Global Private Banking / Wealth Management Survey 2005

Executive Summary
Sharing Global Insights*

*connectedthinking

PRICEWATERHOUSECOOPERS

Contents

Foreword

We are delighted to introduce the findings of the 2005 PricewaterhouseCoopers Global Private Banking / Wealth Management Survey.

Our 2005 survey reveals a wealth management industry embarking on a new period of growth. Following the equity bear market that lasted almost three years from early 2000 to late 2002, slowing the industry's growth rate, Chief Executive Officers (CEOs) have now recovered their confidence and expect higher revenues and profits over the coming years.

This is the main headline of a study that brings to light industry trends, challenges and issues facing wealth managers globally. With 130 participants, this is our largest ever wealth management survey, taking in results from not only Europe, Asia Pacific and North America, but also a number of offshore centres, the Middle East, South America, Scandinavia and South Africa. We have been conducting these surveys every two years since 1993, in which time we have amassed a great deal of knowledge and understanding of the industry and provided insights into the key trends and issues facing the market.

This year's survey offers a benchmark against which wealth managers can compare various facets of their organisations and their strategies. While the industry is undoubtedly sanguine, the number and extent of the issues it faces are remarkably challenging, as illustrated in figure 1. Each in its own right is significant and worthy of much debate and action whether it be client acquisition and retention or the challenges of open architecture. Some are discrete but most reach to the very core of the business model and from work we do with wealth managers they are firmly on the CEO's and the board's agenda.

One clear concern is that not all wealth managers will achieve the ambitious growth rates they expect. Not everyone can be a winner. Yet CEOs appear fired up, and a period of intense competition for clients is ahead. Client relationship managers (CRMs) are crucial in this battle, as is differentiation, however, we would question whether sufficient resource is dedicated to the development and retention of CRMs who are key to delivery of strategy and differentiation, which still remains the elusive 'holy grail' for wealth managers.

Based on the findings, and our extensive industry expertise, we are best placed to provide practical advice to wealth managers on how to address the issues they face. Using our international network we can provide advice on request about market entry, strategy, mergers and acquisitions, due diligence, operational effectiveness, human resource issues, people training, regulation, risk management and taxation. All are critical components of wealth management businesses.

The survey provides an in-depth and timely insight into the state of the industry and its issues. The ability to provide key data, not only by main geography but also by country, type of institution or by size makes our advice particularly valuable. We thank all of the senior executives across the world who participated on behalf of their organisations, taking the time to answer many detailed questions. We are also appreciative of their candour regarding sensitive topics which as ever will be kept totally confidential. We welcome feedback and suggestions as to how the survey can be improved for the next edition.

Bruce Weatherill
Global Private Banking / Wealth Management Leader

Figure 1: There are substantial challenges for wealth managers

Differentiation	Open architecture	Alternative investments	Product provision
IFRS	KYC	OECD IMF & FATF	Client segmentation
Regulatory inc. Basel	Brand protection	Greater global cooperation amongst tax authorities (TP)	Savings Directive and tax harmonisation
Skills shortage	Anti-Money laundering	Customer acquisition and retention	Profitability
Fight for talent (CRMs)	Distribution channels	Market consolidation onshore/offshore	Cost control

Source: PricewaterhouseCoopers

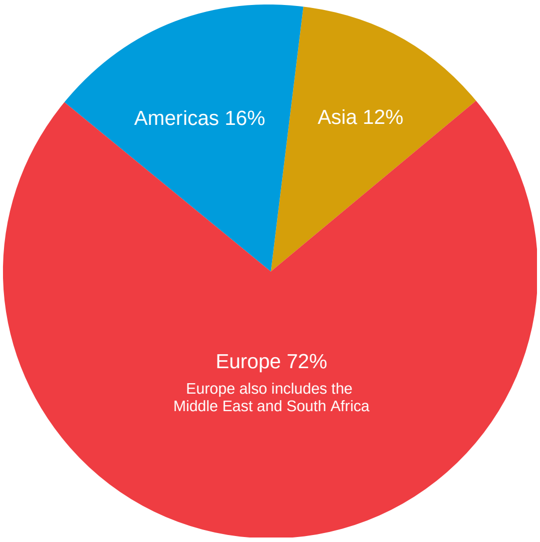
Background to the survey

The 2005 Global Private Banking / Wealth Management Survey has the largest number of participants ever, and provides invaluable insight into trends, pressures and opportunities within the industry. During February 2005, we sent questionnaires to the 130 organisations that agreed to participate in this survey, asking questions relating to both the 2004 calendar year and the future. With so many organisations taking part, the consistency of responses makes us satisfied that the results are truly representative of this global industry.

As one would expect from an industry that is heavily centred on Europe, the majority of participants are European organisations. However, a substantial number of wealth managers from the Americas, Asia Pacific and offshore centres also took part, as detailed in figure 2. There was a broad spread of organisations in terms of size - again, this mirrors the character of the industry, which is highly fragmented.

Figure 2: Representation of global participants

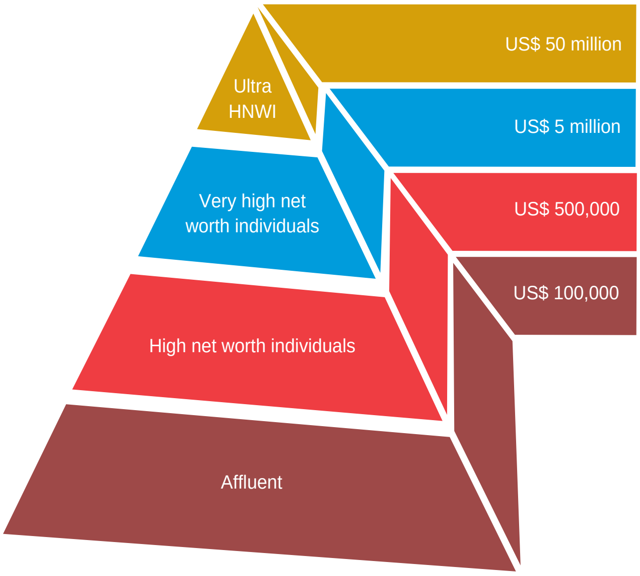
- Input for the first time from South America, India, Scandinavia & a number of offshore centres
- Incorporating answers from130 participants from over 30 countries – a record number
- Participation from a wide range of wealth management organisations, including the niche players and boutiques right through to the private banking giants



Source: PricewaterhouseCoopers

Based on the feedback from participants and the clarity of the findings we have demonstrated the value of continued participation in this unique industry-wide survey. Building upon experience of having carried out the survey for over ten years, many of the questions have been structured in a similar way to the 2003 and prior surveys in order to allow analysis of trends both over time and by geography. Additionally, there is again a forward-looking element to questions, which provides insight into how the industry is evolving. The survey continues to use the wealth management pyramid (figure 3), drawing on the same definitions as in prior years. Different client segments have different requirements and the insights from this analysis are valuable and pertinent for the industry.

Figure 3: The Wealth Management Pyramid



Source: PricewaterhouseCoopers

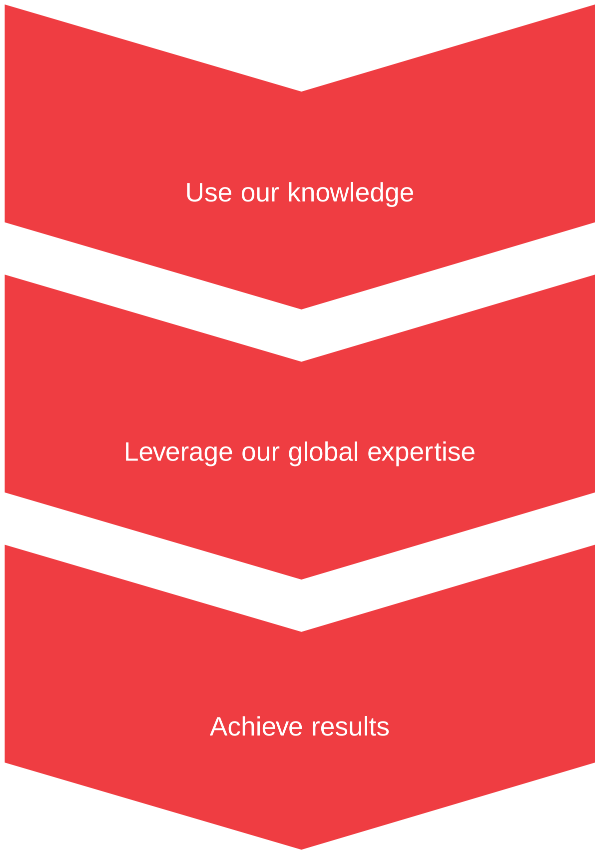
“Our surveys show the evoltuionary phases that the private banking / wealth management industry is experiencing.”

The survey is split into five sections: CEOs views; Market trends and clients; Products; Profitability and performance metrics; and Risk management and compliance. By organising the survey in this way, we provide both a broad picture of the main trends affecting the industry, and the opportunity to drill down into the detail of specific issues.

1. Chief Executives' views
2. Market trends and clients
3. Products
4. Profitability and performance metrics
5. Risk management and compliance

The amount of information gathered by the survey is substantial and takes much time to analyse and interpret. As in prior years, the key headlines / findings will be released in this Executive Summary. On a quarterly basis further releases and analyses of the findings providing greater depth and data will be released. Participants receive more detailed information in return for providing information on their own organisation and territory. Further analysis by type of organisation, size or geography is available to both participants and non participants, tailored to your needs at an appropriate cost. All survey details and further analyses will be available on our website **www.pwc.com/wealth**, or from Bruce Weatherill on b.weatherill@uk.pwc.com or by phone on +44 (0) 20 7213 5521.

Turning today's game plan into tomorrow's actions.



Through our insight, understanding and involvement in current and future trend analysis, we work with clients across all aspects of the private banking / wealth management value chain to help them meet the challenges they face and provide innovative solutions.

Survey messages

Optimistic revenue projections

Differentiation is crucial

Expect more M&A

Concentrate on CRMs

Open architecture more myth than reality

Tax planning is a must

Management Information needs improvement

No decrease of investment in risk management

Key survey headlines

- Wealth managers are universally optimistic about growth rates of both profits and funds under management (FUM). With double digit growth anticipated, wealth managers will fight increasingly hard for market share. Not everyone can be a winner.

- There is an intense battle for clients. CEOs are pursuing growth strategies which require a greater share of existing clients' wallets as well as winning clients from competitors. Differentiation will be crucial and still remains the 'holy grail' for wealth managers.

- Mergers and acquisitions are growing in importance as wealth managers seek to increase their product capabilities, achieve economies of scale in existing geographies and expand into new ones. Asia, including China, the Middle East and Eastern Europe are key markets where first mover advantage is seen as being critical.

- Personal relationships with clients and quality of staff are seen as key differentiators. Expectations and requirements of CRMs are ever increasing but training is not generally adequate to support this. Wealth managers will need to focus on their CRM propositions if they are to realise their strategy of becoming trusted advisors.

- Open architecture is still a masquerade for many wealth managers and in reality only exists at the margin. Most wealth managers still manufacture products either themselves or via their parent. Alternative investments have now become mainstream and a core service offered.

- Tax planning has always been at the core of the wealth management proposition but is now becoming even more critical. Knowledge of international tax, but also of domestic taxation, is surprisingly low and will need to be improved dramatically if client expectations are to be met.

- Maintaining profitability in an ever more competitive environment is recognised as an important challenge. Significantly more progress must be made in collection and analysis of management information if wealth managers are to make the correct decisions to maintain growth and profitability. Segmentation and the development of better key performance indicators will be vital.

- Further investment in risk management and compliance is forecast on top of that already expended. Significant gaps still remain in risk management frameworks with more automation and better communication required.

Chief Executives' views

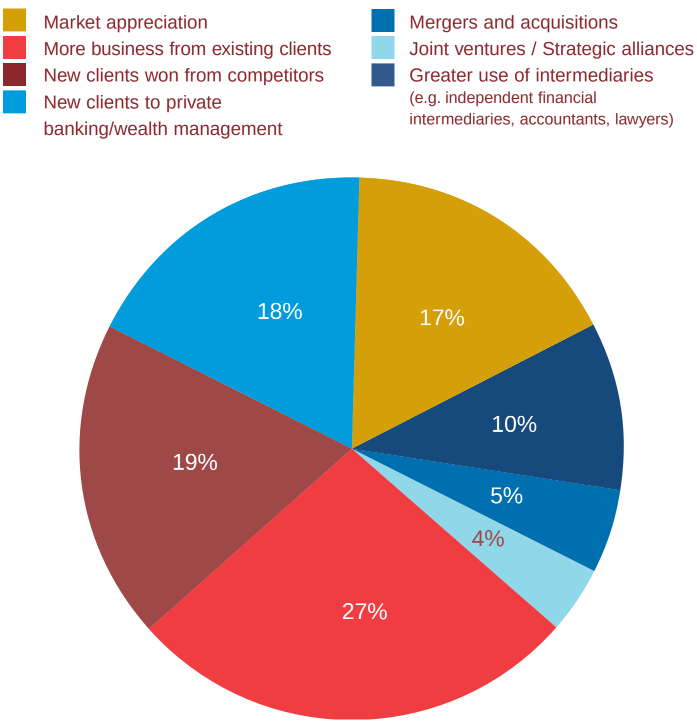
Wealth managers are universally optimistic about growth rates of both profits and FUM. With double digit growth anticipated, wealth managers will fight increasingly hard for market share. Not everyone can be a winner.

Chief Executives look for growth. The CEOs who participated in our survey state that their domestic industry assets grew by an average rate of 6% in 2004. This growth is expected to accelerate to 7.5% per annum over the next three years. Confidence has rebounded considerably from our 2003 survey, when European participants predicted asset growth of just 3% during the year. CEOs also indicate their domestic industry revenues are expected to rise to 8% per annum over three years. Trends identified in prior years continue - with onshore growth of both profits and FUM exceeding that of offshore, and the Asian market still having the most positive growth rates. However, offshore centres also show good growth prospects.

CEOs, perhaps over optimistically, all believe their own organisations will better the overall average growth predicted in three years time of 7.5% in the market. They anticipate their assets under management and revenue will grow at an annual rate of 13% over three years, with 21% asset growth expected by the Asian participants. As can be seen in figure 4, apart from the returns from equity markets, CEOs on average expect 18% of their next three years' revenue growth to come from clients new to wealth management. They anticipate winning the majority of revenue growth directly fom clients - with another 46% through increasing business with existing clients or taking clients from competitors. The market outlook is therefore very positive with certain regions anticipating exceptional growth. However, clearly not all can outperform the market as a whole. Perfecting the strategy and developing the brand will become ever more important.

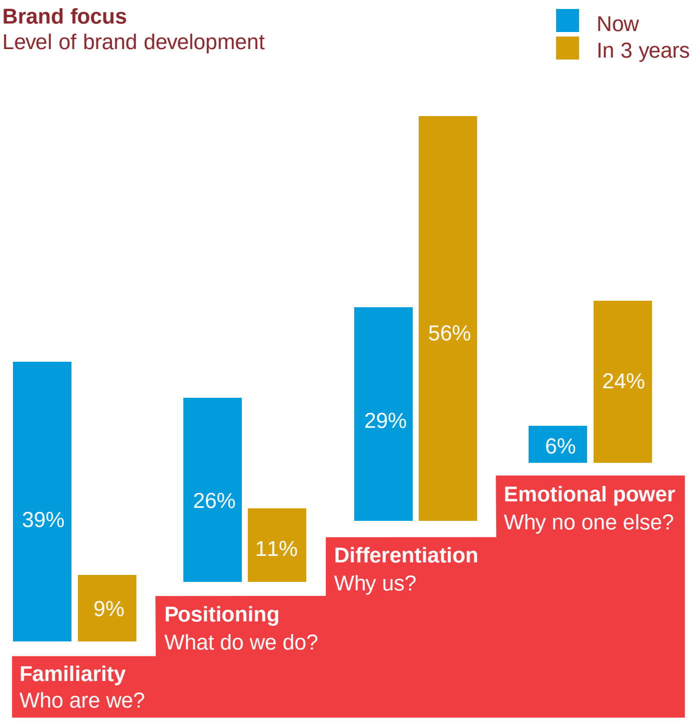
War for clients intensifies, differentiation will be crucial and still remains the 'holy grail' for wealth managers. In order to meet their ambitions for organic growth, CEOs will fight increasingly hard to gain and retain clients. The importance of clients is reflected in CEOs' strategic priorities. They regard winning new clients as the most pressing strategic issue, while retaining existing clients is the second most pressing, a change of focus predicted in our 2003 survey. In the war for clients, CEOs highlight quality of staff and personal relationships as the two most important differentiators of their organisations. The provision of comprehensive, integrated wealth management planning and investment performance are two rising differentiators. However, when it comes to spending money on branding, the majority of

Figure 4: What percentage of your revenue growth is expected to result from your own efforts and what percentage will come from market appreciation?



Source: PricewaterhouseCoopers

Figure 5: In terms of your branding strategy, which of the following best describes your organisation's current position and your position in 3 years' time?



Source: PricewaterhouseCoopers

wealth managers are not especially proactive. The relatively small brand spend, less than $100,000 for 31% of participants and between $100,000-$500,000 for 34% of participants - although partly reflecting the small size of many - illustrates this. CEOs clearly report ambitions to build more effective brands and continue to focus time on setting / re-setting strategic goals, as was the case two years ago. Our survey results show that wealth management organisations have made little progress in differentiating themselves through use of branding, despite its importance in gaining new clients and market perception, as depicted in figure 5.

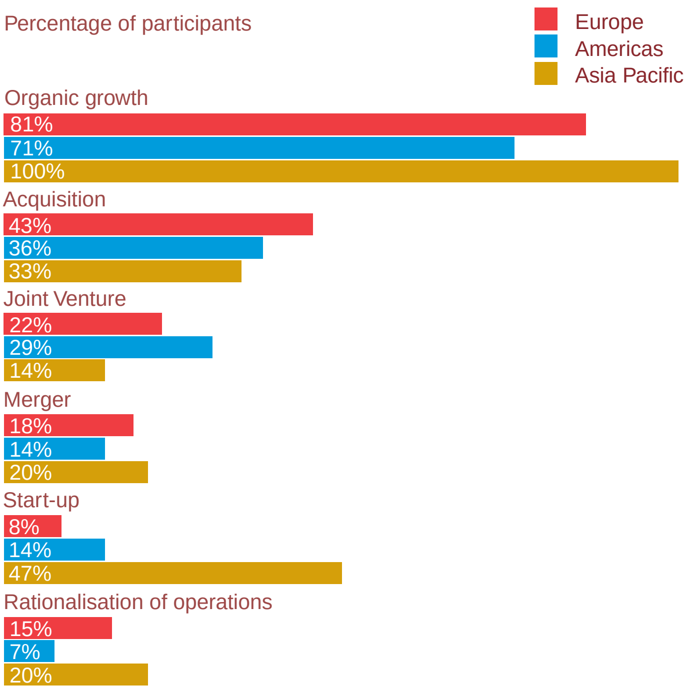
Mergers and acquisitions are growing in importance as wealth managers seek to increase their product capabilities, achieve economies of scale in existing geographies and expand into new ones. Asia, including China, the Middle East and Eastern Europe will be key markets where first mover advantage is seen as being critical.

Corporate activity on the rise. Given the fragmented nature of the wealth management industry, and CEOs' ambitious growth targets, consolidation although marked has been slower than previously forecast. Organic growth is still the main driver for growth, but even so; CEOs still anticipate an increasing proportion of growth will come from mergers and acquisitions, joint ventures and strategic alliances, as shown in figure 6 below. In 2004, an average of 12% of revenue growth came from such activity. In three years' time, Chief Executives expect 17% of revenue growth to do so.

In the Americas, there is a marked appetite for acquisitions, with 48% of CEOs expecting to perform an acquisition within 12 months, and developing new markets is currently the second most pressing issue for the Asian CEOs. There is a continuing trend of rationalisation of the number of offshore centres being used by wealth managers with 14% (20% in Asia) of them still planning to rationalise the number of offshore centres in which they operate, as detailed in figure 7.

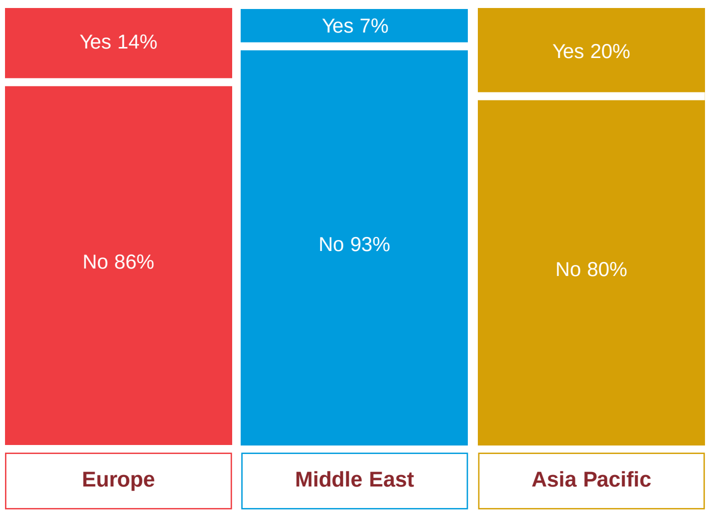
We believe there is a split in the market, with a significant percentage of the international banks looking to acquire, while the local / national banks seek to achieve scale through less costly means such as poaching client teams or joint ventures. Acquisition prices still seem to be high, acting as an inhibitor to consolidation. There is a need for more realism, with acquisition prices being based more on profitability and a lower percentage of FUM. As wealth managers re-assess their business strategy we believe that a number of the mid-tier players will decide to either exit the market or grow by acquisition and this will provide an impetus to continued market consolidation. Our analysis shows that the large wealth managers are beginning to benefit from scale in both profitability and asset growth.

Figure 6: How will the change in your relative shares of each market be achieved?



Source: PricewaterhouseCoopers Totals > 100%: Multiple response question

Figure 7: Does your organisation plan to rationalise the number of offshore centres in which you operate in the next 3 years?



Source: PricewaterhouseCoopers

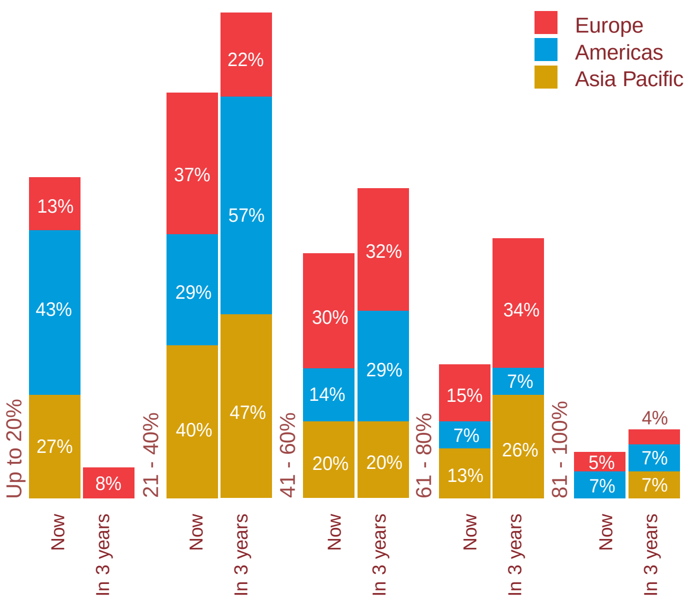
Market trends and clients

There is an intense battle for clients. CEOs are pursuing growth strategies which require a greater share of existing clients' wallets as well as winning clients from competitors.

The wealth of clients is increasing, with wealth managers expecting to hold a growing share of investable assets. Throughout the wealth pyramid, the wealth of clients is increasing. Participants indicate that ultra high net worth individuals, defined as having more than $50 million in assets, represent an average of 19% of FUM, compared with 11% two years ago (figure 9). Very high net worth individuals, with assets of $5 million to $50 million, now represent an average of 30% of funds under management, which compares with 26% in 2003. These are core wealth management clients and there is fierce competition for share of clients' wallets - some 64% of global participants expect to hold more than 40% of clients' wealth in three years' time, compared with 45% that do so today. The European and Asian participants are expecting the largest increase over the three-year period, as shown in figure 8. This is clearly of benefit to wealth managers who will achieve increased income with only a marginal or low increase in costs.

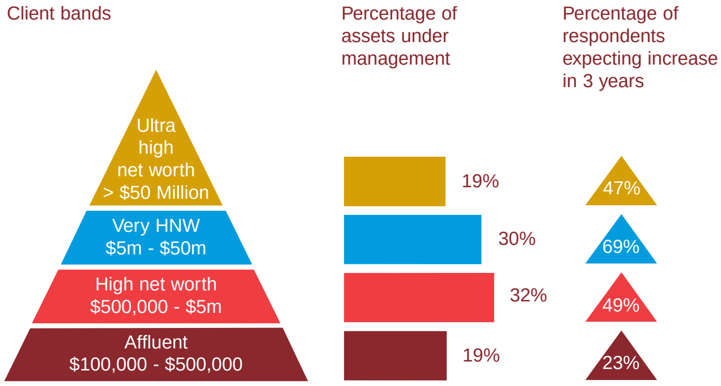
The trend in previous years, with private clients reducing down the number of wealth managers with whom they deal, continues. This intensifies the importance of wealth managers having a differentiated service and improving the way they interface with clients. The focus is turning more onto front office effectiveness, with greater investment in people and IT. The winners in the market will be those who focus over the next few years on this key issue.

Figure 8: What percentage of your organisation's existing clients' investable wealth would you expect to hold on average now, and in 3 years?



Source: PricewaterhouseCoopers

Figure 9: What percentage of your organisation's total assets under management fall within the following bands and how do you expect this to change over the next three years?



Source: PricewaterhouseCoopers

The importance of differentiating between 'old' and 'new' money is decreasing. On a global basis, only approximately 40% of clients are described as being 'new money', although this rises to 50% in the Americas. This is roughly the same percentage as was the case in the 2003 survey, despite 2003 participants on average expecting approximately 50% of their client base to be 'new money' in three years' time. To an extent, this disappointment reflects the difficult recent environment for stock market listings and trade sales. In the past there was a trend or desire to target or differentiate the investment traits and behaviours of old and new money. Participants still expect an increase in 'new money' clients, but now anticipate that they will comprise on average 45% of clients in three years. Following a period of investment volatility the risk appetites and actions of these groups of clients appear to have become less marked and their requirements are more similar. Clients are looking for total return, through increased use of structured and guaranteed products.

Insufficient attention is being paid to retaining existing clients - look after your clients or somebody else will. Considering the intensifying battle for clients, participants are not in our view doing enough to ensure that they retain existing clients. Interestingly, although the majority say they have carried out a segmentation analysis of clients in the past three years this process is far from over and most plan to do so again over the next three years. However, the criteria on which segmentation has been performed are relatively unsophisticated, focusing predominantly on current / new assets and geography, with profitability considerations ranked fourth. A number of wealth managers have experienced significant benefit through segmentation as a means of better understanding their clients' needs and requirements. We see the importance of segmentation growing with the added benefit of being a means to help increase the share of wallet and the range of products provided. There is in our view far too low an emphasis on client retention, with 46% of respondents having no client retention process, and moreover, still remarkably few wealth managers collect and action direct client satisfaction information. Significant attention should be given to both these areas by wealth managers if they are to avoid losing clients.

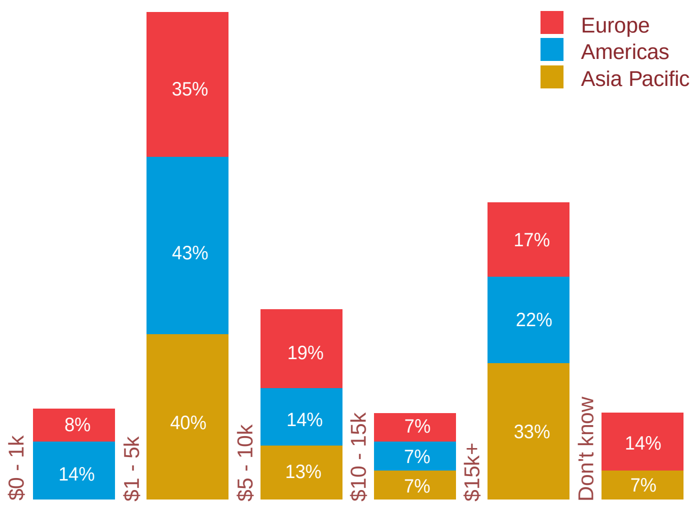
Personal relationships with clients and quality of staff are seen as key differentiators. Expectations and requirements of CRMs are ever increasing but training is not generally adequate to support this. Wealth managers will need to focus on their CRM propositions if they are to realise their strategy of becoming trusted advisors.

Approximately 70% of respondents believe training of CRMs to be extremely important, yet 45% of global participants have training budgets of less than $5,000 per person per annum (the territory results are detailed in figure 10). With quality of staff being ranked the most important differentiator from the competition in three years' time and only 21% of organisations stating that they believe they are very strong in terms of quality of staff, further investment in CRM training and competence will be critical. It is surprising that only 40% of organisations have a formal employee retention programme and for those that do, it is mostly only based around bonus and salary. Wealth managers need to beware - quality staff, especially CRMs, are a firm's most important asset and they are at risk. A lack of good CRMs will restrict growth opportunities. More attention should be given to identifying and monitoring key performance indicators (KPIs) and management information (MI) for CRMs. This will help both to drive and realise the organisations strategy but also to enhance client service and enable action to be taken to retain and gain new clients.

Quite apart from regulatory requirements and improved Know Your Client criteria, CRMs are also the critical interface between the organisation (and its brand) and the client. Additionally, cross-referral from clients is still an important source of new clients for wealth managers. The importance of good, adequately trained CRMs is critical. Development of softer skills, as well as product knowledge and technical skills, is required.

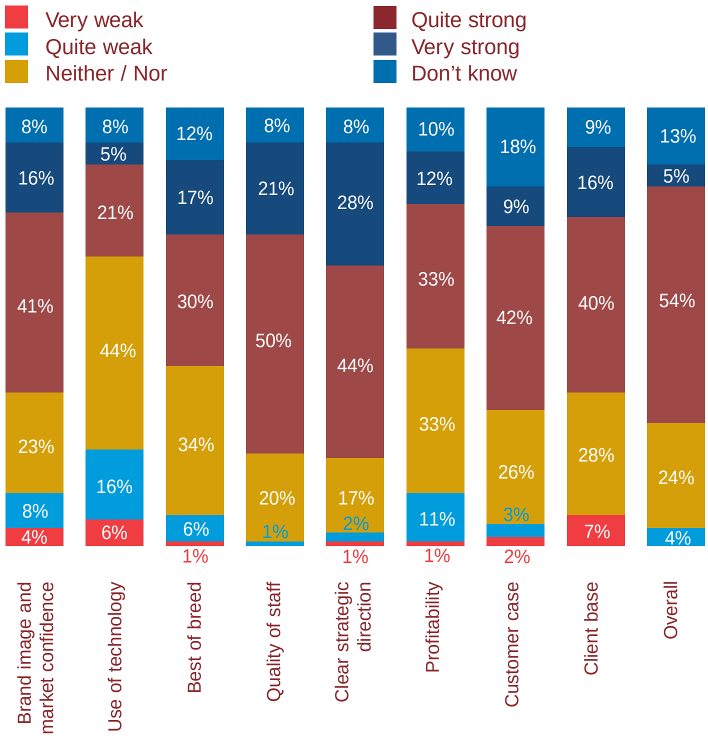
Figure 11 shows the results across a number of matters where participants were asked to rate how strong they considered their organisation. The results indicate that some players are pulling ahead, others have some key areas to focus on.

Figure 10: How much do you spend annually on training of CRMs?



Source: PricewaterhouseCoopers

Figure 11: How strong do you consider your organisation to be in relation to the following matters? Participants were also asked to rank their most successful competitors as well.



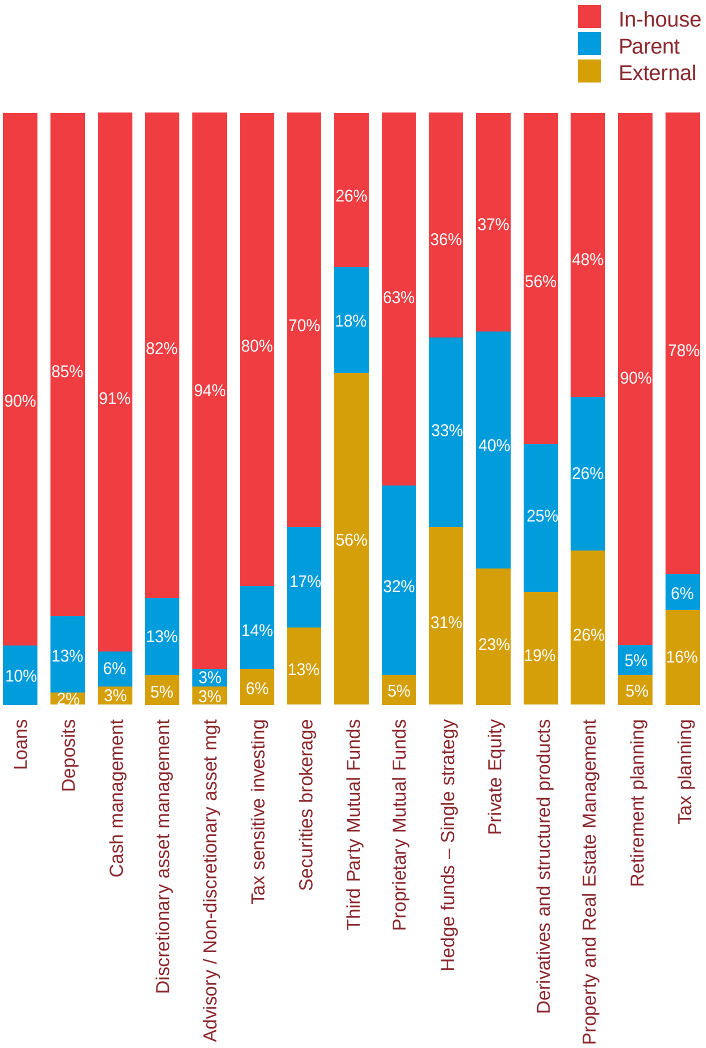
Source: PricewaterhouseCoopers

Products

Open architecture is still a masquerade for many wealth managers and in reality only exists at the margin. Most wealth managers still manufacture products either themselves or via their parent. Alternative investments have now become mainstream and a core service offered.

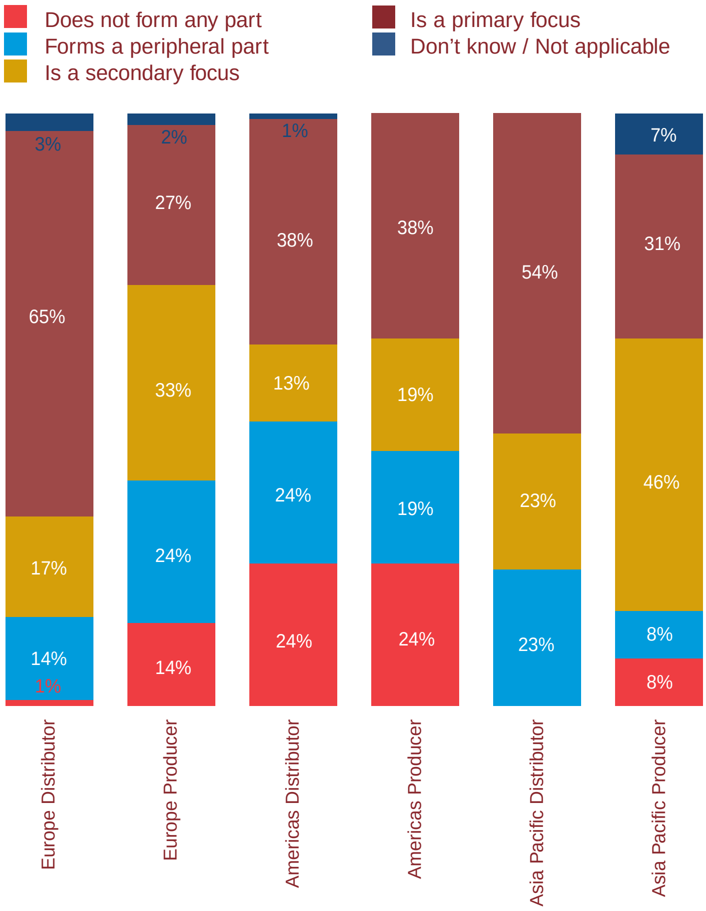
'Open architecture' is occurring only at the margin. Participants are offering a very wide range of products and services, with the majority of them still manufactured in-house. This shows that at least for now 'open architecture' is more a myth than a reality, particularly in small- to medium-sized organisations. From banking services to specialist advisory services 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 (figure 12). If wealth managers are to offer the best possible products and services to their clients, they need to focus on what they do well, while outsourcing more in specialist investment and advisory areas. A significant number of CEOs identified the producer model as either a primary or secondary focus for their strategic direction (figure 13) - close to 60% in Europe and the Americas and 77% in Asia. Many are also focusing on being distributors, indicating that clear strategic choices need to be made to be able to compete effectively and to differentiate in the marketplace.

Figure 12: Please indicate whether your product offerings are currently sourced in-house, through a parent company or externally.



Source: PricewaterhouseCoopers

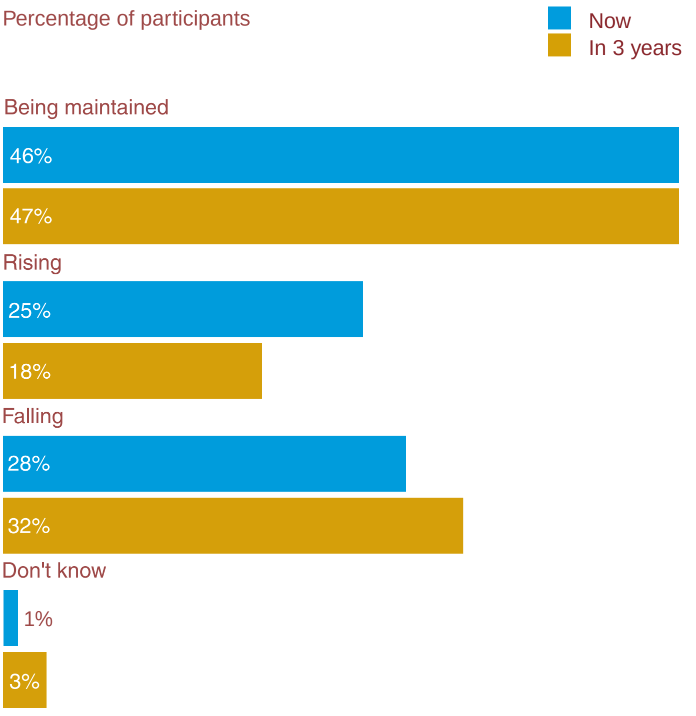
Figure 13: What is the current strategic direction of your organisation in terms of being a producer or distributor?



Source: PricewaterhouseCoopers

Profit margins under pressure. Participants' responses indicate that although there is good revenue and FUM growth margins are coming under pressure. Looking three years ahead, some 32% of participants see margins falling (50% in Asia), 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 (figure 14). 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 expected 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. 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. Clients are looking for the added value products; organisations need to determine not only what their clients want but also charge competitive prices.

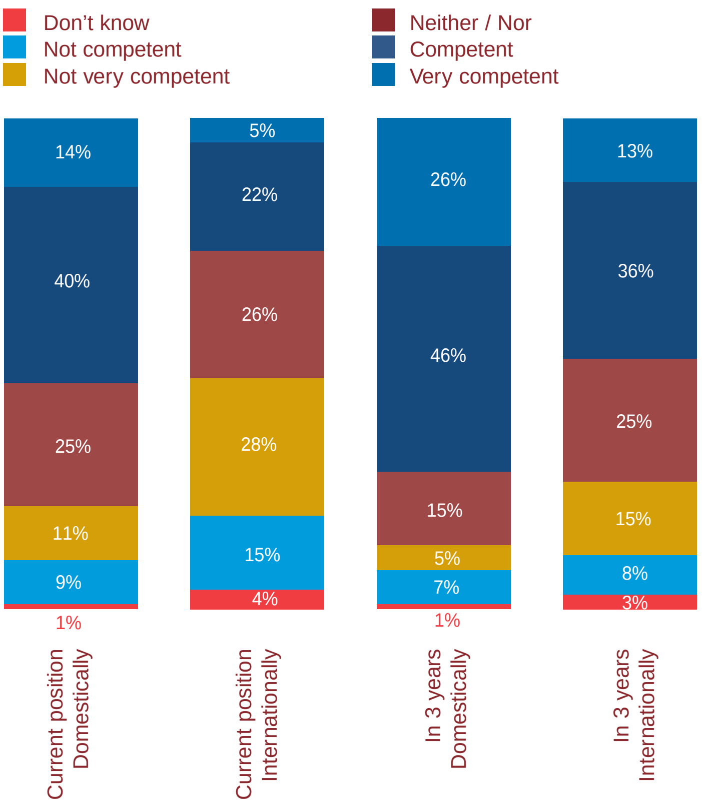
Figure 14: Thinking about your current business and then your business in 3 years time, what trend do you see in relation to profit margins?



Source: PricewaterhouseCoopers

Tax planning has always been at the core of the wealth management proposition but is becoming even more critical. It is clear that tax is becoming a key driver for both onshore and offshore products. Minimising capital gains tax, maximising the benefits of tax deferral and tax efficient inheritance structures can, and do markedly add value to clients and are core to much of what wealth managers do. However, knowledge of international tax in particular, but also of domestic taxation, is surprisingly low and needs to be improved if client expectations are to be met. Some 83% of participants believe that tax planning is important; however, at the international level only 27% believe their CRMs are competent or very competent in providing this advice to their clients. Over three years the level of competence does not appear to be rising adequately fast to meet the continued importance of this service area (figure 15). Accepting also the complexity of tax planning, a growing proportion of organisations are finding it more effective to link themselves to third party providers to give them support in this critical area.

Figure 15: Thinking both at a domestic and international level, how do you currently rate the competence of your CRMs to provide tax advice to clients and how do you expect to rate them in 3 years time?



Source: PricewaterhouseCoopers

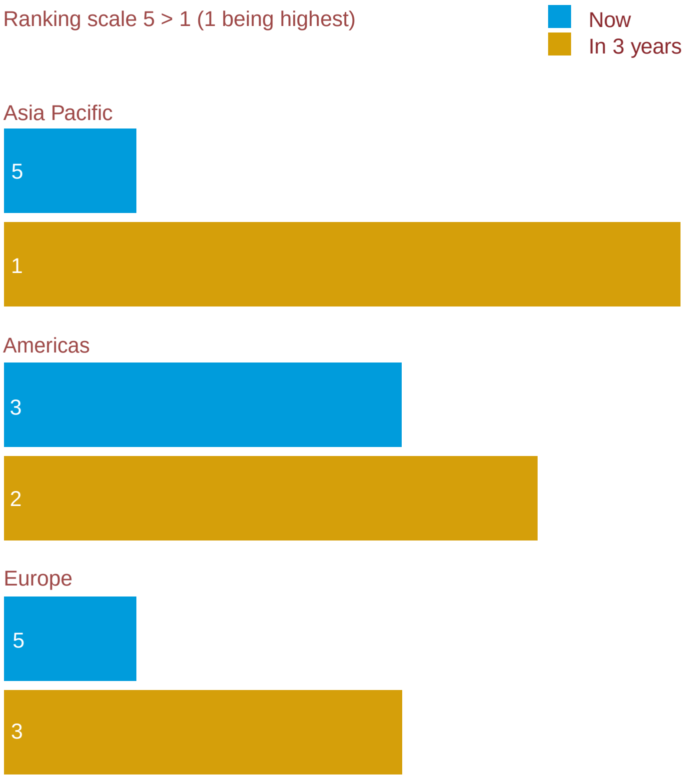
Profitability & performance metrics

Maintaining profitability in an ever more competitive environment is recognised as an important challenge. Significantly more progress must be made in collection and analysis of management information if wealth managers are to make the correct decisions to maintain growth and profitability. Segmentation and the development of better key performance indicators will be vital.

Profitability is an important area and takes much CEO time. Monitoring and controlling profit performance is ranked as the most important area where Asian CEOs will spend their time over the next three years. It is the second most important for the Americas and third for the Europeans (figure 16). Focus on this area has moved up the agenda compared with results from our 2003 survey. The majority of participants expect that their cost income ratios will fall over the coming year by an average of 6%, with current average cost income ratios at 62%. However, within this calculation there is a wide variance of ratios between the large, medium and small organisations. Organisations may be over confident in this projection because these ratios are based upon very optimistic assumptions of revenue growth against their competitors which may not be realised in practice.

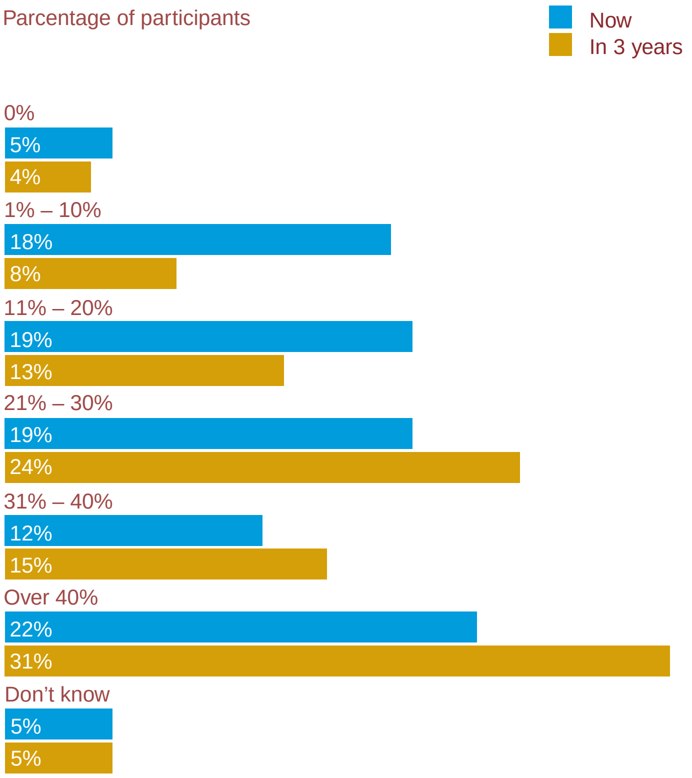
Employee remuneration is a key concern. Participants cited employee incentives and base salaries as their two prime cost concerns. As personnel accounts for more than 50% of participants' average costs, this is hardly surprising. Some 60% of participants named employee incentives as being a main area of concern, with 72% anticipating they would be in three years' time. Base salaries were named as a source of concern by 58%, although the pressure appears to diminish over three years, with just 49% believing this will then be an area of concern. Performance-based remuneration is increasing, and is becoming more closely tied to individual / team performance. Over the next three years, incentives such as phantom equity, traded stocks / stock options and team / local bonuses are seen as gaining in importance. At the same time, CRMs' bonus payments are rising, with 22% of participants saying they receive bonuses of more than 40% of basic pay today, and 31% anticipating they will receive bonuses in excess of 40% in three years' time (figure 17). In our view, remuneration is still not adequately linked to and congruent with the business strategy of wealth managers. In our experience, this is an area where additional work is required and has a good payback.

Figure 16: Ranked importance of areas where CEOs spend their time – monitoring and controlling profit performance



Source: PricewaterhouseCoopers

Figure 17: On average, approximately what percentage bonus (as a percentage of fixed salary) is provided to your organisation's CRMs now and how is this likely to change in 3 year's time?

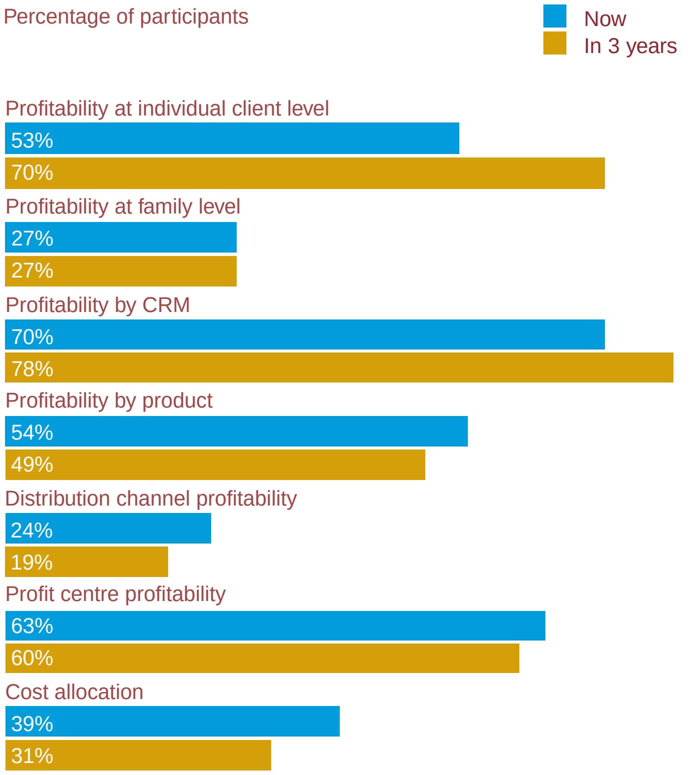


Source: PricewaterhouseCoopers

Customer Relationship Manager profitability expected to rise. Participants plan to enhance the profitability of their client bases by increasing the number of accounts managed by each CRM. There is an anticipated increase in the number of client accounts per CRM over the next three years in all client bands except Ultra High Net Worth. As profitability by CRM remains the most important profit measure, it is not surprising that participants should place such an emphasis on improving the productivity of these key staff. However, there is a difficult balance to be achieved between the desire / need for greater productivity, and the ambition to deepen the client relationship and grow the share of wallet. Given the finding that 46% of clients take an average of six months to five years to become profitable after acquisition, attention to efficiency is required as well as better use of existing and new technology, expenditure on which is forecast to increase. Wealth managers should beware to ensure that service levels do not decrease or they risk losing clients to competitors.

Management information still disappoints, adequate KPI's are fundamental to running an effective business. Some 84% of participants consider the quality of MI will have a high or medium impact on their organisation over the next three years. However, recent work we have done with clients indicates that MI generally is not sophisticated and requires improvement. While 70% collect profitability by CRM, currently only 53% of participants collect data on profitability at the individual client level. It is perhaps in our view surprising that only 54% use profitability by product data for decision-making. Over the next three years, wealth managers will focus increasingly on obtaining better information on the profitability of clients (figure 18). Profitability metrics should be analysed hand-in-hand with information and criteria collected for client segmentation, where assets and geography are the main focus. Understanding the broadest information about the client base will enhance an organisations' ability to service and price correctly, leading to greater revenues and profitability.

Figure 18: Which of the following are the most important profitability measures that your organisation currently uses for decision-making and which do you expect to be the most important in 3 years' time?



Source: PricewaterhouseCoopers

Totals > 100%: Multiple response question

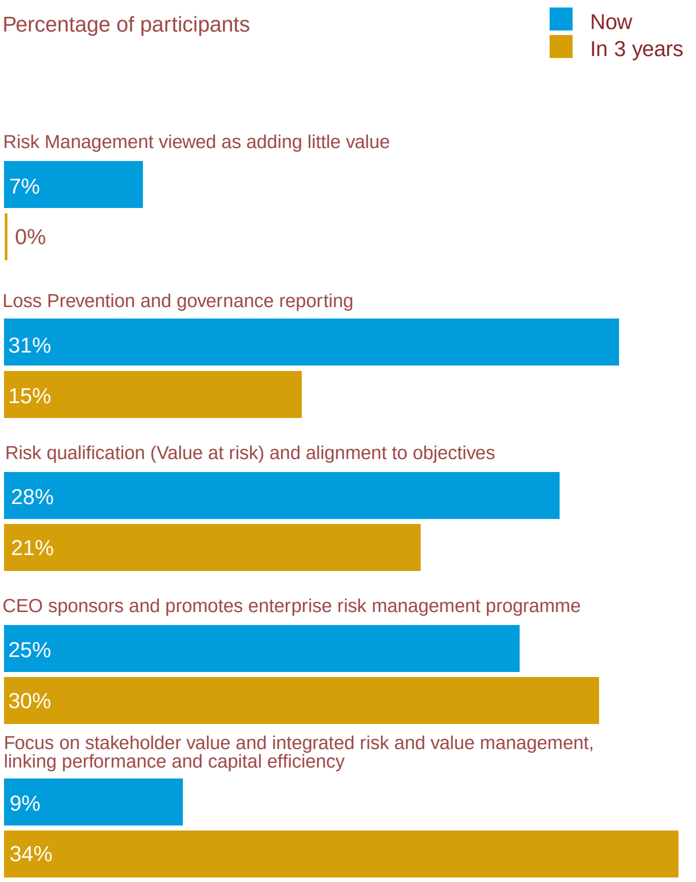
Risk management & compliance

Further investment in risk management and compliance is forecast on top of that already expended. Significant gaps still remain in risk management frameworks with more automation and better communication required.

Risk management systems have been upgraded, but few have yet achieved integrated risk and value management.
Risk management systems are continuing to go through a process of improvement. Some 86% of survey participants have introduced risk management frameworks within the past five years, but the process is by no means complete, with 85% currently upgrading them. Few - just 9% - have taken this to its natural conclusion, building integrated risk and value management systems that link performance and capital efficiency. Instead, loss prevention and governance reporting is still the most common approach (used by 31%) risk qualification (value at risk) and alignment to objectives is the second most common (28%) and a CEO-sponsored enterprise risk management programme is the third most common (25%) as detailed in figure 19. It is noted that the American and Asian participants have better frameworks than their European colleagues, with 40% of the Americas (36% Asia) with a CEO-sponsored framework. In three years' time, participants expect to become far more sophisticated, with integrated risk and value management systems becoming the most common, while loss prevention and governance systems fade in relative importance. To enable this to happen there is a continued and significant need for investment in this area. That said, and although investment is evident, participants in our 2003 survey predicted similar upgrades, which so far have failed to materialise.

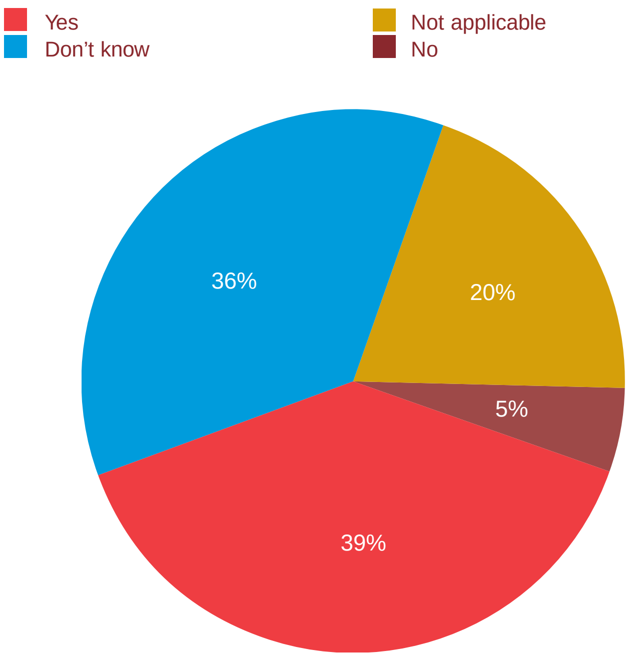
Significant gaps remain in risk management frameworks.
There are still some alarming gaps in risk management frameworks particularly in as far as they relate to outsourced services. Most significantly, 36% of participants say that they do not know whether third party outsource partners have equivalent

Figure 19: How would you describe your organisations current approach to risk management, and what approach do you expect to take in 3 years' time?



Source: PricewaterhouseCoopers

Figure 20: Do third parties to whom you outsource have equivalent risk management frameworks?

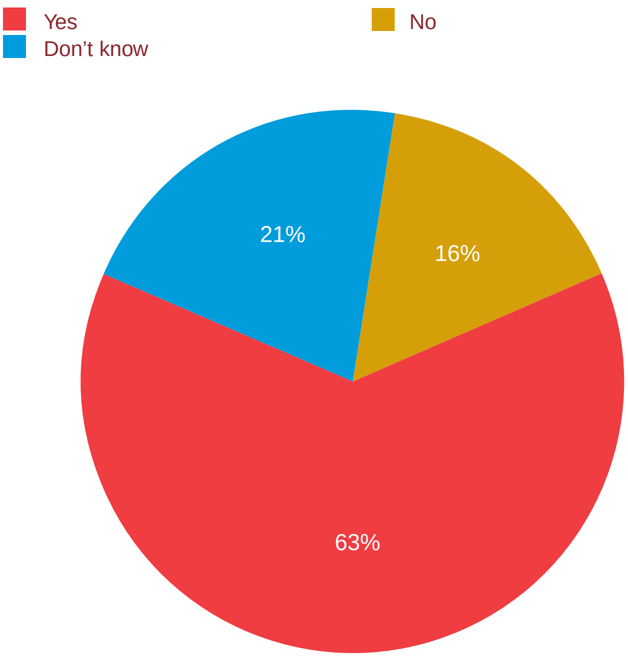


Source: PricewaterhouseCoopers

risk management frameworks (figure 20). Worryingly, some 16% say they do not expect third parties to meet the standards set out in their risk management frameworks, and even more surprisingly a further 21% don't know (figure 21). In terms of their own risk management frameworks, a substantial minority of participants believe that their frameworks still have room for improvement. Some 73% are confident in their risk management functions, but 26% believe theirs' require enhancements. In areas such as Basel II and the Risk-based Capital Directive, responses are not yet as far advanced as they might be expected to be. Wealth managers need to consider all these issues and have a process in place to ensure compliance with regulations not just in their home jurisdiction but in all countries in which they operate.

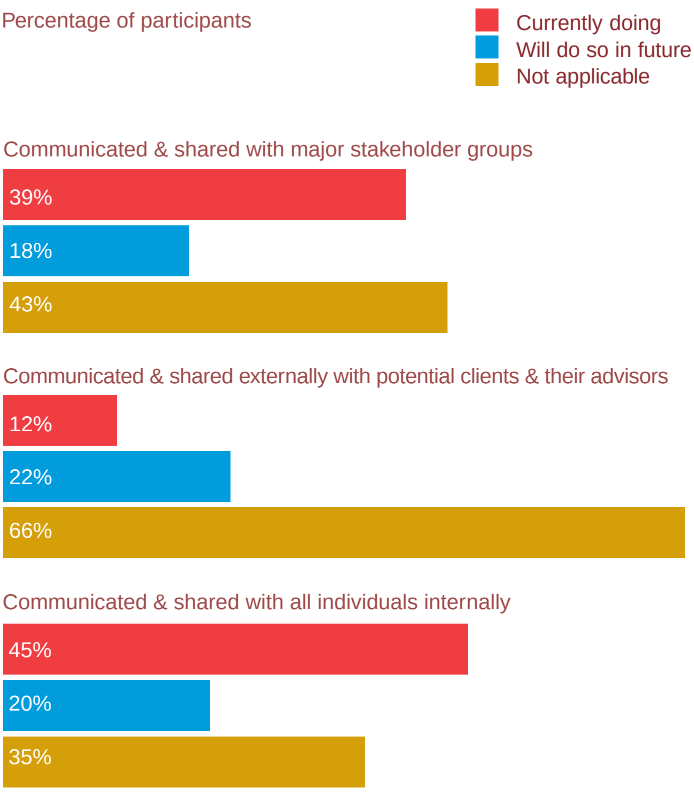
Growing awareness of link between risk management and reputation. Participants are increasingly aware of the potential risk management has to protect or even enhance their reputations, as well as the increasing importance of reputational risk. Few as yet view risk management as a source of competitive advantage, or a marketing tool, although 22% do plan to communicate the controls surrounding risk management and compliance to potential clients. Even so, external communication of risk has not progressed as much as anticipated from responses given in our 2003 survey, and 86% of participants either do not, or only partially, communicate risk externally (through SAS 70 reporting or equivalent). However, looking forward, participants again anticipate that reputational risk will become far more important within the next few years. While it will not overtake regulatory risk in terms of its significance, control of reputational risk is clearly gaining in importance.

Figure 21: Do you expect third parties to meet the standards set out in your risk management framework?



Source: PricewaterhouseCoopers

Figure 22: Does your organisation prepare a document on the controls surrounding risk and compliance and do you share / communicate this to any of the following parties?



Source: PricewaterhouseCoopers

About PricewaterhouseCoopers

PricewaterhouseCoopers firms work together to provide coordinated services to clients in all parts of the world and provide services to some of the largest, most prestigious companies in the world.

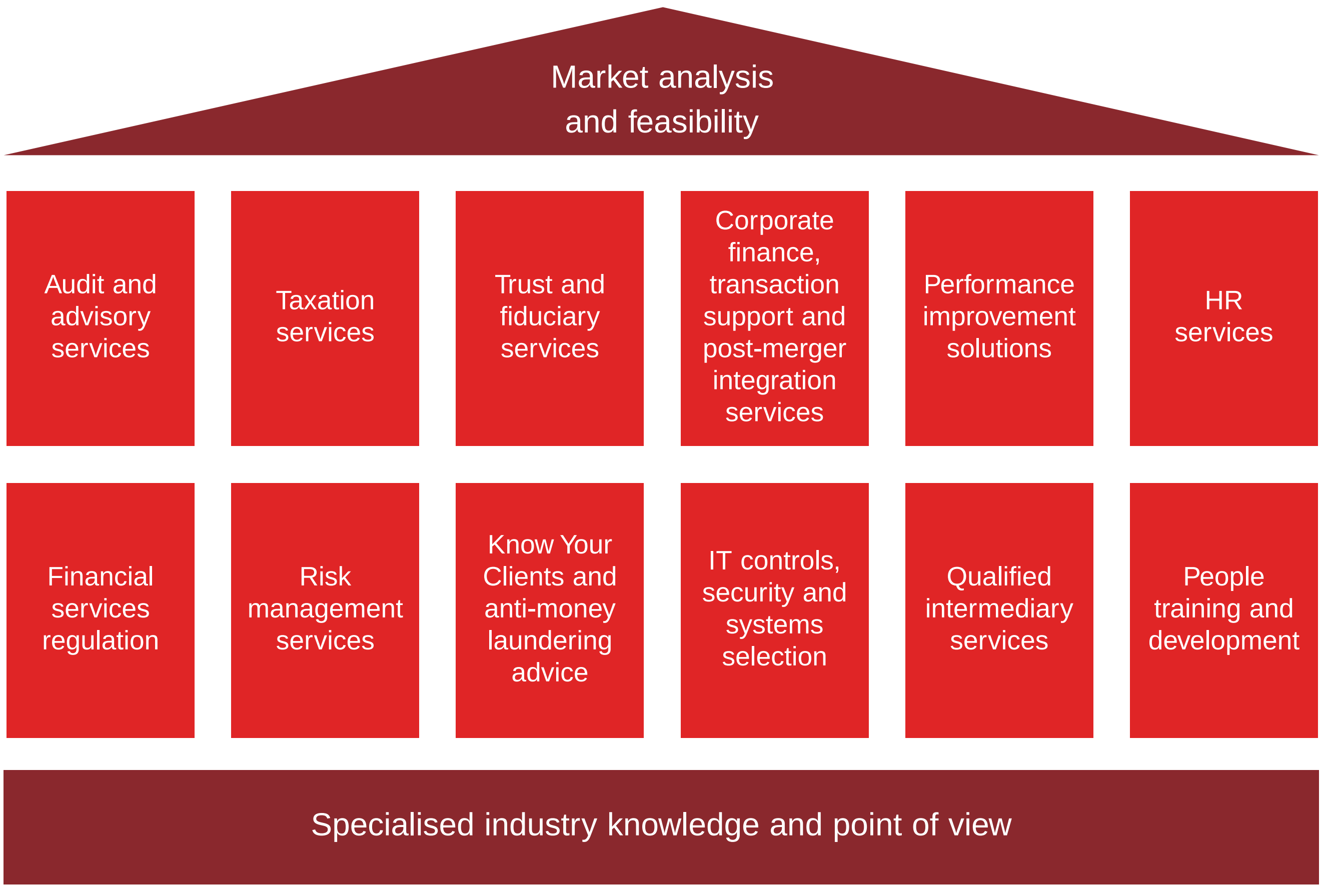
PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 139 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

We have an industry-focused advisory practice dedicated to the investment management, capital markets, banking, mutual fund, insurance and brokerage communities. PricewaterhouseCoopers firms around the world work together on the issues facing wealth managers and wealth management organisations. As a demonstration of how important we believe this sector is, we constantly invest in highly regarded thought leadership and specialised research activities ensuring we fully understand the issues facing the industry.

Throughout our surveys, we have highlighted the evolutionary phases that private banking / wealth management is experiencing. Through our insight, understanding and involvement in current and future trend analysis, we work with clients to help them meet the challenges facing their business, providing them with innovative solutions.

In particular, we continue to provide valued advice and bespoke solutions to wealth managers in the areas outlined below:

Bespoke industry advice and solutions



Contacts

PricewaterhouseCoopers, Private Banking/Wealth Management Practice Network.

For further information on the survey please contact Bruce Weatherill on +44 (0) 20 7213 5521 or Hannah Mayes on +44 (0) 20 7804 7849.

For general enquiries on our Private Banking/Wealth Management capabilities or to discuss our services, please contact the appropriate country office representative shown below or visit **www.pwc.com/wealth**.

Australia
David Prothero
david.prothero@au.pwc.com
+612 8266 2916

Austria
Andrea Cerne-Stark
andrea.cerne-stark@at.pwc.com
+43 1 501 88 1720

Bahamas
Ednol Smith
ednol.smith@bs.pwc.com
+242 302 5300

Barbados
Wayne Fields
wayne.fields@bb.pwc.com
+1 246 467 6810

Bermuda
Andrew Brook
andrew.brook@bm.pwc.com
+1 441 299 7126

Brazil
Joao Santos
joao.santos@br.pwc.com
+55 11 3674 2224

Canada
Barry Myers
barry.j.myers@ca.pwc.com
+1 416 869 2441

Cayman
Nick Freeland
nick.freeland@ky.pwc.com
+1 345 914 8603

Finland
Tuukka Lahkela
tuukka.lahkela@fi.pwc.com
+358 9 22 800

France
Jaques Levi
jacques.levi@fr.pwc.com
+33 1 56 57 80 46

Germany
Markus Burghardt
markus.burghardt@de.pwc.com
+49 69 9585 2240

Guernsey
John Dunford
john.dunford@gbg.pwc.com
+44 1481 727 777

Hong Kong
Shane Knowler
shane.knowler@hk.pwc.com
+852 2289 2703

Mervyn Jacob
mervyn.jacob@hk.pwc.com
+852 2289 8888

Ireland
Timothy O'Rahilly
timothy.orahilly@ie.pwc.com
+353 1 662 6862

Denis Cremins
denis.cremins@ie.pwc.com
+353 1 662 6328

Isle of Man
Jonathan Whiting
jonathan.d.whiting@iom.pwc.com
+44 1624 689689

Italy
Giacomo Neri
giacomo.neri@it.pwc.com
+39 2 66720567

Japan
Peter Finnerty
peter.finnerty@jp.pwc.com
+81 355 322 530

Jersey
Peter Yates
peter.yates@gbj.pwc.com
+44 1534 838 200

Luxembourg
Jean Marc Thomas
jean.marc.thomas@lu.pwc.com
+352 49 48 48 1

Middle East
Ashruff Jamall
ashruff.jamall@ae.pwc.com
+971 4304 3100

Netherlands
Rogier van Adrichem
rogier.van.adrichem@nl.pwc.com
+31 20 568 56 97

Russia
Ekaterina Lazorina
ekaterina.lazorina@ru.pwc.com
+7 095 967 63 70

Singapore
Justin Ong
justin.ong@sg.pwc.com
+65 6236 3388

South Africa
Johannes Grosskopf
johannes.grosskopf@za.pwc.com
+27 11 797 4346

Spain
Jose Luis Lopez Rodriguez
jose.lopez.rodriguez@es.pwc.com
+34 91 568 4445

Sweden
Sussanne Sundvall
sussanne.sundvall@se.pwc.com
+46 8 555 33 273

Switzerland - Geneva
Jean-Christophe Pernollet
jean-christophe.r.pernollet@ch.pwc.com
+41 22 748 5440

Switzerland - Zurich
Rolf Birrer
rolf.birrer@ch.pwc.com
+41 1 630 2432

Taiwan
Richard Watanabe
richard.watanabe@tw.pwc.com
+886 2 2729 6704

UK
Bruce Weatherill
b.weatherill@uk.pwc.com
+44 20 7213 5521

Alison Morris
alison.c.morris@uk.pwc.com
+44 20 7212 3667

USA
Chip Voneiff
chip.voneiff@us.pwc.com
+1 312 298 4815

For general enquiries on our private banking / wealth management capabilities or to discuss our services, please contact the appropriate country office representative shown above.

If you would like additional copies of the survey then please contact Carly Taylor on +44 (0) 20 7804 7625 or visit www.pwc.com/wealth.

Contacts

In addition to those offices and contacts listed, we have an extensive global network of offices in more than 139 countries.

For further information contact:

Chairman, Global Financial Services
Jeremy Scott
Telephone: +44 20 7804 2304

Global Leader, Banking and Capital Markets
Phil Rivett
Telephone: +44 20 7212 4686

Global Leader, Investment Management
Simon Jeffreys
Telephone: +44 20 7212 4786

Global Marketing, Banking & Capital Markets
Abigail Palmer
Telephone: +44 20 7213 8277

Survey responses were received from the following countries:

Australia	Italy
Austria	Japan
Bahamas	Kuwait
Bahrain	Luxembourg
Barbados	Monaco
Brazil	Netherlands
Canada	Portugal
Cayman Islands	Singapore
Channel Islands	South Africa
Cyprus	Spain
Finland	Sweden
France	Switzerland
Germany	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States of America
Isle of Man	

Rankings
Charts representing the ranking of criteria have been prepared using an average weighted ranking across all respondents.

Editorial Team
The editorial team principally included Bruce Weatherill and the private banking / wealth management practice network as detailed on the previous pages. Additional support was provided by Hannah Mayes, Tim Prince, Stephen Cater, Rolf Birrer, Justin Ong and Rupert Bruce.

PricewaterhouseCoopers on the World Wide Web
http://www.pwc.com

www.pwc.com/wealth

PricewaterhouseCoopers