In pursuit of wealthy and wealth
Private Banks – A global perspective

Kuala Lumpur
October, 2014
World’s Leading Wealth Insights Firm

Winner 2007-10 – Global Wealth Insights Firm – Wealth Briefing; Winner of 2013 Thought Leadership Award Asia – Wealth Briefing
Runner-up 2010-2012 – Agency of the Year – Financial Services Forum, Runner-up 2014 Thought Leadership in North America – Wealth Briefing
Currently shortlisted for 2014 Thought Leadership in Switzerland, 2014 Thought Leadership in the United Kingdom, 2014 Thought Leadership in Asia
Triangulating the value proposition for private banks

**Advisor insight**
- McLagan advisor productivity and compensation benchmarking
- Scorpio Partnership market research and employee surveys

**Business model insight**
- Scorpio Partnership global private banking KPI benchmark
- McLagan financial institutions KPI benchmarking analysis

**Ongoing strategic insight, calibration and practical implementation**

**HNW/UHNW Client insight**
- Scorpio Partnership global HNW/UHNW client journey surveys
- Scorpio Partnership market entry strategic research and consulting
1. The state of the global private banking industry
Banks are shifting capital away from risky institutional businesses to wealth management but challenges remain.
UBS has refocused on WM which accounts for 65% of attributed Equity and 80% of profit.

Expected Pre-tax Profit Contribution:
- WM business, R&C, Global AM: ~80%
- Investment Bank: ~20%

Attributed Equity to Business Divisions:
- 3Q12: ~35% WM, ~65% Investment Bank
- 2013: ~65% WM, ~35% Investment Bank

CHF 3.4 – 4.5 billion reduction in Investment Bank expense base by 2015
Private Banking Share of RWA at Credit Suisse Up 9% Points to 38% and Expected to Grow to 50%

### Contribution to Basel 3 Risk-Weighted Assets

<table>
<thead>
<tr>
<th></th>
<th>3Q11</th>
<th>4Q12</th>
<th>4Q13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Banking &amp; Wealth Management</td>
<td>15%</td>
<td>36%</td>
<td>38%</td>
</tr>
<tr>
<td>Equities Advisory, Underwriting</td>
<td>56%</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Banking</td>
<td></td>
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</tbody>
</table>

- Moving business mix towards 50/50% split by gradually growing capital allocation in PB&WM
- Consistent earnings capacity of business model to generate substantial levels of excess capital
Morgan Stanley Has Reshaped Its Business So That Wealth Is Now The Largest Component

Full Year 2006 Net Revenues

- Global Wealth Management
- Fixed Income and Commodities (ex-DVA)
- Equity Sales
- Other
- Asset Management

Full Year 2013 Net Revenues

- Global Wealth Management
- Fixed Income and Commodities (ex-DVA)
- Equity Sales
- Other
- Asset Management
Bankable assets have grown at twice the rate of captured wealth since crisis

CAGR: 4.8%
CAGR: 2.6%

Source: Scorpio Partnership Private Banking KPI Benchmark 2014
NNM is positive but slowing down

Source: Scorpio Partnership Private Banking KPI Benchmark 2014
…while cost-income ratios are growing

Sustained increase of cost-income ratios and flattening gross margins form a challenging environment for both type of PB.

*Gross margin is defined as operating income divided by AuM
Source: Scorpio Partnership Private Banking Benchmark 2014
Key highlights

Global Banks have realized the importance of focusing on Wealth Management as a sustainable and less riskier business

Growth in wealth and high % of untapped wealth provides good impetus for PBs to consider it as a future oriented business

High cost business model compared to institutional business means that scale & breadth is needed for success
2. Looking at Asia through the Global Lens
The rising APAC HNW+ wealth world

APAC will dominate global wealth by 2020 based on forecasts.

Notably, regional HNW growth in APAC HNW wealth is 9.8% compares with an average of 5.5% GDP growth rate in APAC ex-Japan.

Source: RBC Capgemini 2013 World Wealth Report
The offshore fund flows for HNW+ assets

Source of total HNW offshore wealth market, USD trillion

At USD2.4trn APAC is the second largest market region for offshore business.

Equally, the growth in the regional key booking centers is significant.

In sum, wealth management in Asia is not just the future, it is the now....

Destination of offshore wealth market by booking centre, USD trillion

<table>
<thead>
<tr>
<th>Country</th>
<th>USD trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>USD2.2trn</td>
</tr>
<tr>
<td>Hong Kong and Singapore</td>
<td>USD1.2trn</td>
</tr>
<tr>
<td>Channel Islands and Dublin</td>
<td>USD1.1trn</td>
</tr>
<tr>
<td>Caribbean and Panama</td>
<td>USD1.1trn</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>USD0.9trn</td>
</tr>
<tr>
<td>United States</td>
<td>USD0.7trn</td>
</tr>
<tr>
<td>Other</td>
<td>USD0.7trn</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>USD0.6trn</td>
</tr>
</tbody>
</table>

Source: Scorpio Partnership analysis, BCG
Assets-switching velocity is impacting the attitudes

APAC M&A momentum is likely to grow based on continued operating model pressures.

6yr Total - USD451.3bn
6yr Total - USD314.0bn
6yr Total - USD32.7bn
6yr Total - USD286.5bn
6yr Total - USD11.8bn
6yr Total - USD102.0bn

Source: Scorpio Partnership Deal Tracker 2013
Private Banks in Asia experienced double-digit % asset growth

Private banks are growing at 16% in the region but wealth is also growing at the same pace.

Source: Private Banker International
PBs in Asia are at a low point on pre-tax margins with a median cost-to-income ratio at about 70%.

- Cost to income ratio have been running north of 70% with some boutique firms reporting CIR of 90% and above. Effect of such high CIR will be felt in the moderate to long term.
- Compensation expense in boutique PB firms are at level of 70%+ of total compensation expenses while for bulge firms, it is at 50% levels.
- Profit margins in Private Banking industry have continued to decline since the global financial crisis and have reached a very low level of almost 20 basis points.

*Profit margins are defined as (revenue-cost)/AuM

Source: BCG Wealth Report; McLagan database

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## Key Challenges Faced by Private Banks in Asia

### Internal Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational Setup:</strong></td>
<td>Lack of alignment of front, middle and back office and leadership challenges in teams and markets</td>
</tr>
<tr>
<td><strong>Performance Management:</strong></td>
<td>Weak performance management methodology and pay for performance approach</td>
</tr>
<tr>
<td><strong>Front Support Cost:</strong></td>
<td>Increasing cost in front and selected middle office functions (e.g. ARM, Business Managers etc.)</td>
</tr>
<tr>
<td><strong>Platform Inefficiency &amp; Regulatory Cost:</strong></td>
<td>Lack of holistic platform to support increased regulatory requirements (e.g. AML, KYC, FATCA)</td>
</tr>
</tbody>
</table>

### External Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand for RMs:</strong></td>
<td>High demand for RMs who can move assets leading to overcompensation and reduced productivity</td>
</tr>
<tr>
<td><strong>Client Behavior:</strong></td>
<td>High price sensitive clients who want control and have mismatched expectations on risk-return</td>
</tr>
<tr>
<td><strong>Quality of Advice:</strong></td>
<td>Ineffective advisory process of RMs with focus on sales orientation rather than advisory orientation</td>
</tr>
<tr>
<td><strong>Changing Regulations:</strong></td>
<td>Growing sophistication of regulators and increased scrutiny on sales process and pricing policies</td>
</tr>
</tbody>
</table>
Wealth management is not about the money. It is about all the people working together.

All working together = just = all = all
3. The HNW mind
HNW routes to wealth are forcing change

- Durability of financial suppliers and protection of assets
- Delivering value for money.
- Risk awareness
- Value sensitivity
- Segment complexity
- Self-directing
- Greater control / influence over investments.
- Rise of digital
- Offering of real-time wealth management.
- Age and attitudes, wealth level, type of wealth.

Source: Scorpio Partnership
The starting line is the value point – this is recalibrating

Q: How would you rate the industry in terms of value for money today?

The issue of value and its variance among the demographics is possibly the single most important planning factor for the future of wealth management.
Client view of the wealth managers performance

APAC respondents tend to assess performance of wealth managers 7.9% lower, on average.

Source: Scorpio Partnership Futurewealth 2014
### APAC HNWs hold WM to a high standard

<table>
<thead>
<tr>
<th>Region</th>
<th>WM Performance</th>
<th>Client Minimum Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>63.5</td>
<td>59.9</td>
</tr>
<tr>
<td>Europe</td>
<td>61.8</td>
<td>53.0</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>65.3</td>
<td>56.3</td>
</tr>
<tr>
<td>Latin America</td>
<td>69.1</td>
<td>57.4</td>
</tr>
<tr>
<td>North America</td>
<td>77.9</td>
<td>50.2</td>
</tr>
</tbody>
</table>

Analysis based on the following:

Q: We’d now like you to imagine that you are giving your wealth manager an exam mark. Thinking about your overall relationship with your main wealth manager, what performance score would you give them?

Q: And, at what level of overall service would you consider moving your relationship to another firm?

Source: Capgemini, RBC WM, and Scorpio Partnership

Global HNW Insights Survey 2013
HNWs are searching for the core relationship

The global HNW market is transforming in the debate around engagement.

Q: (on a 10-point spectrum): Please indicate your preference for working with multiple wealth management firms (who each have a specific area of expertise) vs. a single firm (that can meet your full range of needs)

Even in the emerging markets where the complexity of assets may be high, the trend is toward working with a single firm. Notably, in Asia, the clients most want a single firm with the ability to access multiple experts.

Source: Capgemini, RBC WM, and Scorpio Partnership Global HNW Insights Survey, 2013
HNWs in APAC are more focused on wealth preservation than growth

Emerging markets (APAC-based) HNWs are almost in the balance between preservation and creation.

Crucially, global average is 26% (growth) and 33% (preservation).

Compared to RoW APAC investors are more bullish on equities. Rebalancing cash is key.

Source: Capgemini, RBC WM, and Scorpio Partnership
Global HNW Insights Survey 2013
APAC HNWs have strong multi-shore tendencies

Whether it is preservation or growth, emerging markets (APAC-based) HNWs are nearly twice as likely to consider they have complex needs (linked typically to offshoring and re-shoring)

Perspective on financial needs

<table>
<thead>
<tr>
<th></th>
<th>APAC</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex needs</td>
<td>41%</td>
<td>23%</td>
</tr>
<tr>
<td>No strong preference</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>Straightforward needs</td>
<td>33%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: Capgemini, RBC WM, and Scorpio Partnership Global HNW Insights Survey 2013
4. Onwards – What next in wealth management for APAC?
The future is benchmarking the tangible experience

Q: In your opinion which of the following factors would you rank as the most important attributes when considering a wealth management firms?

Source: Scorpio Partnership Futurewealth 2014, which aimed to determine globally clients’ requirements from different stages of the customer experience in order to do more business.
APAC HNWs have priorities on what wealth means

- Having sufficient wealth to secure your own and your family’s future (37%)
- Having sufficient wealth to choose what you do in life (18%)
- Not worrying about money every day (15%)
- Having a disposable income (in excess of what you require for financial security) (12%)
- Having sufficient wealth to buy or invest in whatever you wish (8%)
- Being able to enjoy a luxury lifestyle (6%)
- Having a level of wealth that commands political or economic influence (3%)
- % of respondents: Other (1%)
The route to winning new business – not whispering

Q: How were you first introduced to your primary wealth manager?

<table>
<thead>
<tr>
<th>Introduction reason</th>
<th>Global</th>
<th>APAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referral from family or friend</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Through my own research of the market</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Through a relationship manager at the firm</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Referral from a trusted advisor (e.g. attorney, accountant)</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Through the website of the firm</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Referral from another part of the business</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>In response to an advertisement</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Referral from another client at the firm</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Independent assessment
Note: This **increases** with wealth

33%

Percentage of clients introduced through the website

- <US$500,000: 8.7%
- US$500,000-US$2m: 8.5%
- US$2m-US$4m: 13.9%
- US$4m+: 13.2%
APAC HNWs are financial shoppers – wealth managers need to constantly innovate to succeed

Q: How many other firms did you consider working with before making your selection?

<table>
<thead>
<tr>
<th>USD4m+</th>
<th>6.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD2m-4m</td>
<td>5.1</td>
</tr>
<tr>
<td>USD500,000-2m</td>
<td>3.4</td>
</tr>
<tr>
<td>&lt;USD500,000</td>
<td>2.6</td>
</tr>
</tbody>
</table>

APAC

average 4.7

Q: How many providers do you currently work with regarding your personal investments?

<table>
<thead>
<tr>
<th>USD4m+</th>
<th>7.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD2m-4m</td>
<td>5.3</td>
</tr>
<tr>
<td>USD500,000-2m</td>
<td>3.2</td>
</tr>
<tr>
<td>&lt;USD500,000</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Rest of the world

average 2.6

<table>
<thead>
<tr>
<th>USD4m+</th>
<th>4.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD2m-4m</td>
<td>3.3</td>
</tr>
<tr>
<td>USD500,000-2m</td>
<td>1.9</td>
</tr>
<tr>
<td>&lt;USD500,000</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Scorpio Partnership FUTUREwealth 2014
APAC HNWs will pay for premium service

an extra 12%, on average

<table>
<thead>
<tr>
<th>Service</th>
<th>Asia-Pacific</th>
<th>Rest of the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding my wealth management needs</td>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>Staff who are knowledgeable, well-trained, and professional</td>
<td>66%</td>
<td>57%</td>
</tr>
<tr>
<td>Delivering appropriate products, services and advice</td>
<td>67%</td>
<td>55%</td>
</tr>
<tr>
<td>Working with a firm that has a solid reputation</td>
<td>61%</td>
<td>50%</td>
</tr>
<tr>
<td>Reporting that allows me to monitor my portfolio in detail</td>
<td>64%</td>
<td>46%</td>
</tr>
<tr>
<td>On-going account servicing and inquiry handling</td>
<td>64%</td>
<td>45%</td>
</tr>
<tr>
<td>Communication about the services and value they can offer to clients like me</td>
<td>60%</td>
<td>38%</td>
</tr>
<tr>
<td>Account opening processes</td>
<td>27%</td>
<td>20%</td>
</tr>
</tbody>
</table>

% of respondents who would pay extra

Source: Scorpio Partnership Global HNW Insights Survey 2013
Premium services are not just products and prices

What your clients want → What the industry needs to build

- Consistency
- Creativity
- Credibility

- Experience
- Knowledge
- Empathy

What your clients want

What the industry needs to build
The future is based on better business intelligence

Wealth management has evolved in APAC almost in spite of itself. But we are now entering an industrialisation of the model where future profits are dependent on better sustained insight on all aspects of the business. A lack of intelligence would be a great loss ....