven by customers' increasing needs for asset diversification and expectations of higher returns. The large retirement asset pools continue to play a key role, especially in developed markets, where individuals are assuming more responsibility to provide for their own old age (see Figure 1).

The severe losses of the financial crisis gave many customers a new appreciation for risk and transparency—not only in the US, the epicenter of the crisis, but also around the world, including fast-growing China. Increasingly, wealth is being managed onshore as local providers offer more sophisticated products and services, and cross-border tax arbitrage and privacy concerns become less of a factor.

At the same time, the one-size-fits-all approach to wealth management is out of date, as firms struggle to adjust to evolving customer needs.

Figure 1: As wealth management markets mature, customers generally shift from safer deposits to riskier investments



Note: Investable assets include retirement assets, mutual funds, deposits, direct investments
Sources: Datamonitor; Euromonitor; Cerulli; Bain analysis

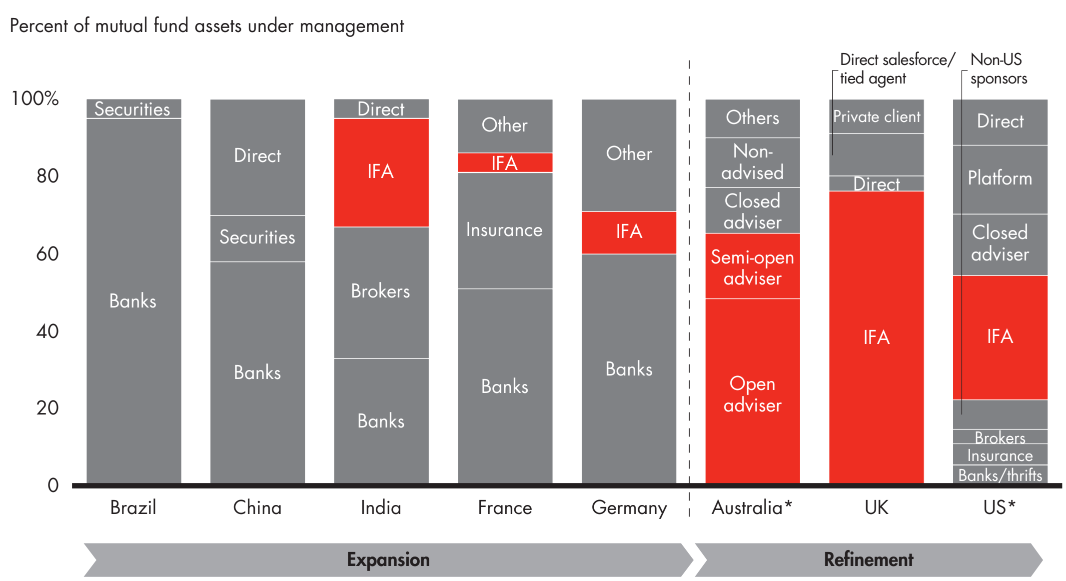
The challenge is twofold: Differences in regulatory regimes from country to country have sharpened in the wake of the financial crisis, requiring wealth management firms to adapt accordingly. In addition to customizing their services for national markets, wealth managers also face growing demand within those countries for different offerings adapted for diverse customer segments.

Capabilities and products previously offered only to institutions such as structured products, currency swaps and initial public offerings are now more widely available to individuals. Customers increasingly expect more from their wealth managers in terms of information, education, guidance, advice, product choice and service levels.

Banks in most countries are well positioned to capture these growth opportunities in wealth management, with strong starting points in transactional products and distribution networks. In the US, the inside track is currently held by platform players such as Vanguard and Charles Schwab and brokers like Merrill Lynch and Morgan Stanley Smith Barney. But they face a growing number of focused competitors. More specialized players have taken share away from banks in almost every market globally; many of these firms position themselves as independents not beholden to product manufacturers. This trend is most apparent in the US and UK, but it is also gaining traction in India and China (see Figure 2).

One overriding strategic theme emerges from these fast-moving changes: the winners coming out of the recovery will create new pricing and service models. To understand the opportunity better, we took a close look at the unmet needs of wealth management customers, analyzed

Figure 2: Channels grow more fragmented as markets mature



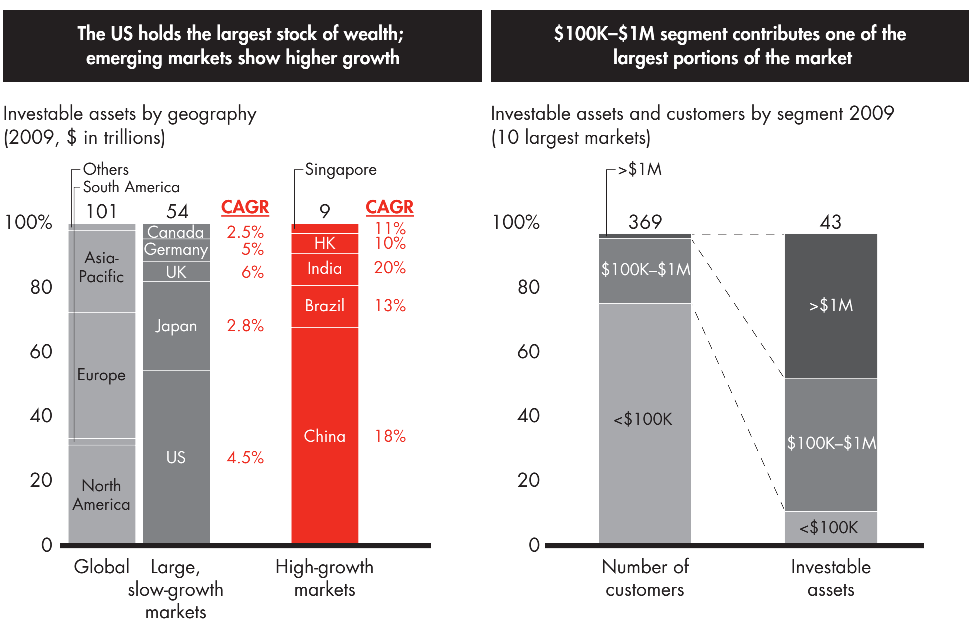
*Proxied by overall wealth management distribution channel breakdown
Note: All the brokers are owned by the banks; open advisers in Australia are 62% independent, 12% owned by banks, 15% by AMC, 9% by insurance and the rest by others (e.g., accounting firms)
Sources: Investment Company Institute; Bain analysis

Sizing up the prize by market and customer segment

Global wealth management is a big market in motion. Roughly speaking, investable assets are spread evenly across North America, Europe and Asia-Pacific, but the challenges in each region could not be more different. Just five large nations represent more than half of the $101 trillion total, with the US alone accounting for nearly $30 trillion. But asset growth in these sophisticated, mature markets remains low, with single-digit rates. The dynamic markets of Asia and Brazil, by contrast, are growing at a rapid pace off a much smaller asset base.

The wealth management opportunity is also uneven from a customer perspective. Out of a total potential investor base of nearly 370 million households in the 10 largest markets, more than three-quarters have a net worth of less than $100,000. Yet, the wealthiest households account for nearly 90 percent of all investable assets, with households worth more than $1 million commanding nearly one-half.

The global wealth management market is $101 trillion in investable assets



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the comparative advantages of the industry's three primary business models and then examined the practices that have proven successful to determine where firms can most effectively focus their effort and investment.

What customers want now

The key to success in all markets—emerging and developed—is a strong focus on customers and their changing needs.

Bain's Global Wealth Management study profiled 20 companies that make up roughly 10 percent of global assets under management; we augmented that analysis with interviews with more than 100 senior executives in the industry. The analysis confirms a formidable challenge: while customers are more inclined than ever to seek professional wealth management, they are less trusting and more skeptical now.

That puts a premium on building durable, trusting customer relationships. A strong customer experience creates high levels of customer loyalty, which is vital to increasing profitability. Bain research shows that loyal customers give their financial service providers a larger share of their business, recommend them to friends and colleagues and cost less to serve.

The potential gains are especially large for firms that earn the loyalty of affluent account holders—people with household incomes of $100,000 or more. In the US, for instance, that attractive segment shows up in surveys as the least satisfied with their principal bank. Yet our analysis shows that a loyal affluent customer is worth nearly three and a half times more than an average one, and a disgruntled customer is downright unprofitable once you factor in the effect of negative word of mouth.

For many wealth management firms, the right answer is to provide customers with a trusted relationship manager who invests time to understand customers' needs. Customers seek specialized advice, so managers should be ready to customize asset plans. In emerging markets, where customers are growing more discriminating about prices, effective relationship managers need to provide a range of asset management options.

The variations in customer priorities highlight a key challenge: The economics of many wealth management firms are built either for global scale, making it difficult to keep up with local country trends in customer needs, or built for a single country, making it difficult to expand outside their home markets. Most wealth managers still pursue a one-size-fits-all strategy, continuing to invest in refining a model that seems "correct" globally, but is uncompetitive locally. So an important business design decision confronts wealth management firms: how to create scale when it is needed to lower costs, and retain flexibility to customize at the front end in order to win customers?

Some of the most successful wealth management firms are responding by rapidly building a talent pipeline of first-rate relationship managers. They are the central point of contact, accessible for all the customer's needs, but their focus—and their value to the business—goes beyond answering questions and providing convenience. Skilled relationship managers know that the relationship revolves around customer needs, not pushing products. They get to know customers' financial situations intimately and proactively offer advice. And they ensure that all aspects of the customer experience, including executing transactions, occur easily because they affect customer satisfaction.

A number of leading firms are already building these new relationship management capabilities into their organizations (see Figure 3). Some of the most effective approaches include career-long face-to-face training programs for sales, relationship and product skills, with remote-learning available for routine training (as is done at UBS). The goal of these programs is to foster ongoing professional development, not just product knowledge. Another approach provides specialized industry-based training for specific customer segments, which Coutts has done.

The people who work with clients are at the center of the effort to win in a more competitive environment. They must have the right resources, the right training and the right products to garner new customers and maintain their existing clientele. The most effective relationship managers actively focus on what customers need and deliver it. At Merrill Lynch, relationship managers are empowered to adjust fees and discounts within clearly defined guidelines.

A tale of three business models

Market trends and our research point to a similar set of challenges and customer expectations for all global wealth management firms as they try to adjust to the new environment following the global financial crisis. But wealth management is a complex industry with different models aimed at attracting the same basic set of customers—affluent individuals whose assets require management. This context is vitally important, because each of the primary business models has different economics, which shape their options for creating new pricing and service models.

Figure 3: The right proposition can attract, develop and retain talented relationship managers

Relationship management proposition	
Training and development	• Career path • Accreditation and training • Regular training
Sales support	• Active referrals from other business units • Customer analytics and recommendations • Customized sales tools • Research
Infrastructure	• Powerful workstation • Wide product range • Empowerment to provide discounts
Incentives	• Performance-based incentive mechanism • Recognition of non-financial metrics

Of the three main types of business models—universal banks, platform players and private banks and brokerages—no one model is likely to dominate global wealth management, in part because they are designed around different target customers. But there will be winners and losers, depending on how individual players respond to the new environment. In fact, each of the three platforms offers specific advantages, and wealth management players are investing to build additional scale and capabilities that play to the strengths of each platform.

Universal banks. Typified by Citibank, HSBC and Wells Fargo, these firms mine their diverse customer bases by referring clients to different business units. The banks look for customers with more than $100,000 in assets, and their profitability depends mainly on the productivity of relationship managers. In most markets, local banks start by having the highest market share—but in several markets, they are losing share to "category killers" from the other two business models.

Many universal banks have responded by adding investment and insurance products to their traditional transaction and lending relationships, using their sales capabilities to build their wealth management businesses. Cross-selling referrals from traditional banking relationships is key. Someone making a large deposit, for instance, or the owner of a successful small business would be a prime candidate for follow-up by a bank's wealth management operation. The winners here are increasing productivity through standardization and highly disciplined sales management, as well as sharing costs across businesses.

Platform providers. Firms such as Vanguard and Charles Schwab target self-directed investors by offering low-cost access to products, usually online or through call centers. These providers aim to give customers relationship support when needed. For instance, clients may use a firm's online asset allocation tool for retirement planning or engage one of its wealth managers for personal consultation.

The leading platform players are investing heavily to build their brands and attract more customers through direct acquisition. Typically, they target customers with more than $250,000 in investable wealth.

This is a profitable business, but it requires scale. The platform investments are large to handle enormous volumes of traffic through websites and call centers. Some platform providers, such as Schwab, have physical customer outlets, but most of the action takes place over the phone or on the Web. Since many of their customers split their wealth between a self-directed platform and an advised platform, many players are adding advice and other services such as checking accounts and mortgages to compete more effectively with banks.

Private banks and brokerages. These firms specialize in wealth management and provide a comprehensive set of services and advice to high-net-worth and affluent customers. Global private banks such as UBS and Credit Suisse often face profitability challenges in building local scale as they develop onshore businesses in new markets. Brokerages like Merrill Lynch and Morgan Stanley Smith Barney depend on their financial advisers, who keep a large share of revenue. The target customer has net worth of more than $1 million.

Wealth management specialists, under attack from independent financial advisers in markets such as the US and UK, are rapidly moving their traditional brokerage business to holistic advice, backed with a full product offering of banking, payments, lending and investments.

They have powerful advantages in their brand association with wealth expertise and personalized advice. The top firms also have a head start with services tiered by wealth level and full ranges of products and services. Notably, firms like Credit Suisse and Morgan Stanley Smith Barney are winning the talent war for relationship managers through high compensation, intensive training and powerful workstations to boost relationship manager productivity.

Common practices of the winners

While each of the three platforms has distinct advantages, our experience and research point to a set of practices that are common to the most effective players in wealth management across all three platforms.

Positioning the offering to clients and prospects

The leaders prominently position their brands for wealth management. That doesn't mean they spend vast sums on TV commercials or airport ads. Rather, they get the basics right. For example, they gain their target customers' notice through public relations and local events, as Citigroup has done effectively in Asia. The point is to make clients feel special, for instance, by inviting customers to a dinner with a leading public figure. At Citi branches, clients, along with their friends and family, are invited to hear "guru" guest speakers on such topics as fixed-income investing. Winning players also use inducements to attract new customers. For example, HSBC offers free cross-border and multi-currency transaction banking, where someone with an account of $100,000 or higher can move money easily among the US, Hong Kong and Australia.

They also provide sufficient range and choice to satisfy most customer needs. That can span insurance, lending, advice and trade execution. UBS, for example, makes it easy for clients to trade on any stock exchange in the world. The firm also provides philanthropy consultants who can set up foundations and structured giving programs for clients. Some firms will create structured products to order, to track prices for a basket of commodities in a currency of choice, for instance, with a minimum $50,000 investment. In China, one firm has used its range to cultivate small-business owners, a particularly attractive customer group, by handling both business and personal needs.

Backing it up with the right products and people

Developing tailored offerings by profession or source of wealth is a superb way to cement good customer relationships. Coutts, for instance, offers services specifically for landowners (mainly farmers), executives and sports stars. At Coutts, teams that specialize in agriculture and know how that industry works advise landowner clients. Professional athletes receive investment help and advice from former sports pros or team managers who understand their needs.

All too frequently, relationship managers receive little or no training. The leading wealth management firms, by contrast, have invested heavily in training, support and compensation for relationship managers. Merrill Lynch runs a training center in New Jersey that equips managers with the right tools to build success through face-to-face instruction, ranging from expertise in estate planning to social networking. It is an ongoing process, with managers returning for refresher courses. On the job, Merrill requires leaders to mentor subordinates. For more routine instruction, such as compliance, Merrill uses electronic learning facilities.

Creating cost-effective delivery platforms

Several firms have devised smart ways to control spending while gaining new business and keeping existing clients. The former Wachovia Bank (now part of Wells Fargo) lowered customer acquisition costs in wealth management by generating referrals from existing customers. It partners private bankers and brokers with commercial and investment bankers who have relationships with business owners and senior corporate executives. The bank carefully measures their collaboration. How many times did they go on calls together? What business has resulted from those partnerships? The bank scores them and ranks them. The best receive financial rewards. Credit Suisse also uses diligent measurement and monitoring of internal referrals.

Another effective approach is focusing on how to keep an existing customer, which is more cost-effective than gaining a new one. Morgan Stanley Smith Barney, which grades wealth managers weekly and monthly on revenue they generated, also measures client satisfaction—crucial to ensuring that their business stays with Morgan Stanley Smith Barney and increases. So the wealth managers' superiors perform client reviews, a useful exercise in coaching. They ask their wealth managers about clients' needs and probe for ways to serve those customers better, generating more business and also solidifying loyalties. Is a client planning to sell their business? Perhaps the firm can bring multiple specialists to help arrange the sale and draw up a trust plan for the client's newly created wealth.

Winning and deepening customer loyalty is an ongoing process. Schwab continually monitors its progress across all channels. The firm's leaders make follow-up calls to a sample of clients after a transaction, and use the feedback to make improvements. The firm scores employees on a graded scale. This monitoring is done for even the most everyday functions, like a customer reporting a new address to the Schwab call center.

Credit Suisse employs uniform workstations to create cost and skill advantages for relationship managers, a highly effective tactic. Worldwide throughout the company—with the exception of the US—it uses the same system.

Conclusion

Wealth management firms have the best opportunity in a generation to build a more profitable global presence. To determine the right moves, firms can begin by asking themselves some key questions:

- How are you customizing your business model for your most important client segments, and for your largest and fastest-growing markets?
- Do you have a compelling value proposition that will lead relationship managers to choose you over competitors?
- Which of the winning practices will you make your own?

Determining the answers to these and other questions will start wealth management firms on the road to successful global growth.

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