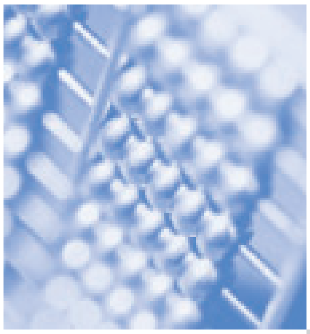
IBM Business Consulting Services

European Wealth and Private Banking Industry Survey 2005



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Introduction

Last year, the financial markets continued their recovery from the recent bear market that had affected the private banking sector profitability and growth. Despite measured market recovery, clients still remained cautious, reflecting the historical losses they had experienced and a recognition that more normalized returns were expected from equities in the future. There also remained issues of broader corporate governance concerns and, within the private banking industry specifically, the need to rebuild trust between providers and their clients following public court cases concerned with conflicts of interest.

Despite measured market recovery, the private banking sector now faces two new major challenges. First, achieving top line revenue growth and improving the overall client experience is now back on the senior management agenda after a period of cost containment. Second, ensuring a more agile and cost effective operational platform is now a greater challenge as it needs to address both the increasing complexity of changing regulation and the evolution of new products and services.

Slowly, but surely, the combination of market, client, competitive and regulatory trends are leading to an environment that will look radically different in 2010. To meet the challenges and succeed in this evolving environment, which senior leadership teams believe will be far less predictable than in the past, private banks must focus their attention on their growth and operating challenges and execute well. No longer will reactive and uninformed responses be enough to succeed in these more difficult conditions as returns from market cyclical growth will not be enough to raise everyone's performance. Management must therefore move boldly to tackle these evolving challenges and renew their organisations for growth and agility.

The 2005 European Wealth and Private Banking Industry Survey solicited feedback from 96 leading private banks and covered twelve key European onshore and offshore centers. The result is a compelling view of the leadership agenda for institutions emerging from a period of recent market uncertainty. This survey is unique because:

- *It asks participants for a wide range of industry, strategic, operational, people, and information technology issues. This industry report contains only a summary of these key benchmark findings as more detailed relative benchmarking is reserved for participants only.*

- *It reflects the changes in the industry, and focuses more on the identified issues of growth, client experience and profitability*

- *For the first time we have also sought to obtain the views of private banking clients across Europe with the aim of identifying any mismatches between what the banks and clients perceive in terms of client needs and experience. This has identified some valuable pointers in terms of distinctive "moments of truth" that clients value from their private banks.*

- *For the second time, we have also focused in greater detail on understanding the characteristics of high performing CEOs and Executive teams across Europe. We spent time interviewing the CEOs of a selection of respected private banking organizations to gain greater insight on their market positioning choices, client experience focus and the operational execution priorities that they perceive are driving their success agenda.The views of these highly respected and experienced industry leaders and their*

organizations helps to provide useful pointers and experiences of how to address key challenges head on.

- *It is also able to provide meaningful comparison information by cutting the responses across several dimensions such as size of assets under management, individual country specific data, a split of overall onshore and offshore groupings and to also highlight differences between mature and emerging markets. This enables more precise identification of relevant trends to assist industry players to better understand and respond to the issues that are most relevant to them.*

- *We have sought more detail on operating models as the current difficult times have forced industry participants to give greater attention to the agility of their operating models. In addition, we have highlighted information technology issues as a key enabler of change and source of improved performance. However, the track record to date of obtaining value from investments in information technology by most private banks has been average at best. We have been able to provide more insights and useful benchmarks in respect of this issue.*

Therefore, we believe that all of the insights in this survey, together with the supporting unpublished benchmark data (which is provided confidentially to participants) will be of great value in helping industry participants focus on those key issues that will be critical to delivering growth, client and business value in the evolving environment.

Continuing a trend from the last survey, we have also provided our perspectives on the imperatives, we believe, that CEOs need to focus on in order to position themselves to deliver superior client and business value in 2010. These imperatives are described in detail in this report.

In terms of acknowlegement, we want to extend our appreciation to the many senior executives across Europe who took part in this survey. We appreciate the time they took to answer the many detailed questions and for the trust, confidence and support they placed in IBM Business Consulting Services. Additionally, we are grateful for their openness and insights on key topics. We constantly strive to get a deeper understanding of the drivers of future business value, growth and innovation as this stimulates new thinking about how we can better help our clients succeed. As always, we welcome any feedback on the survey.

We look forward to continuing this conversation and this journey with you. In future surveys, we will track progress on the industry's transformation journey.

Philippe Theytaz *Ian Woodhouse*

2.

IBM Business Consulting Services perspective

Slowly, but surely, market forces are leading to a private banking industry that will look very different in 2010 compared with today. From the identified industry challenges provided by participants throughout this survey, IBM Business Consulting Services has distilled five imperatives for senior management to ensure future success.

1. Build stronger client insight and focus

Private banks need to make more conscious choices about the type of clients they pursue, taking account of the changes underway in sources of their wealth, their geographic requirements, and the level of service that they are expecting. Winners will clearly understand where they are positioned in the market places they serve as well as developing the capabilities they need to deliver to their chosen clients.

"We focused - and continue to focus - on strengthening our relationships with our clients. This is fundamental. We are constantly vigilant in being seen to be keen to respond both to the demand from our clients and the market place as a whole and being innovative in providing individual, value-adding solutions."

C.R. Bannister, HSBC, Group Private Banking

2. Perfect the client experience and offer holistic advice

Private banks will increasingly seek to create proprietary advantages through providing holistic advice and asset allocation approaches. They will be supported by tools in order to more systematically evaluate a client's personal and professional situation, diversification requirements and risk return appetite to tailor an appropriate solution. Not every player will succeed as this requires the appropriate combination of process, people and information technology support complemented by change management skills to enable the advisors and the organisation to become truly client centric.

"There is no doubt that advisory effectiveness is a key factor. We have a clearly structured advisory process in place all over the world to help us support and maximise the client experience. Several tools are being integrated to help our relationship managers. For instance, a fully integrated advisory workbench is available to our front office staff, which is most advanced in Switzerland."

R. Weil, UBS AG

"In 2003, we changed our value proposition by focusing not only on the assets of the clients but also on their liabilities to get the full picture and be able to create value for them and our shareholders. In other words, we became our clients' CFOs."

J. Marin, Banif Banca Privada

3. Provide innovative high value added products blended into solutions to offset commoditisation

Private banks will increasingly need to be aware of and manage shrinking product lifecycles and faster commoditisation. There are now more options for sourcing either through their parent organisations and/or via external providers as the rise of open product architecture continues to become more mainstream.

Successful players are systematically developing their product lifecycle management capabilities. This includes articulating product requirements which maintains the ability to react to changing client, tax, regulatory and marketing requirements.

"We have developed a culture of innovation which gives our employees the freedom they need to be creative. For example, we have people structuring new products or identifying new investment themes, as well as examining how to adapt wholesale products for our private banking clients. Credit Suisse was also one of the pioneers in the field of open architecture solutions."

W. Berchtold, Credit Suisse

4. Focus on processes of value creation and determine partnering and outsourcing solutions to enable operational agility

A key challenge for private banks will be to stop driving incremental improvement across all areas of their business. Instead, they will need to focus the enterprise on those areas which really drive value creation and consider partnering for the remaining non core processes. Already, leading private banks with value oriented models are increasing the pressure on their less innovative competitors to transform to be lower cost, more agile and responsive. This involves the traditional vertical integrated models giving way to more flexible component based operating models which can deliver greater value.

"Private banks should try to have an open minded management style, which means concentrating on the core competences of the private bank and outsourcing whatever someone else can do better for a more competitive price."

A. Simonet, Dresdner Private Banking International

5. Pro-actively seek out to benefit from industry restructuring by optimising the business portfolio and geographic mix

Some private banks have already recognised the emerging challenges and have the vision and execution plan to respond in a timely way. Other players remain stuck in their traditional ways and are falling behind. We expect a few dominant players to lead and that some focused mid tier and niche specialists will also be successful. Other weaker global and mid tier private banks will neither develop sufficient skills nor scale to compete effectively in this dynamic environment and will themselves be victims of restructuring.

"Consolidation in private banking will be partly driven by the next wave of cross border retail banking mergers in Europe. These mergers will be driven primarily by considerations on the retail side. The private banking business units of these financial institutions will have to accommodate and leverage the resulting synergy and scale in the new organisation."

P. Damas, ING Group Private Banking

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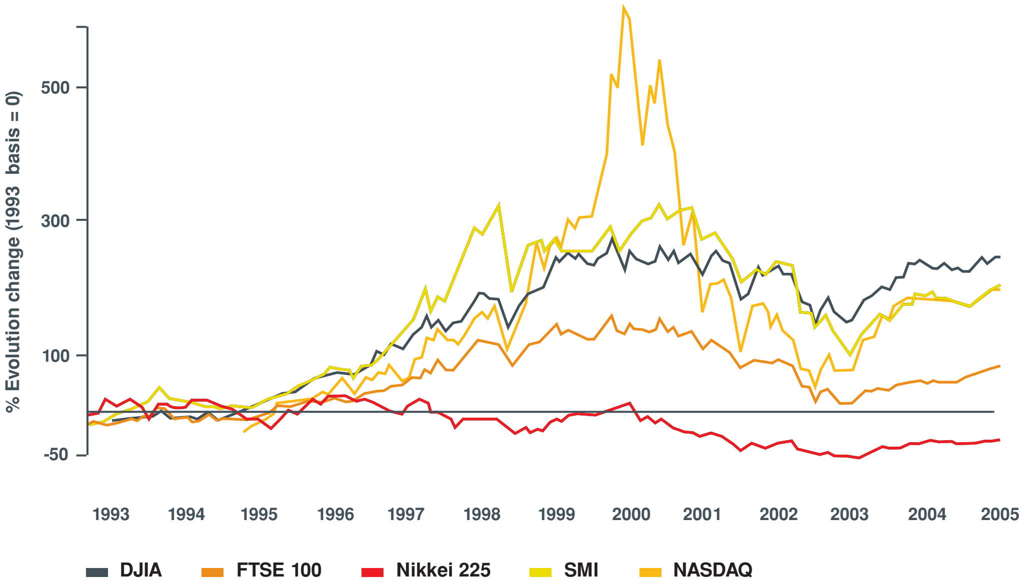
Key survey messages

A number of themes have emerged from the survey findings. These topics indicate where participants are focusing their attention and are responding to the industry changes that are underway. They are:

Financial markets experienced a more measured recovery



Source: Market data

1. The market is recovering from the difficult market environment of 2002, but the recovery is more measured and participants believe that they are now in a more competitive environment with additional competition from newer business models such as family offices and hedge fund providers.
2. In this environment, top line revenue growth has become more difficult with the majority of respondents acknowledging that achieving growth in client assets is becoming harder with significant differences in growth rates between onshore and offshore.

   Participants also identified scale is now more of an issue as larger groups are better equipped to reduce the cost of client acquisition by leveraging their wider parent client bases and utilising strong financial resources to grow through acquisitions.
3. Increasing and complex regulation is putting additional pressure and costs on all providers. This is particularly a burden for the smaller players and for the offshore private banks.
4. Participants have identified significant changes underway in the geographic sources and flows of wealth. In terms of the traditional offshore centres, significant changes in the

rankings are expected with Switzerland coming under more pressure from Singapore. In terms of traditional onshore rankings, Eastern Europe is expected to grow the fastest.

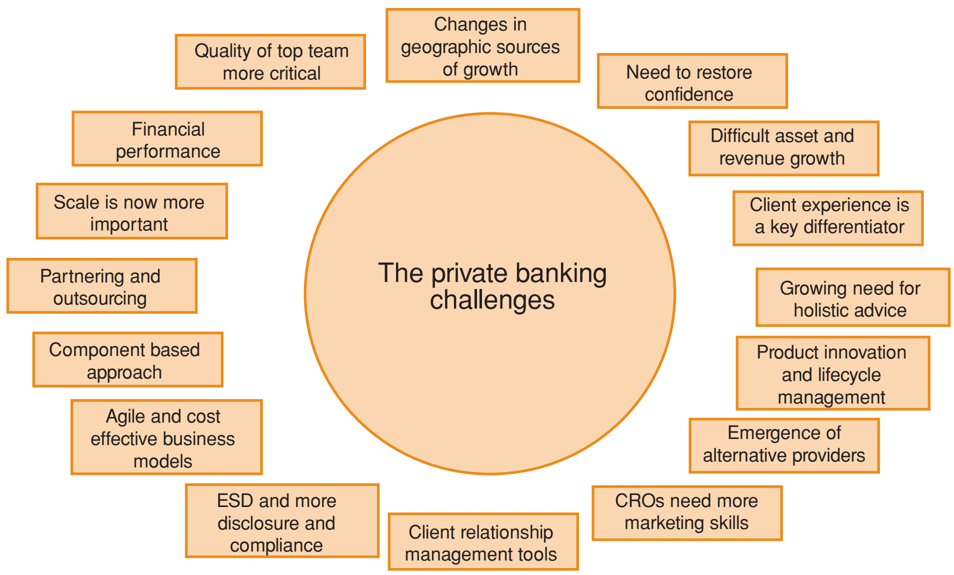
5. Participants CEOs strongly indicated that the quality of business leadership at the top team level is now becoming an even more critical capability to succeed.
6. Private banks acknowledge the importance of raising the bar when it comes to client experience as a key differentiator for success. Providing broader holistic advice across a range of clients' needs was identified as becoming more essential in this respect.

   Participants stated that relationship officers now need more core selling and marketing skills and that coaching is also becoming a more important issue.
7. The importance of offering a wider product palette and managing the lifecycle to optimise the mix between commodity and value added products and services was also highlighted. This tends to favour those organisations with an established product innovation capability and, typically, those who have links to investment banks.
8. Given pressure to grow revenue and optimise costs, participants continue to face the challenge to design and implement the most effective business model. This now needs to be more agile and robust to respond to the need for holistic advice, new product development, evolving regulatory requirements and to achieve penetration of new growth markets.

   Successful industry participants are now looking more systematically at each component of their organisation with a view to determining whether their processes are generating value or can be shared or outsourced.
9. Participants remain cautious about their IT investments from a cost and benefit standpoint. Focused use of client relationship management enabling tools and technology is now deemed to provide substantial competitive advantage.
10. There are significant differences between the large, medium and small private banks in terms of performance and growth.

    Size also now appears to matter more than in the past, as the larger groups are better able to leverage their parent organisations. Profitability and growth pressures together with the increased importance of scale benefits reinforces our opinion that further consolidation of the private banking sector will continue.

Participants identified several key challenges



4.

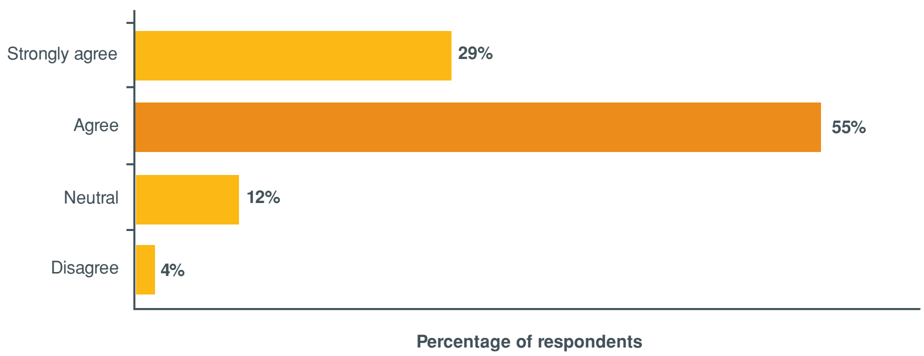
Market trends, geography and industry structure

*"If you want to grow this business globally, you have to have a presence in both offshore and onshore markets. We have major hubs in international centres like Zurich, Geneva, London, New York, Hong Kong and Singapore. In addition, we are also present in the major domestic markets, such as Europe, and are expanding into two to three additional markets per year, more recently, for example, Taiwan and Brazil. …We want to have access to the growth opportunities the onshore markets represent…we want to give our clients the choice whether they want to invest in our international hubs or in the countries they are domiciled." **(R. Weil, UBS AG)***

Market trends indicate a more difficult environment

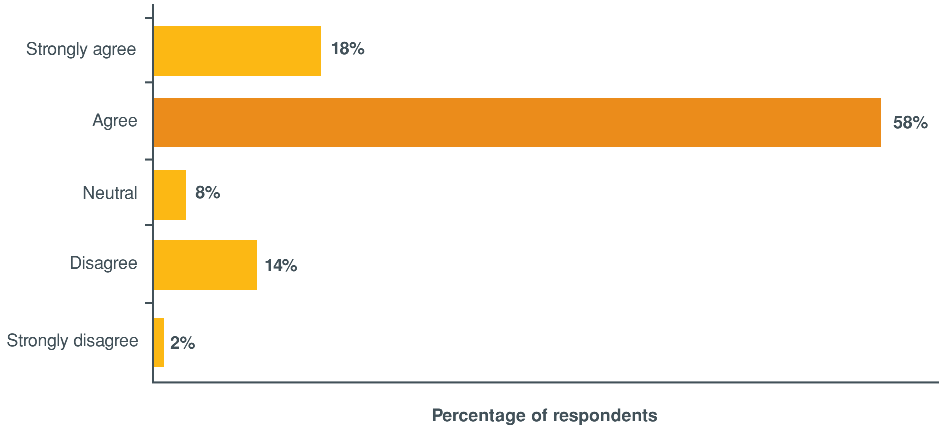
Since our last survey, financial markets have recovered. However, the majority of respondents stated that clients are now more conservative. This reflects the combination of factors including the negative performance experienced over several years, the disconnect between the advisor and the client in terms of managing risk return expectations and well publicised cases of conflicts of interest. All of these factors have impacted the traditional bond of trust between the client, the advisor and the private bank.

Clients are now more conservative with their investments following the recent market downturn



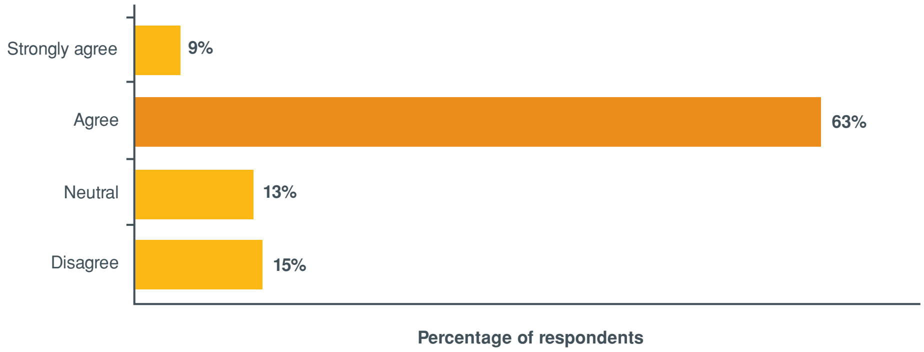
Achieving growth in client assets is also becoming harder as expressed by 80% of the respondents. Not surprisingly, this view is more pronounced amongst the offshore participants although a significant proportion of onshore clients share this opinion as well.

Achieving growth in client assets is becoming harder



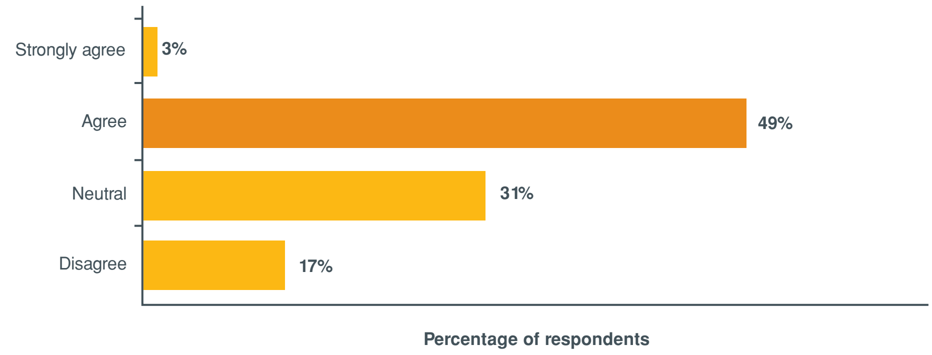
Part of the reasons why growth is becoming harder is that private banks are experiencing aggressive competition and disintermediation from new entrants such as multi family offices, hedge funds and other specialist providers. These new entrants are providing attractive alternatives to some client segments and, particularly those who value more innovative and differentiated offerings.

New entrants such as multi-family offices and hedge fund providers are providing increased competition to traditional private banks / wealth managers



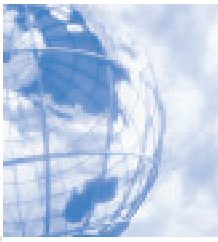
As competition becomes tougher, it becomes vital to seek new clients and retain existing ones. In terms of retaining clients, just over half of respondents indicated that clients are now more willing to switch providers. This is particularly evident among the smaller private banks. This is counter intuitive to conventional wisdom that they can provide a more tailored service compared with the larger players.

Clients are now more willing to switch private banks

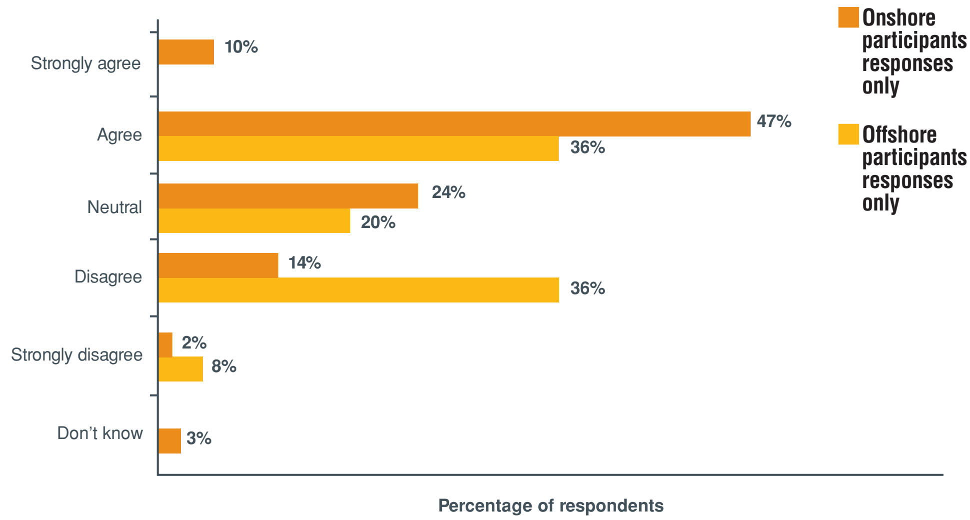


Geographic shifts underway

In the previous edition of our industry survey, we identified that offshore banking was dying gradually while onshore offered better prospects. This was controversial to some participants. As a result, in this year's survey, we specifically asked participants for their views on this topic. Interestingly, half of all respondents now agree that European offshore private banking is declining gradually. As might be expected, onshore participants strongly support this view. More controversially, offshore participants are split in their opinions.



**What is your level of agreement with the following statement?
European offshore private banking is declining gradually**



The pressure on the offshore industry reflects the impact of increased regulatory activities which have been steadily building over time. Recent tax amnesties will, this year, be joined by the European Savings Directive (ESD). It is inevitable that these will have an additional impact on the relative positioning of traditional European offshore centers. Over the last few years, the onshore centres have improved their domestic capability with improved offerings, tax efficient solutions and more competitive prices.

In terms of effect in 2005, Switzerland maintained its leading position in terms of growth of assets in relation to Singapore and Hong Kong. However, in two years' time, respondents predict that Switzerland will lose its pole position to Singapore. The United Kingdom and Luxembourg will continue to trail their Asian competitors. Clearly these are predictions but they serve to illustrate the likely loss of the European centers historically dominant positions.

What do you believe will be the most important offshore centers in terms of growth of private banking assets in two years' time?

Offshore centers in 2005	Rank	Offshore centers in 2007
Switzerland	1	Singapore
Singapore	2	Switzerland
Hong Kong	3	Hong Kong
UK	4	UK
Luxembourg	5	Luxembourg
Cayman Islands	6	Cayman Islands
Bahamas	7	Bahamas

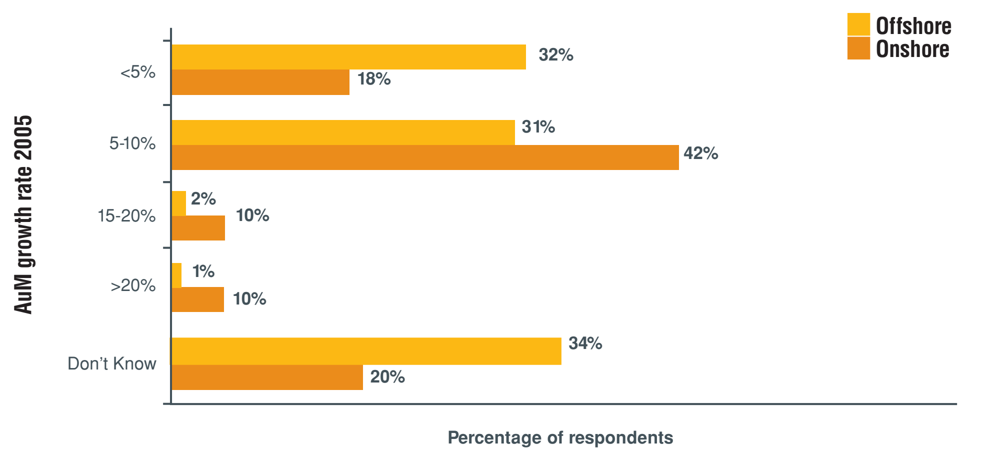
The rise of Singapore and Hong Kong also reflects a structural trend with the rapid creation of wealth in the Asian and the Far Eastern markets.

Turning to the onshore markets, participants believe that the most important countries for growth will be the traditional top five European economies. However, by 2007 respondents predict that Eastern Europe will become the fastest growing private banking market, outplacing the traditional domestic markets.

What do you believe are the most important onshore centers in terms of growth of private banking assets in two years' time?

Onshore centers in 2005	Rank	Onshore centers in 2007
UK	1	Eastern Europe
Germany	2	UK
Spain	3	Germany
Italy	4	Spain
France	5	Italy
Switzerland	6	France
Eastern Europe	7	Switzerland

Expected assets under management growth rate in 2005



Only one third of participants expect offshore assets under management to grow by over 5%. This is in sharp contrast to onshore where 62% of participants expect growth of over 5%.

Industry structure undergoing change

Given the above changes, it is not surprising that the majority of respondents have identified that there is now more polarization between successful and less successful private banks.

When asked which type of organisation is best positioned to succeed in the European private banking market, participants believe that private banks with their own brand, but part of a larger group and private banking divisions of universal banks are better positioned. These are followed by the independent private banks and dedicated niche players. With the above market trends, life is becoming more difficult for the independent private banks as they have neither the scale and resources of the larger groups nor, in some cases, the specialization of dedicated niche players.

In parallel with these issues, the scale debate continues. Participants believe that the scale needed to compete successfully has increased substantially compared to our last survey. One out of five respondents now claim that the minimum threshold is at € 20 billion in terms of assets under management (AuM). Another 20% puts the bar even higher with a minimum required of € 50 billion AuM. It is also worth noting that 25% of the respondents have not expressed any opinion.

The increased importance of scale is likely to put further pressure on the midsize and smaller players whose strategic options are becoming more limited. They have to face a higher cost of doing business in light of both the geographic shifts and the pressures levied upon them by the regulators. As a result, their ability to successfully transform their business model and/or focus on clear niches is likely to determine the pace of consolidation to come.

5.

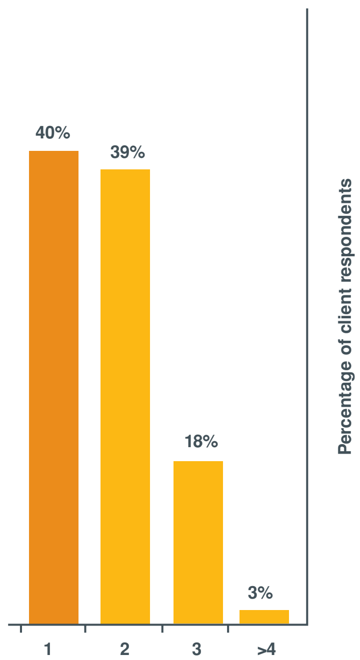
The clients' view of the private banks

This is the first time the survey has solicited private banking clients' opinions. Although it is a small sample of 45 clients, it has been included to check for consistency and identify any differences with the private banks' views. The benefits of seeking the voice of the customer is that new trends can be identified earlier and significant gaps between what the private bank thinks and what the client actually wants can be highlighted. This new section is also a response to private banks' desire to get closer to the clients thinking and identify the value that they are seeking.

As such, this is a useful step for enabling the private banks to improve their client experience and thereby improve their growth and business value. Private banks can benefit from client learning in two major ways.

The first one is to improve general awareness and learning about what clients need and additional insights about the clients themselves. Additionally, it can provide more understanding of why and which client types are coming to the private bank as well as providing a better understanding of why they stay and why they leave.

Number of providers used



The second area is to identify product and service gaps in terms of highlighting areas of improvement in the offering. It is also useful to understand missed sales opportunities and what is required to win back dissatisfied clients.

Increasingly, private banks are placing more attention on the whole area of client experience. Leading players are now devoting much more emphasis to identifying and delivering in the critical aspects of the relationship that can help differentiate them.

The private banking clients we interviewed told us the following:

Competition and need for segmentation

We asked clients "How many providers do you use to conduct your private banking business?" The majority of clients told us that they have more than one provider. This means they can compare and contrast the experience delivered by the banks on a number of dimensions.

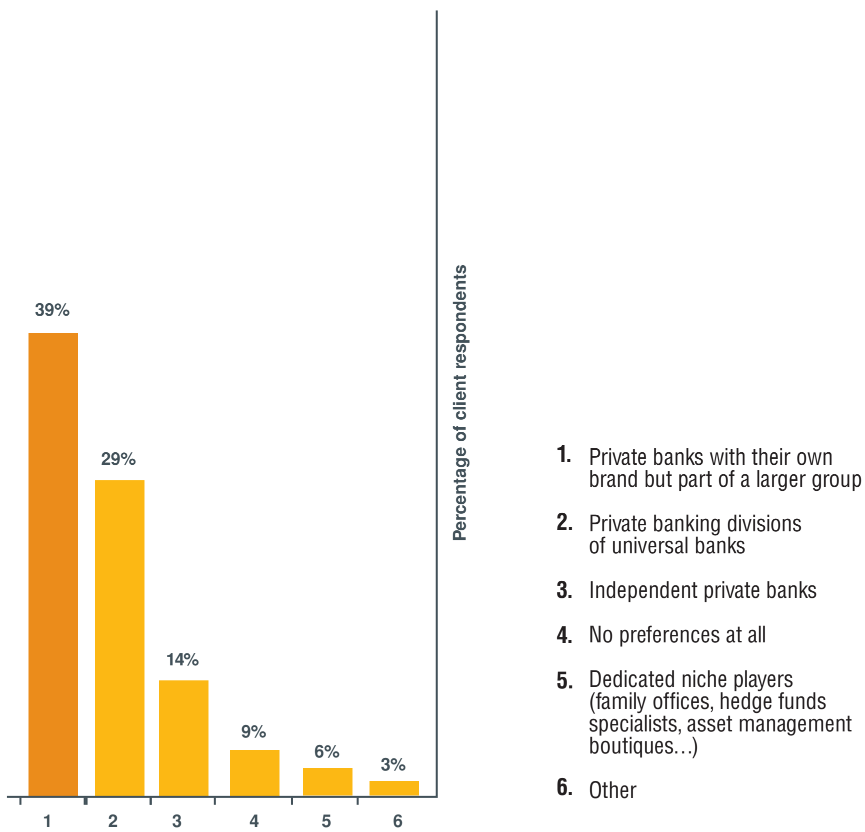
Additionally, we asked clients what share of assets (in percentage terms) the principal provider holds and respondents indicated that the

principal provider typically held 60% of their assets making retention a key issue for the primary provider.

Client acquisition

We also asked clients which private banking organisation they preferred doing business with. They told us that they are more attracted towards private banks with their own brand that are part of a larger group or private banking divisions of a universal bank. This was followed by independent private banks.

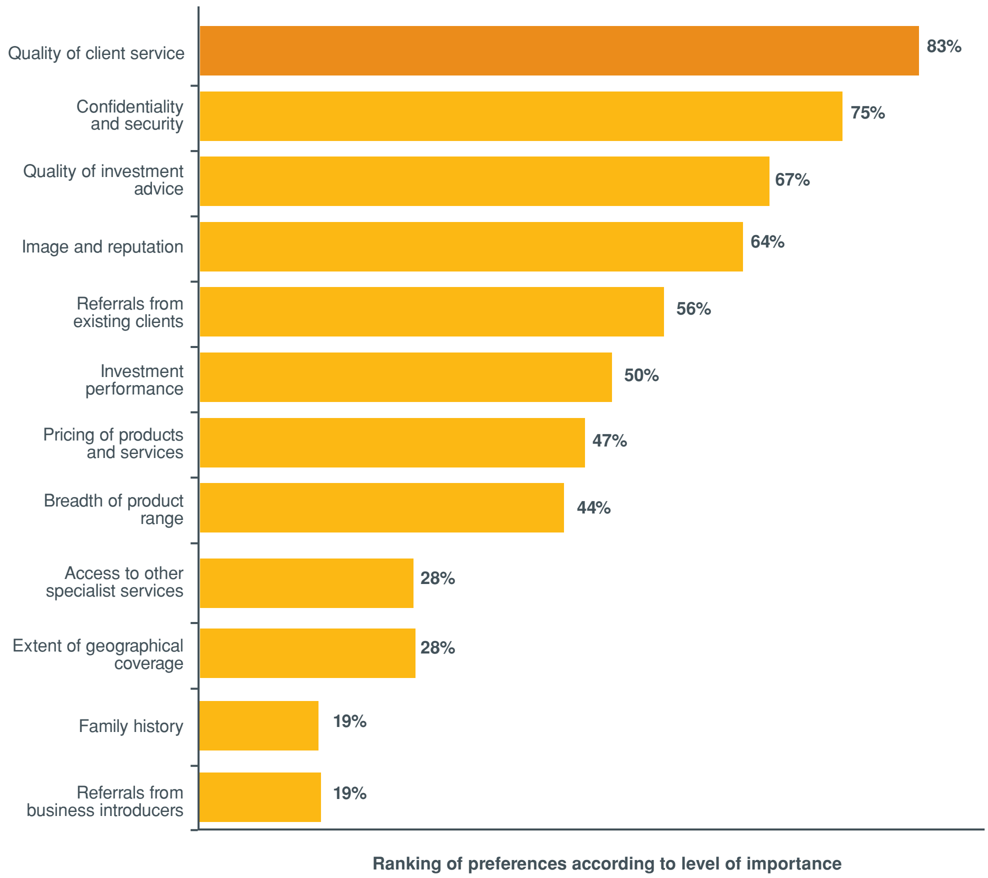
What is your preferred type of private banking provider?



In choosing their private banks, clients were also asked to indicate which criteria mattered most to them when selecting their provider. They told us that they value quality of client service, confidentiality and security and quality of investment advice as the three main selection criteria.

This was followed by image and reputation and referrals from existing clients which reflects the increased importance of trust in the formation of a relationship. Investment performance, pricing and breadth of product range were also identified. This confirms the necessity to offer a broader range of products and services.

Why do clients choose their provider?

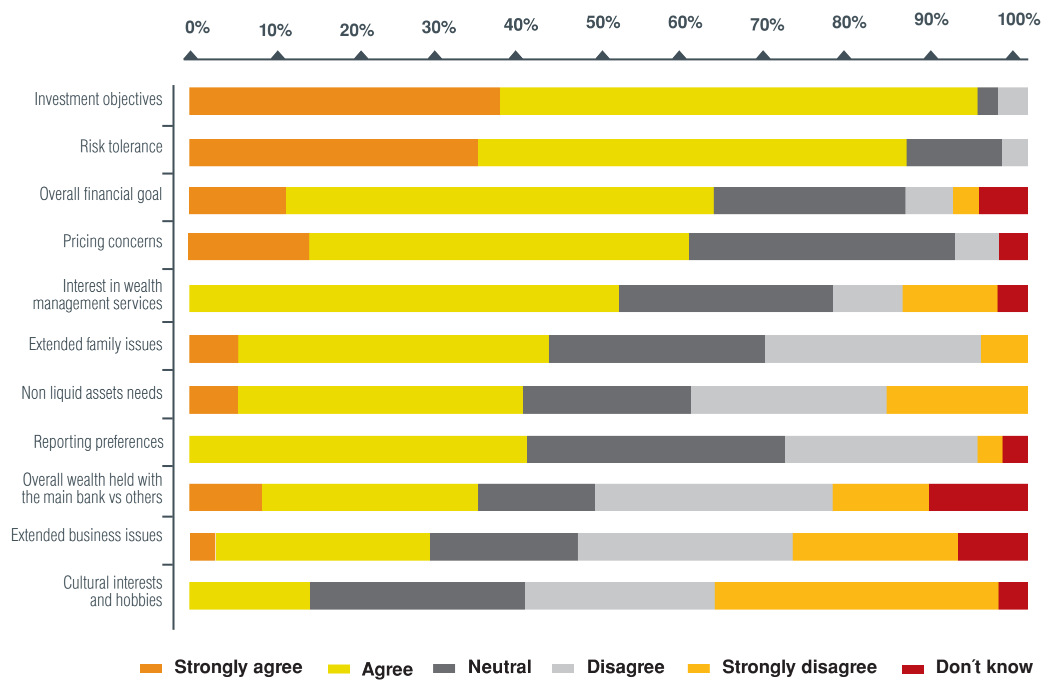


Client knowledge and retention

Clients were asked how they assessed the level of knowledge that their relationship manager has about their situation. Clients agree that relationship managers have a good knowledge of the basics such as investment objectives and risk tolerance. However, they believe that the private

banks are weak on knowledge of their reporting preferences. This is surprising as client reporting is one of the key areas upon which the private bank can differentiate the client experience. They also stated that there are significant gaps in other key areas such as knowledge of their extended family and business issues and non liquid asset needs. This supports the requirement for private banks to pay more attention to a holistic approach to better understand the totality of their clients' situation to identify wider opportunities to grow revenue.

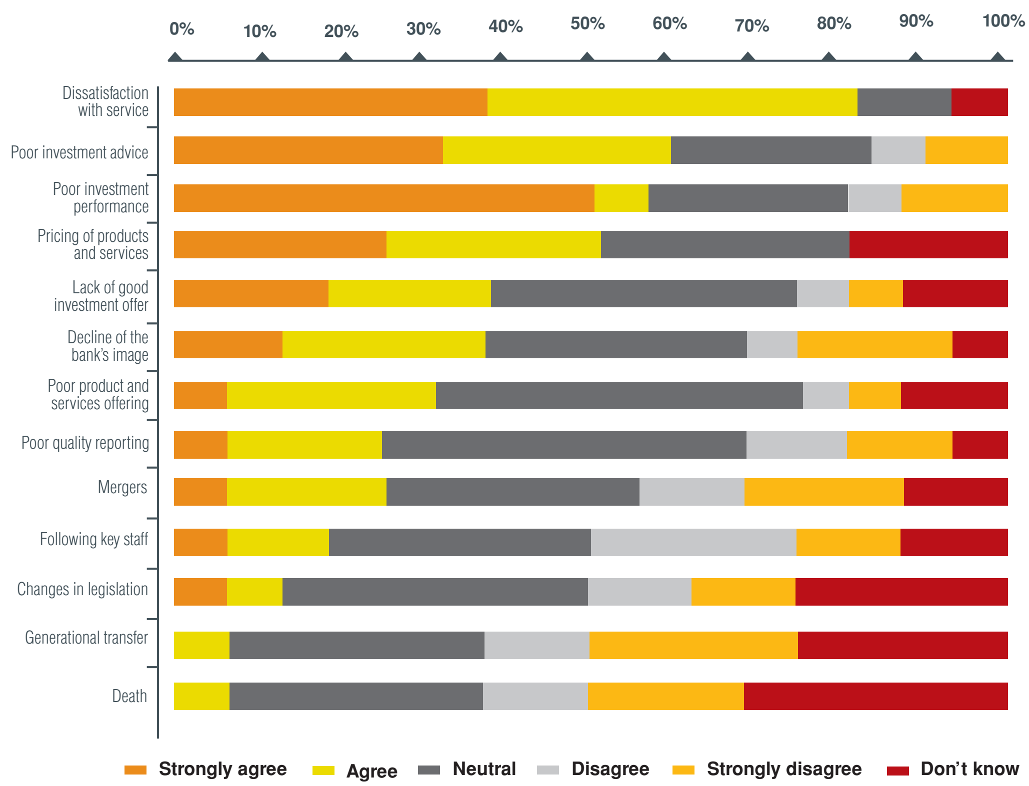
How do you assess the level of knowledge of your relationship manager?



Client departure and loyalty

Clients were asked if they changed their private banking provider, what were the reasons to do so. They told us they leave when they are dissatisfied with service, obtain poor investment performance, receive poor investment advice, or are dissatisfied with the pricing of product and services. Decline of the bank's image is also cited. This highlights the increasing recent importance of avoiding negative publicity and creating a strong brand image.

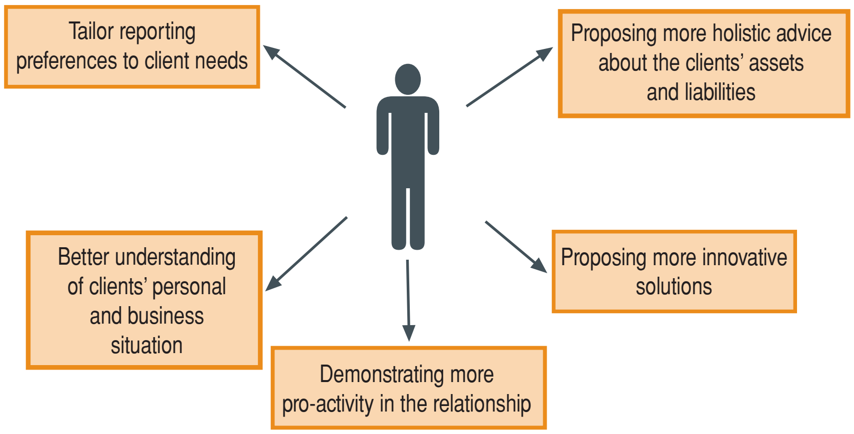
What are the reasons that led you to change provider?



It is also interesting to note that clients who were switching providers did not see the departure of the Client Relationship Officer (CRO) as such an important criteria for them to make a move. This is in contrast to past surveys and indicates that clients now perceive themselves to be more clients of the bank rather than clients of the CRO.

We also asked clients what were the main areas in which their private bank could improve. They said that more pro-activity and better tailoring to their needs would be valued. We have summarised below some high level client findings around distinctive “moments of truth”.

Distinctive «moment of truth» which banks need to focus on to improve their relationship with clients



6.

The private banks' view of the client

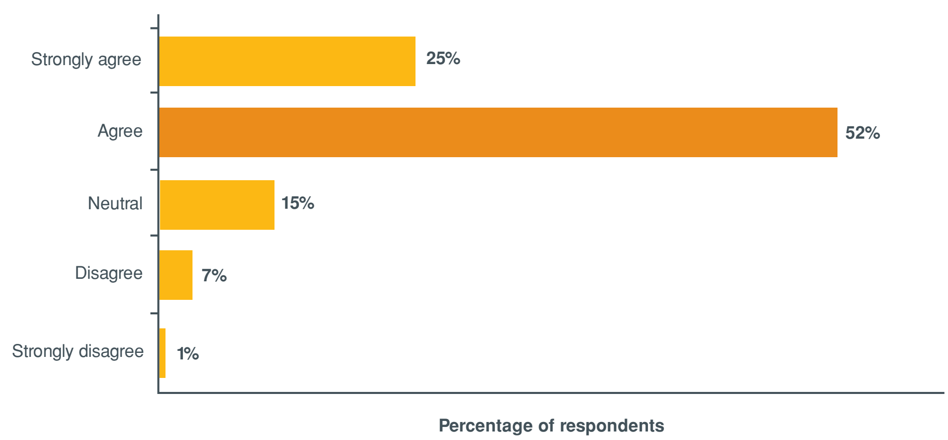
"We all have to invest in our staff and keep a clear focus on the clients demands. To compete with online brokers and direct banks will be very difficult for most private banks, as the cost base is not in favour of the more traditional model. Therefore the service quality must be of a very high level; otherwise, especially younger private banking clients, are not prepared to pay the fees requested by our industry." ***(A. Simonet, Dresdner Private Banking International)***

The voice of the clients' analysis has demonstrated that most clients have more than one provider and private banks are increasingly being compared on a range of dimensions. Clients have also identified a set of unmet needs. They are seeking better pro-activity, they are less tolerant of poor service and performance and more willing to switch. We asked private banks the same questions as we did for clients in order to be able to compare and contrast. Below are the views from the providers' angle.

Segmentation and profitability

Given the more competitive environment, banks need to focus on those clients groups where they have advantages and skills to service. Segmenting clients on investment risk behaviours and goals is now becoming more standard practice.

Segmenting clients on investment risk behaviour and goals is becoming standard practice

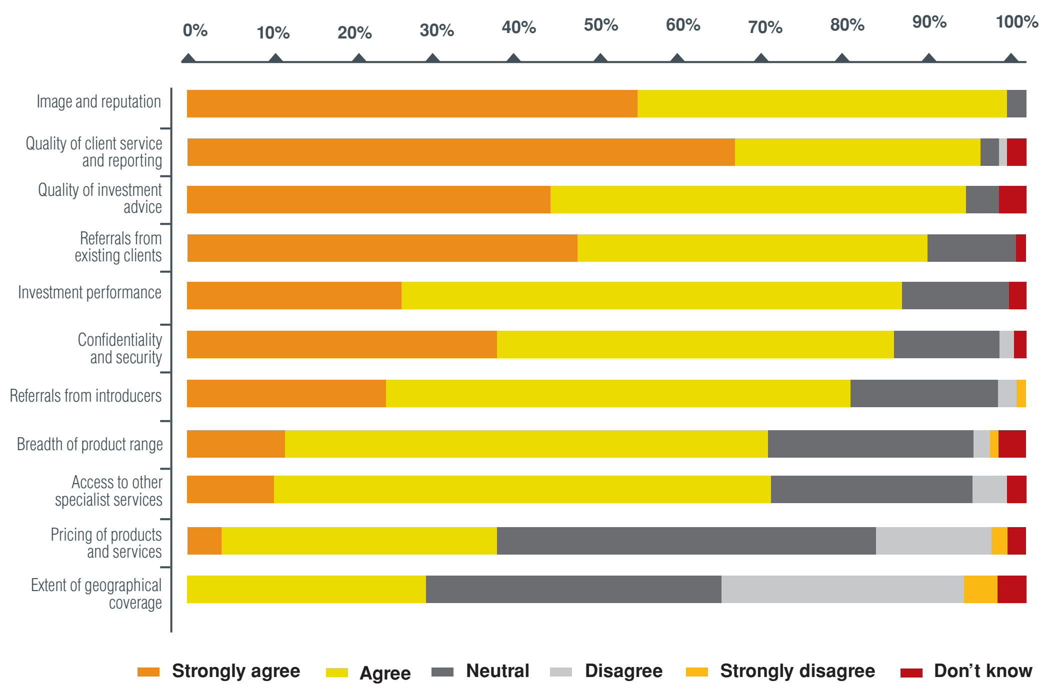


Most private banks believe that they now need to move beyond traditional segmentation to provide broader holistic advice across a range of client needs. This has to be considered in the context of the profitability of the different segments. In this respect, the majority of respondents agreed that the € 1 to 5 million segment delivers the highest net profit. With regards to other segments such as the ultra high net worth segment (€ 10 million and above), just over half of the participants believe this segment does not deliver the highest net profit. This may question the increasing number of banks targeting the € 10 million and above segment and whether the profit dynamics are attractive and sustainable in the short run.

Client selection criteria

Private banks need to develop a clear understanding of why clients choose them and position themselves accordingly. Respondents believe that clients select essentially on the basis of image and reputation. What is interesting is that quality of client service and reporting as well as the quality of investment advice have risen in the rankings compared to the last survey. This reflects the increasing belief by private banks of the value now placed by clients on quality of service, good reporting and advice. Banks who fail to address these issues will risk losing their competitive edge in a more dynamic environment.

What criteria do clients use to select a private bank?



What criteria do clients use to select a private bank? (2003/2005 comparison):

2003	Rank	2005
Image and reputation	**1**	Image and reputation
Referrals from existing clients	**2**	Quality of client service and reporting
Confidentiality and security	**3**	Quality of investment advice
Quality of investment advice	**4**	Referrals from existing clients
Quality of client service and reporting	**5**	Investment performance
Investment performance	**6**	Confidentiality and security

Client acquisition and sourcing

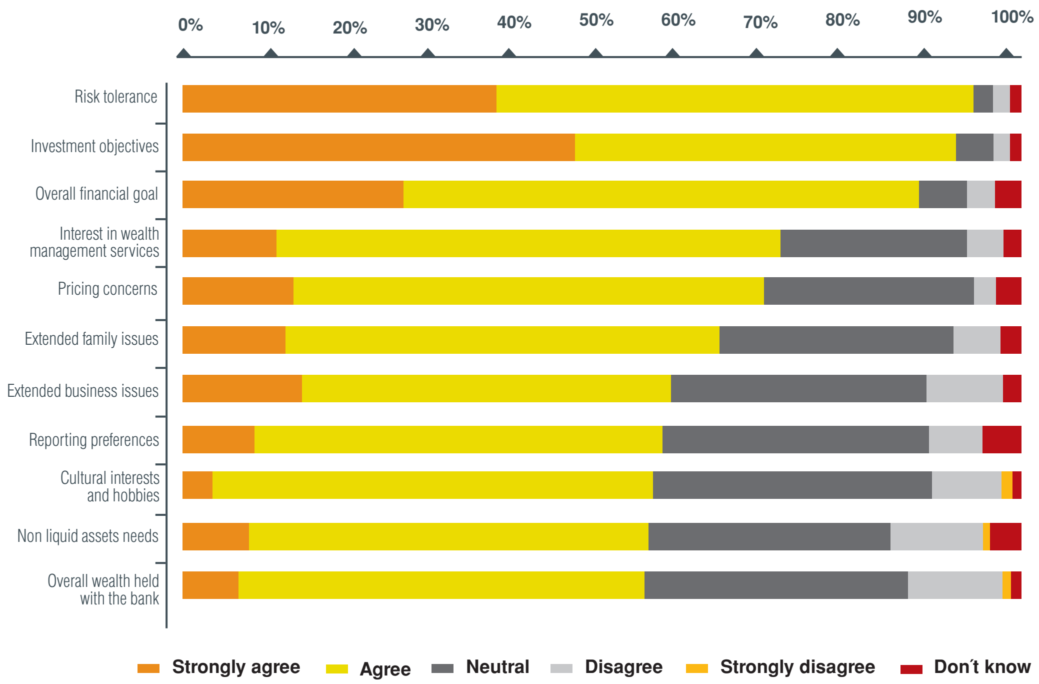
In contrast to previous surveys, 75% of participants indicated that the leading source of new business is through client referrals. This has increased in importance due to the issue of clients raising the bar on trust. The second major source is through the parent organisation. This means that the large players are more advantaged in being able to benefit from revenue growth opportunities through mining the parent's larger captive client base. Almost 90% of respondents claimed that private banks that can efficiently leverage their client base within their broader organisation can grow faster.

For larger players, cost of acquisition and the conversion ratio from prospect to actual client status is also reduced. This implies that organisations without scale or a large parent organisation to leverage will need to work harder at managing the cost and effectiveness of lead generation and in developing alternative routes to newer markets. It is also worth noting that client relationship officers defection is taking less of a toll on the private banking industry as private banks' attempts to brand the customer experience are improving.

Client knowledge and retention

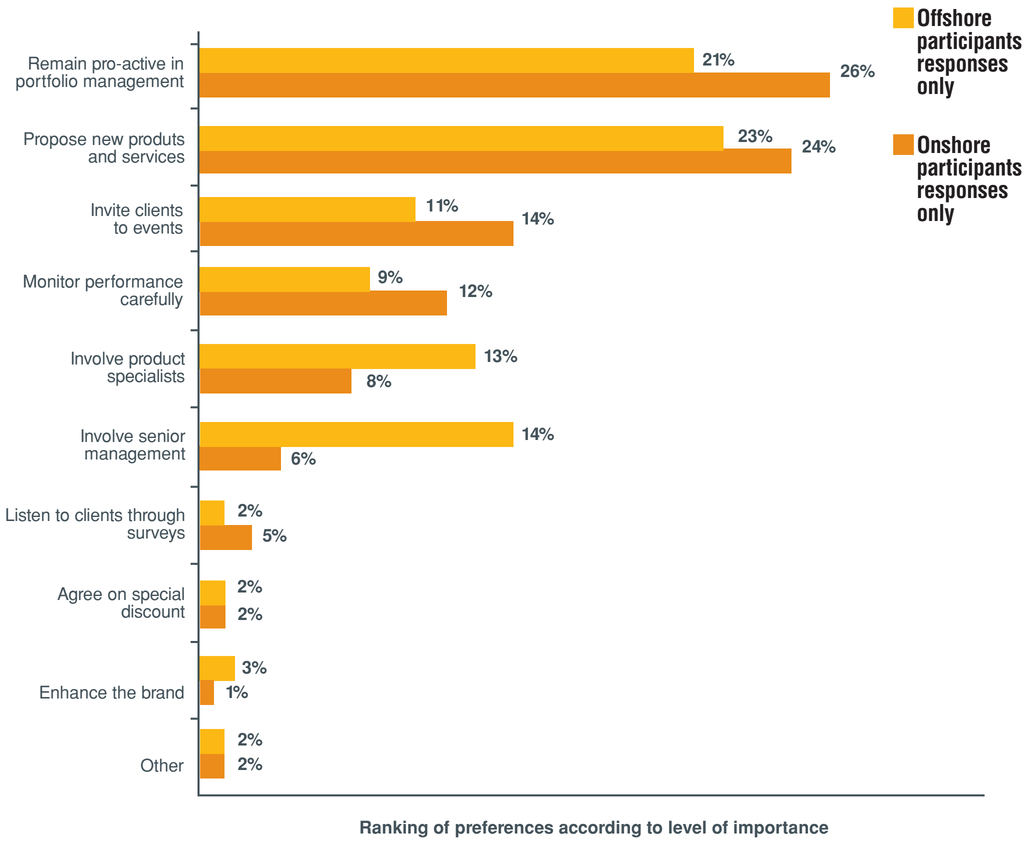
One recognised key to success is the ability to know the clients better and understand their requirements in more detail. Most participants claim that they have a very good knowledge of their clients' risk tolerance, investment objectives and overall financial goals. They also feel that they have a good knowledge of factors such as the overall financial goals but are less confident on clients interest in wealth management services, pricing concerns, extended business issues and reporting preferences. Compared to the last survey, there has been improvement in these aspects but a large percentage of respondents (77%) now believe that providing broader holistic advice across a range of client needs is becoming more of a differentiator. They acknowledge that significant efforts and investments need to be directed to succeed in this area and particularly in being able to easily have information about the clients overall wealth held with the bank.

How do you assess your level of knowledge regarding your clients?



When asked what elements do you focus on to retain your clients, onshore and offshore participants exhibited divergent levels of focus. Offshore participants tend to be more reactive in the management of portfolios and in proposing new products and services than their onshore counterparts.

What elements do you focus on to retain your clients?

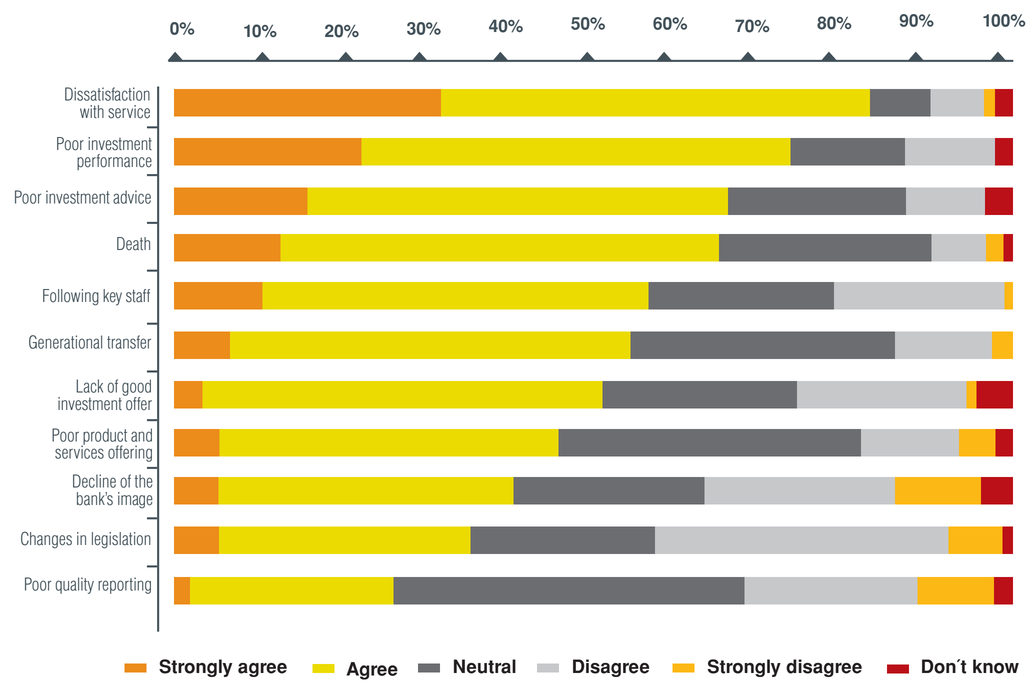


Client departure

Given the changed market conditions and greater level of competition, one of the success factors will be the ability to understand why clients leave and identify measures to reduce this occurrence. Inability to succeed will impact the overall profitability as cost of acquisition for some players will become much higher.

Respondents indicated the top three reasons to leave were dissatisfaction with service, poor investment performance and poor investment advice. Participants are taking steps to address all these issues by improving the performance of their in-house products and services or leveraging better performance from third party providers. They are also introducing sophisticated tools which provide a more structured and systematic investment process. These are often technology enabled. Dissatisfaction with service has risen rapidly in the rankings compared to previous years. This is clearly the area where most private banks need to focus their attention.

Why do clients leave?



Reconciling the clients' views with the private banks' views

Building on what both clients and private banks told us, we have set out below a comparison of their views around four key themes.

Models most likely to succeed (clients' versus banks' view)

Both clients and private banks agree that the two models most likely to succeed are private banks with their own brand followed by private banking divisions of universal banks. Independent private banks were ranked third by both groups. This confirms that the independent private banks have more of a challenge on their hands to grow clients as they have neither the scale nor the resources of the larger groups. It may also reflect that clients perceive that the private banking offers from the larger players have improved significantly and with recent trust issues, they prefer to rely on larger organisations.

Client acquisition (clients' versus banks' view)

In selecting a private bank, both clients and private banks agree that quality of client service and reporting as well as quality of investment advice rank in the top three criteria. The other major difference is that banks regard image and reputation as being the first criteria whereas clients rank it fourth, behind quality of client service and reporting, confidentiality and security and quality of investment advice.

What criteria do clients use to select a private bank?
Clients' versus banks' view

Clients' opinion	Rank	Banks' opinion
Quality of client service and reporting	1	Image and reputation
Confidentiality and security	2	Quality of client service and reporting
Quality of investment advice	3	Quality of investment advice
Image and reputation	4	Referrals from existing clients
Referrals from existing clients	5	Investment performance
Investment performance	6	Confidentiality and security

Client knowledge (clients' versus banks' view)

Both clients and private banks are almost perfectly aligned when it comes to the level of knowledge. Investment objectives, risk tolerance and overall financial goals were the top three criteria identified by both. One key difference was that banks were much more confident about their knowledge of clients than the clients believe they actually are. In addition, clients were more sensitive to pricing concerns than their providers. Both are in agreement that the private banks are weak on knowledge of extended family issues and reporting preferences.

Client departure (clients' versus banks' view)

Both clients and banks agree the reasons that lead clients to leave are dissatisfaction with service, poor investment advice and poor investment performance. Beyond this, there is less agreement with clients citing pricing, a lack of good investment offer and the decline of the bank's image where the banks cite death, following key staff and generational transfer, as the next most important criteria.

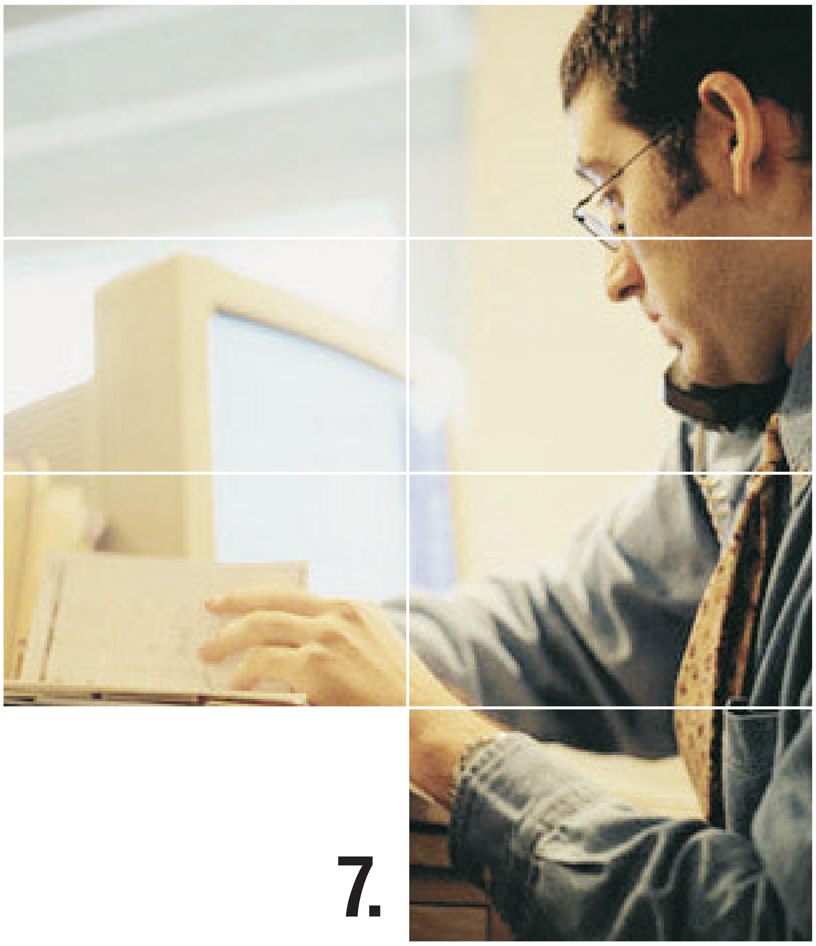
Why do clients leave?
Clients' versus banks' view

Clients' opinion	Rank	Banks' opinion
Dissatisfaction with service	1	Dissatisfaction with service
Poor investment advice	2	Poor investment performance
Poor investment performance	3	Poor investment advice
Pricing of products and services	4	Death
Lack of good investment offer	5	Following key staff
Decline of the bank's image	6	Generational transfer

Conclusion (clients' versus banks' view)

The voice of the clients' analysis has demonstrated that most clients have more than one provider and are therefore increasingly able to compare private banks on a range of dimensions. Clients have also identified a set of unmet needs. They are seeking better pro-activity, are less tolerant of poor service, reporting and performance and more willing to switch.

All of these issues imply that private banks need to work much harder in re-orienting their overall offer and propositions to the clients. Ideally, they should be shifting towards more needs based, holistic services and ensuring high retention of the most profitable client groups they target. Equally, when seeking new clients, they should be more aggressive in managing the acquisition process and associated costs. This would result in more sustainable growth and business value if addressed properly.



7.

Client relationship officers

"Client relationship hiring and development is another challenge that we face. The recruiting and development of good advisors takes time. We need to make sure that when we bring new client relationship advisors on board, they blend in with our culture. We need to train them in the same fashion that we built up the technical, managerial and interpersonal skills of our existing staff. Finally, we need to make sure that we give our people a solid career perspective so that we can retain our talent." ***(J. Marin, Banif Banca Privada)***

As highlighted in the previous sections, clients are seeking a combination of holistic advice and improved client experience. This has enhanced the pressure on the traditional client relationship officer role and the interface with clients.

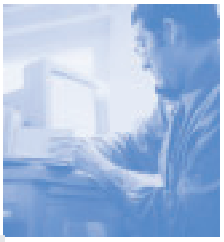
Respondents acknowledged that it has become increasingly difficult to hire high quality relationship managers. Participants recognised that the hiring, training, coaching and retention of high calibre client relationship officers will be increasingly key and a differentiator in the future to achieve superior client experience, growth and profitability.

In this environment, it is therefore understandable that they are upgrading their hiring processes (best employer concept) and also placing significantly more effort in developing and training their existing client relationship officers and teams.

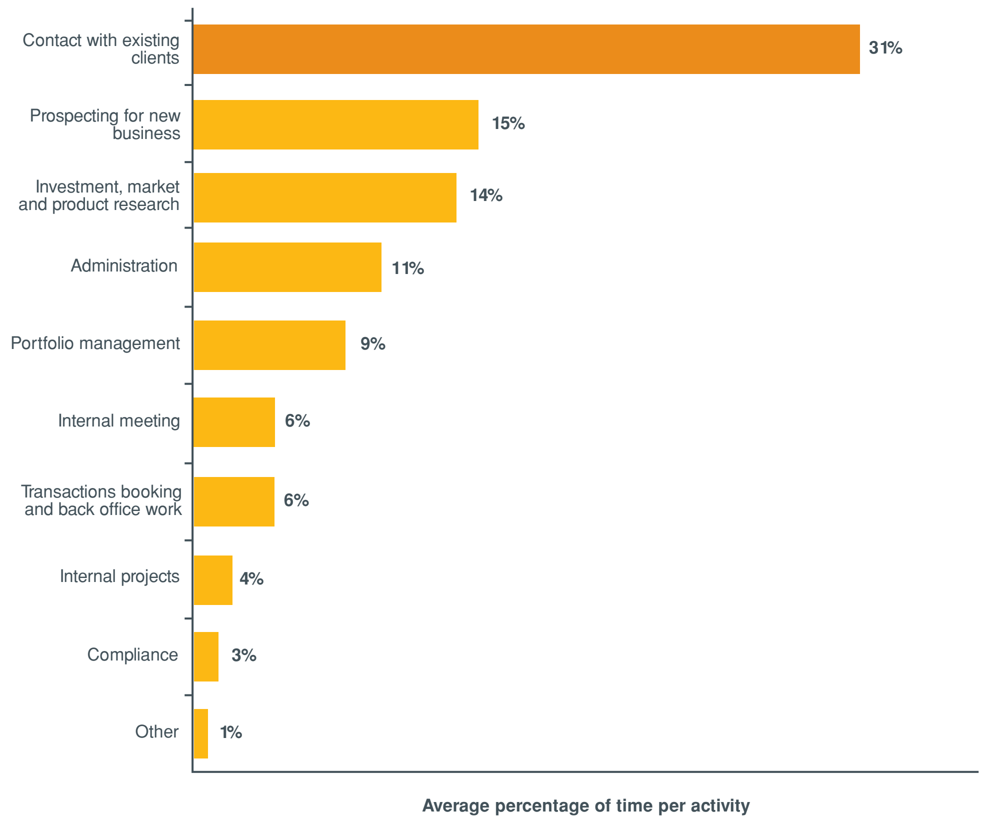
Time allocation

Participants were asked how their client relationship officers currently spend their time. We might expect to see client relationship officers spending the majority of their time on client facing activities to acquire, nurture and retain client relationships. We remain surprised to note that less than half their time is spent on contacts with existing clients and prospecting for new business. This is puzzling in light of the issues identified by respondents around more conservative clients, more challenges in generating revenue, the issue of rebuilding trust and also pressure on clients' loyalty.

There are also some significant differences in time allocation by the individual participants suggesting that some private banks are spending more time with clients than others. We have shown below the aggregated information for the German domestic market.

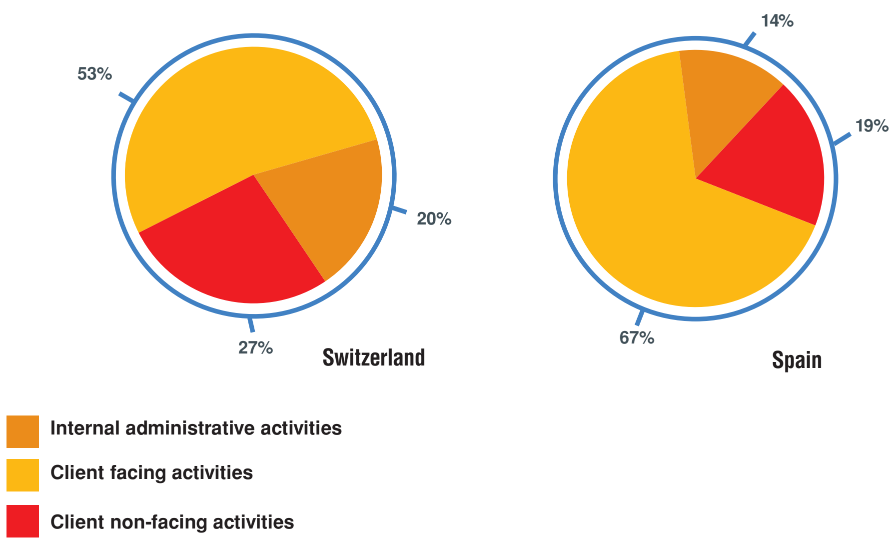


How do client relationship officers spend their time? German responses only



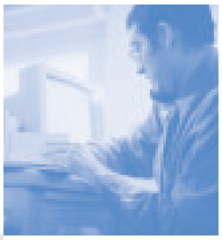
We have shown in the next chart the data for Switzerland and Spain which highlights that there were also significant differences between the onshore and offshore participants with respect to time allocation. This is to be expected based on the increased compliance burden levied upon the offshore participants by the regulatory bodies. Cost of acquisition has also increased as some offshore banks need to source more new assets outside the EU and are travelling longer distances, all of which is time consuming.

Time allocation of client relationship officers. Percentage comparison between Switzerland and Spain

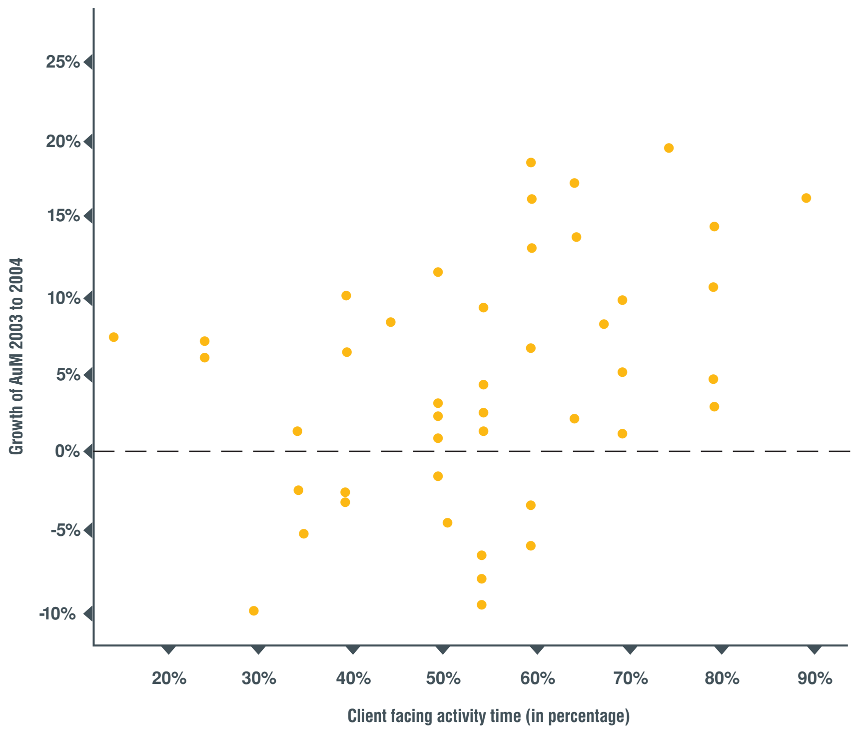


Sales effectiveness

We also asked participants for their asset growth rates to see if there was a trend between those players whose client relationship officers were spending a higher proportion of client facing time and, their achievement of a higher level of growth in assets. The results provides some interesting insights. Firstly, as might be expected, there is a correlation between time spent on client facing activities and growth of assets. Secondly, and more importantly, there is a wide spread among the individual participants in terms of their sales effectiveness.What is surprising from participants' feedback is that many private banks are struggling, achieving negative or low growth in terms of assets under management. This suggests that opportunities to improve exist for some participants.



Growth rate of AuM compared to client facing activity time



Participants acknowledged that efforts need to be undertaken to increase both efficiency and effectiveness in the selling process. A significant number of them agree that client relationship officers need more core selling and marketing skills. Nearly all respondents state that coaching of client relationship managers has now become a more critical issue as well.

Client relationship enabling tools

The majority of respondents stated that client relationship management enabling tools and technology have now become a source of substantial competitive advantage. Currently, 73% of participants have a Client Relationship Management (CRM) system of some kind in place. A further 25% are planning to implement one within the next two years. Of those respondents that currently have a CRM system, 45% have developed it internally whereas 24% have purchased it from an external provider. The remainder are using a mix of the two options. Front office tools are not limited to CRM or portfolio management systems only. They can also play a valuable role in meeting regulatory and compliance obligations. In this respect, 70% now have a system specifically dedicated to anti-money laundering.

One of the biggest challenges for the offshore private banks is the difficulty to gather, record and leverage advanced personal information on clients, as CROs, or in some instances senior leadership, are reluctant to make that data available to their front office staff for confidentiality or security purposes. In both the on and offshore markets, there is also a change management issue of the client relationship officers wanting to keep data to themselves, believing that clients are clients of the advisors rather than clients of the bank. However, in an environment where growth becomes more difficult, it will be paramount to address these issues and leverage client information to achieve the required performance levels and enrich the overall client experience. Those who fail to do so will face both client retention and development issues.

Client relationship officers performance management

We asked respondents which factors they take into consideration to measure the performance of their relationship managers. The prevailing factor is now net new asset growth highlighting again the industry's preoccupation with achieving growth. It is followed by revenue targets, number of new clients and profitability targets. It is also interesting to observe that client satisfaction is not listed as a main driver of performance measurement despite both the client and private banks' concerns that not enough emphasis is currently being placed in this area.

8.

Products and services

"In terms of products, we have systematically enriched our competence in banking, credit, asset management and add-on products such as hedge funds, tax and trust and fiduciary services. This has increased our ability to offer inter-generational wealth management, protection and transfer expertise." ***(C.C.R. Bannister, HSBC Group Private Banking)***

The increasing commoditisation of the traditional asset classes and products is leading to greater margin pressure and difficulties of differentiating among product lines. Our respondents are currently focusing on the redefinition of their product and services offering to tackle this challenge.

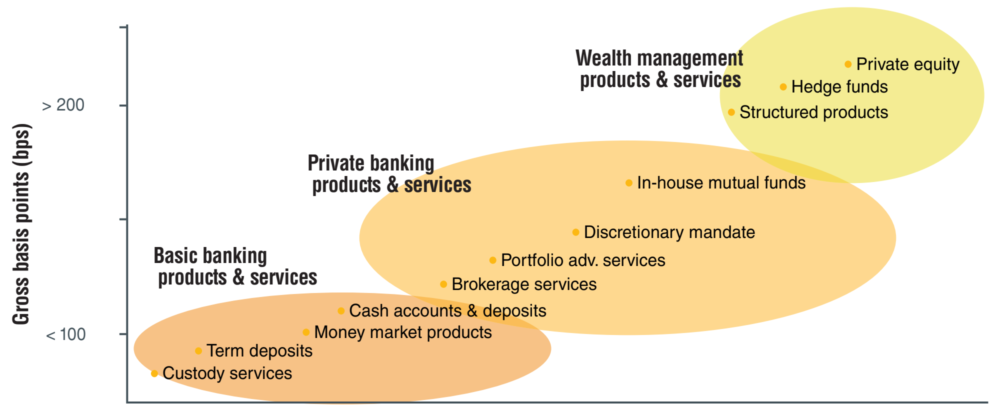
Respondents indicated that it is increasingly important to provide clients with innovative and high performing products within a broader advice framework in order to better tailor solutions to client needs.

Product mix and profitability

To illustrate the pace and extent of product innovation and commoditisation, we have grouped the various products and services into three categories. The first one encompasses traditional banking product and services such as cash and deposits, money market and custody services. The second category covers the traditional private banking products and services such as discretionary portfolio management, brokerage and mutual funds. The last one groups broader wealth management products and services which range from traditional trust and foundations to structured products, hedge funds, private equity and family offices to name but a few.

There is a direct correlation between these product and service groups and profitability. We have shown below an illustration of the profitability of these groupings by using a sample of products.

Product mix and profitability



Product range and sourcing

In the current market environment where clients are seeking more broader advice around their assets and liabilities situation, it is becoming more important for private banks to demonstrate that they can offer the wider palette requested by their clients. It is also essential that they manage the lifecycle in terms of optimising the product mix between commodity and value added products. In terms of the wider palette, it is quite surprising that a significant percentage of respondents are not offering the full range of wealth management products and services as shown below.

Products offered in-house (percentage of participants)

Basic banking products and services		Private banking products and services		Wealth management products and services	
Cash accounts & deposits	93	In-house mutual funds	92	Corporate finance	66
Term deposits	93	Brokerage services	90	Retirement planning	65
Portfolio valuation reporting	93	Investment research	84	Account aggregation	52
Lending products	90	Insurance products	81	Real estate planning	49
Foreign exchange	90	Real estate investments	67	Family office	47
Payment services	90	Securities lending	55	Trade finance	33

The skills required to provide the value added products and services should not be underestimated. They tend to favour those organisations with an established product innovation capability and typically those who have links to investment banks. This allows them to leverage the skills of managing multiple product lifecycles and the ability to manufacture products which can benefit from the highs and lows of the capital markets. It also allows them to manage a short time to market capability, and as a result helps them achieve first mover margin and growth advantages.

Those players who do not have the capability to manufacture such products are able to insource them from external product providers. The rapid development of a large number of product specialists now enables all private banks (but particularly the small and medium size ones) to fill these gaps by outsourcing the manufacturing of a selected number of products and services. The chart below illustrates the extent of product outsourcing and indicates that the outsourcing is mostly taking place in the high value added space. We should not overlook that sourcing of third party products is reducing the overall product margin. This is the price to pay to ensure client satisfaction and the maintenance of a long term successful relationship.

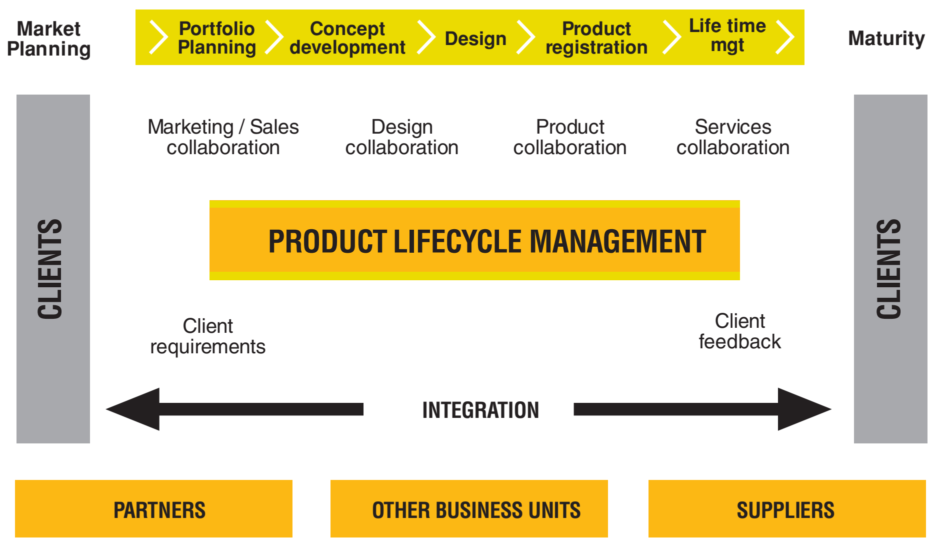
Products and services offered through third parties (percentage of participants)

Basic banking products and services		Private banking products and services		Wealth management products and services	
Custody services	11	Insurance products	33	Hedge funds	33
Money market	7	Third party mutual funds	27	Private equity	33
Term deposits	3	Real estate investments	22	Structured products	19
Portfolio valuation reporting	3	Investment research	19	Trust and foundation	19
Lending products	2	Brokerage services	12	Derivatives	14
Foreign exchange	2	Securities lending	3	Tax and estate planning	14

Product lifecycle management

Private banks are now placing greater emphasis on product lifecycle managment (PLM). Understanding, anticipating and managing the dynamics of innovation and commoditisation will become more essential to increasing value and mitigating risk. This set of capabilities enables private banks to effectively and efficiently innovate and manage their products and services throughout the entire lifecycle in a more systematic way.

Product lifecycle management

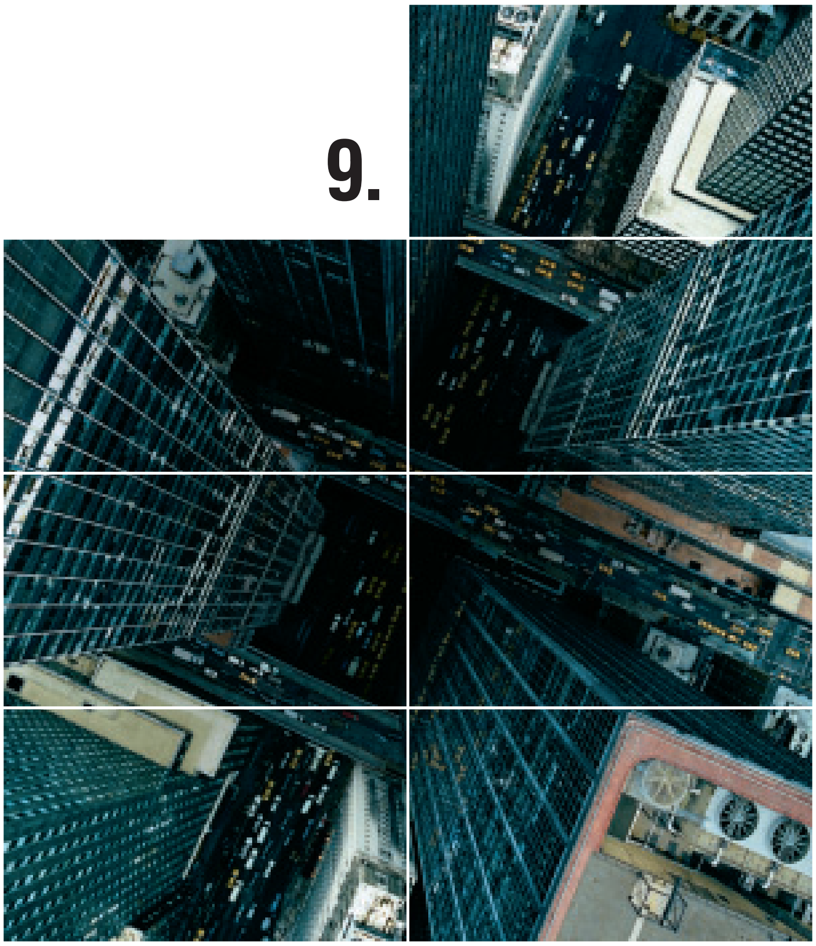


Typically four capabilities are critical for effective product lifecycle management:

1. Market planning to get the right products for the right client segments through a disciplined approach of analysing market trends.
2. Product portfolio management to target the right investments for product innovation and development based on return on investment, strategic direction, risk and compliance.
3. Platform management to have the right ability to deliver more products and to better leverage product development expenditures. This requires an understanding of the product architecture and the common building blocks to determine a level of standardisation and modularisation and development plans for product families. This leads to a reduction of product development costs, risks and time to market.
4. Lifetime management to manage a product from its inception through to maturity using a defined sequence of management interventions and check points.

Several advantages are provided to private banks who adopt a more structured approach to product lifecycle management. These include a common understanding across the organisation about the requirements for products and a broader understanding of product innovation and management. In parallel, it enables a better ability to deal with regulatory and compliance changes and more defined interfaces with third party providers.

9.



Operating models and systems

"We have gradually streamlined our businesses and as a result we currently have three models in place. In our home markets, we leverage the existing retail infrastructure as far as possible to realise economies of scale. In the front office, we have implemented the same dedicated private banking portfolio and CRM platform, optimally tailored to the specific needs of private banking clients. In the offshore markets, we use the same portfolio and CRM system and, in addition, have standardised our core banking systems and centralised some components and functions in our two major operating centres. Then we still have operations which have not yet been migrated to one of these models and for which we are reviewing our options." ***(P. Damas, ING Group Private Banking)***

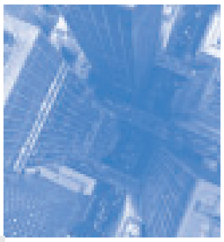
As in previous surveys, operating models are defined as broadly encompassing the front, middle and back-offices processes, together with the management and controlling infrastructure. Given both pressure to grow revenue and optimise costs, private banks continue to face the challenge of how to design and implement the most effective operating model. It needs to balance business and financial objectives with the clients' requirements. Increasingly, it must also be flexible and robust enough to respond to the industry challenges such as constant new product development, the need to address regulatory requirements and penetration of new markets.
The traditional model has been vertically integrated in terms of three broad areas, client relationship, product and services, back office and execution. Each of these areas has been experiencing different pressures.

Client relationship

Respondents have acknowledged the greater challenge of revenue growth due to more conservative client behaviour and their increased willingness to switch if they get poor service. The need to provide broader advice and better reporting has also been identified. Furthermore, the regulatory burden is also increasing significantly as private banks have to comply with more stringent regulation such as KYC (know your clients), anti money laundering and the planned European Savings Directive. All of these factors, together with the emergence of greater competition (including new entrants) are increasing the pressure on front office delivery. As a result, client relationship enabling tools and technologies have been identified by participants as providing substantial opportunities for improvement and advantage as described in the "client relationship officers" section.

Products and services

Participants have also identified the need to focus on the redefinition of their products and services offering to fend off commoditisation and maintain and develop additional sources of revenue from newer and more sophisticated products such as hedge funds and private equity. Providing an open product platform was also identified as a more important differentiator. All of these factors are driving increased complexity in the provision of products and services as well as a greater need to manage the product lifecycle.



Back office and execution

Respondents have identified that having an efficient and flexible operations and system platform is becoming a more important success capability. Outsourcing of infrastructure and non core processes was identified as becoming more acceptable as the industry is struggling to deal with increased complexity. As private banks continue to expand geographically, the necessity to integrate multiple back office entities becomes an additional challenge. This has typically led to system fragmentation as IT, back office and administration tools are not always able to cope with the local requirements. An additional issue is that consolidation in the private banking industry leads to additional hurdles of combining two or more legacy systems.

All of these issues have compounded the traditional difficulties experienced with private banks' operating models which have been typically high cost, lacking in flexibility and slow to respond in a timely manner to the changing client, regulatory and industry demands.

Focus the operating model on differentiation

Most private banks today recognise the need to better optimise their operating models. Unfortunately, many banks are trying to drive incremental improvements in too many areas of the operational platform and are getting mired in complexity and resource constraints. For many, activities initially viewed as sources of competitive advantage have turned out to be cost intensive commodities.

To break this pattern requires a focus on what truly differentiates the private bank in the market place and the capability to change the operating model in a systematic way. The starting point for determining differentiation is to understand where most value is created in the private bank and where the commodity undifferentiated areas are.

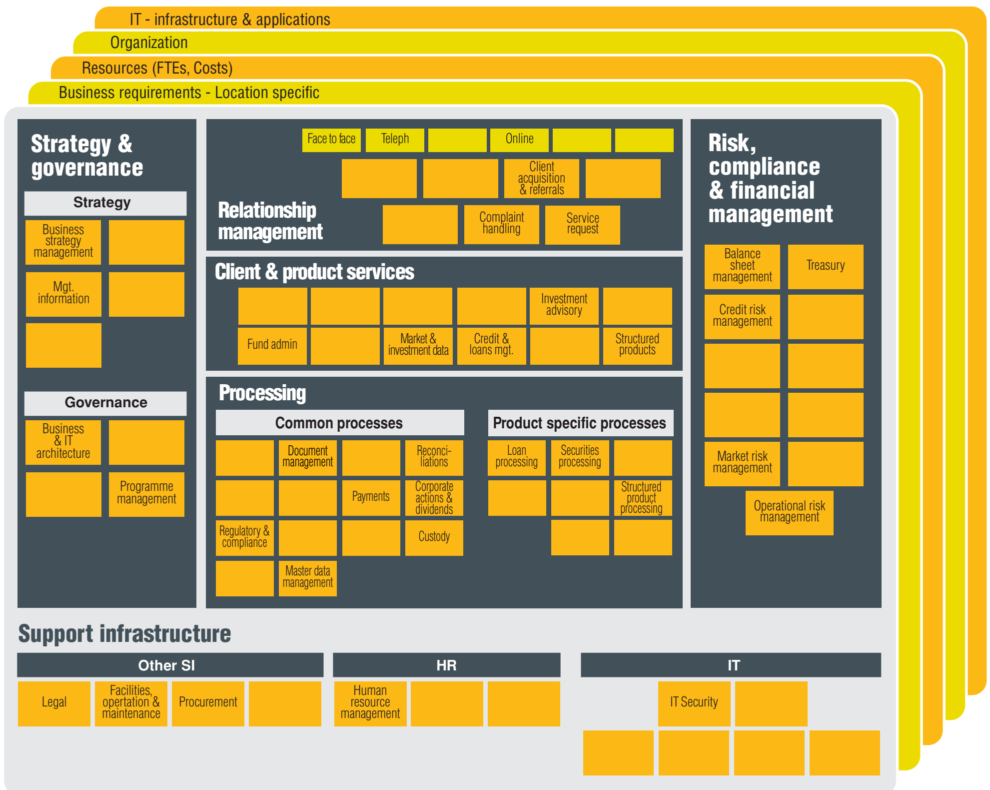
For example, many private banks try to run high cost and labour intensive operations like trading desks and private equity funds, believing that they provide competitive differentiation. Unfortunately, these strategies drain resources while often failing to develop a compelling alternative to best in class offering from the increasing number of dedicated specialist providers who now serve the industry.

Benefits of a component based approach

Our work with clients has demonstrated that successful industry participants are now looking more systematically at each component of their organisation as shown below. Their objective is to determine whether these activities are generating value, are core versus non core, are standard or non standard, can be centralised within the parent or an outside provider or need to remain local for regulatory or firm specific reasons.

Private banks can then seek to redefine their operating model based on those components which can differentiate, drive growth and efficiency in order to create significant gains in business value and client experience.

Private banks are now looking more systematically at each component of their organisation



Towards innovative operating models

As the required business and technology enablers mature, private banks are realising the economic advantages by disassembling their traditional vertically integrated models and seeking to build more partnership and network oriented models. To assess the progress towards partnering within the industry, we asked respondents whether their banks shared operations with other divisions of their parent organisation.

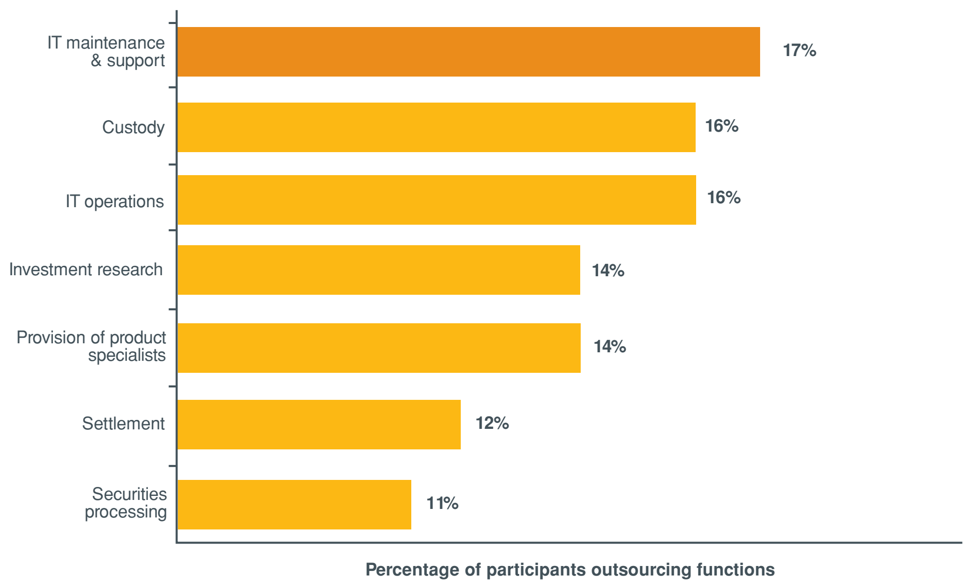
77% of participants indicated that they were sharing. When asked if the bank was outsourcing some activities to an external partner, 67% said they were. We asked participants if they planned to outsource in the future and what their expected timeframe was. Almost half stated that they planned to outsource some activities within the next twelve months. Another 44% expected to outsource within a twelve to twenty four months timeframe. This, we believe, reflects the increasing maturity of both the internal and external supplier markets.

There are still a number of institutions however who do not share or outsource. We asked them why outsourcing was not considered as an option for their institution. They told us that confidentiality was the main factor holding them back followed by security and costs. Interestingly, reliability in the sense of no trusted partner found ranked last, again confirming the increased maturity of the supplier market. Increasingly, the private banks are realising that the days of being everything to every client and doing everything themselves in-house are fast disappearing.

Process outsourcing

We then asked participants which areas of their operations they currently outsource. We found that the seven most popular areas for outsourcing were IT maintenance and support, custody, IT operations, provision of specialised products, investment research, settlement and corporate actions. Interestingly, there are significant differences in the areas for outsourcing depending on whether they are outsourced to another division of the parent or to an external provider. Further details on this are provided in the benchmark pack.

Which functions do you currently outsource?



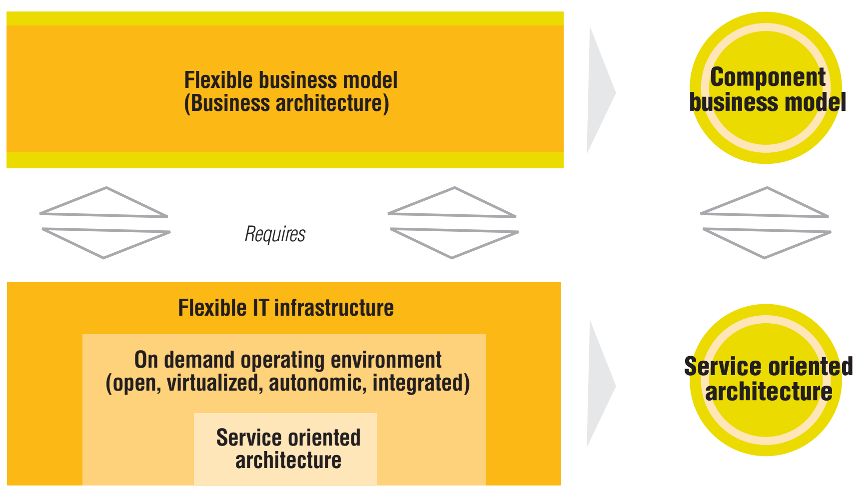
As participants move to share more internally with their parent organisation and/or third party providers, the intersection between business components and information technology becomes ever more important as achieving connectivity between partners requires more end to end integration between people (collaboration), processes (workflows), and information (data management) across the businesses and with partners in the extended network.

Trends towards Service Oriented Architecture (SOA)

Adopting a component based approach to the operating model also enables greater clarity around the technology architecture landscape (i.e. applications software, hardware, and infrastructure) needed to support the internal and external supplier processes.

In order to be able to focus on its core business and rely on partners for ancillary functions, a private bank will need to rely more on open standards for communication with outside parties. Service Oriented Architecture and web services standards in particular will play a more important role in the future. SOA enables private banks to share and integrate previously fragmented data and business processes. With SOA, customisation and inter operability are no longer at odds. This will result in more powerful and yet less costly solutions. Ultimately, over time, this supports the notion of evolution towards a more dynamic, agile private bank, which can constantly adapt and refine itself, reflecting the changes in its IT almost in real time.

Trend towards
service oriented architecture (SOA)

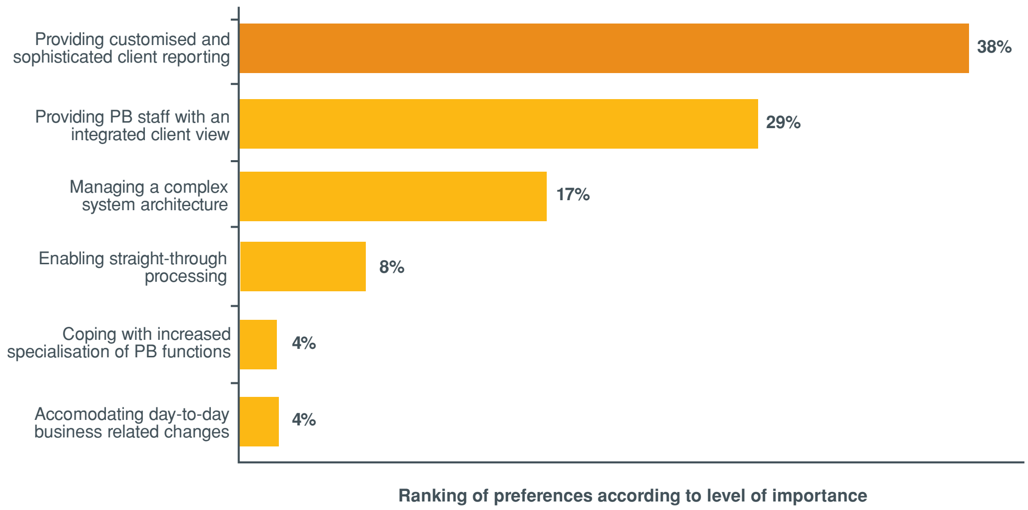


Technology challenges

We asked participants to provide additional details on their information technology environment and asked them to list the three main challenges they faced in this area. We have shown in the next chart the data for Benelux. Customised and sophisticated client reporting continued to be ranked as the main challenge. It is interesting to note that this attribute has topped the list for the last seven years in our survey. Also, as mentioned earlier in this report and despite their efforts, private banks have yet to meet the expectations of their clients in this important service attribute.

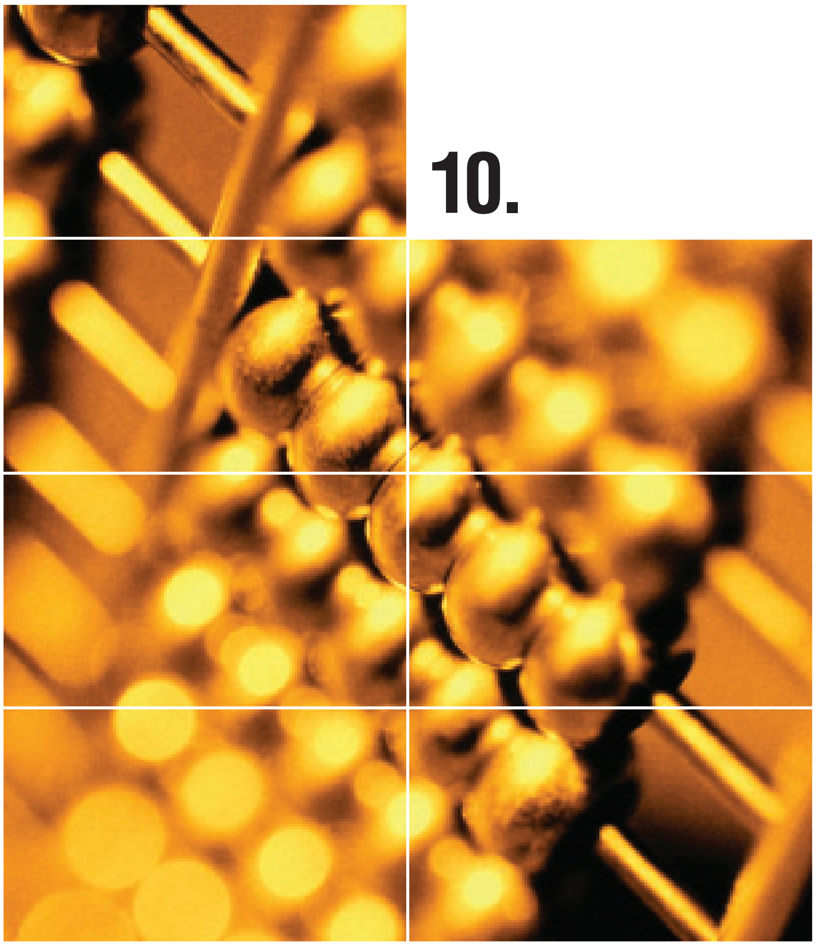
Client reporting was followed closely by another client related issue which was the provision of integrated client views to private banking staff underlying one more time the increased importance of client relationship management tools. Other major issues identified were the management of complex system architecture, the enabling of straight-through processing as well as coping with increased specialisation of private banking functions through dedicated software.

What are the three major challenges with Information Technology today?
Benelux responses only



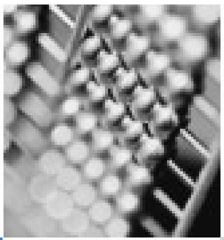
Investment orientation

To understand participants' IT investment trends, we asked them to what extent they had invested in upgrading their IT platforms in 2004. Almost half of the participants responded by indicating that they were undertaking focused investments in replacing part of the systems and architecture. A distant second were undertaking limited investment for upgrades and no replacement of architecture. Twenty percent were undertaking major investments across several parts of the systems and architecture while only a very limited number were undertaking a full revamp. This confirms that participants remained cautious about their IT investments from a cost and benefit standpoint. It also confirms that they are adopting a more focused component based and sequenced approach to their IT investments. Over the next two years, participants expect to experience similar trends.



10.

Profitability and growth



> *"Credit Suisse has always been at the forefront of innovation in the Private Banking industry. This has enabled us to stay ahead of many of our competitors in terms of revenue and profit. We have achieved this through our structured advisory processes and specially tailored services, as well as through innovative products that generate mutual benefits for our clients and the bank in terms of profit and performance. In addition, we have succeeded in improving efficiency throughout Credit Suisse."* ***(W. Berchtold, Credit Suisse)***

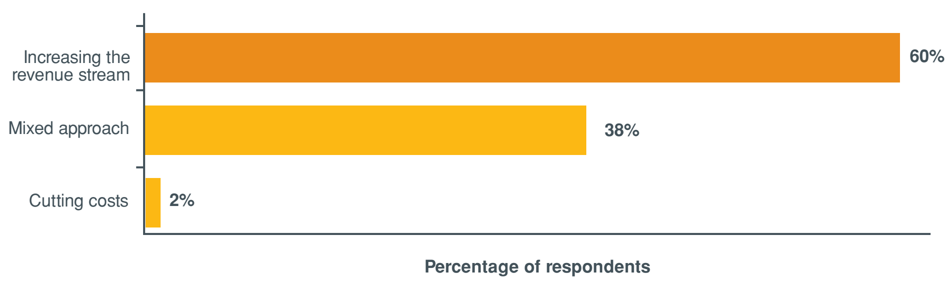
Details of profitability in the private banking industry are difficult to obtain in the public domain, as many private banks do not disclose this information. Our survey therefore asks respondents for details of their revenue and cost information. Many participants indicated that profitability and growth remain key challenges, particularly in today's more competitive markets.

The findings again show a divergence in results with significant differences among participants. Moving forward, we expect more pressure on the average and underperforming players. We set out to analyse, from respondents' feedback what makes one player in this market more profitable than others. In the course of our analysis, we found some widely held views regarding profitability challenged by the detailed financial data provided to us by the survey participants.

Industry moving from cost containment to revenue growth

We asked respondents what the emphasis of their efforts was regarding the overall financial management of their bank.

What efforts are you currently focusing on?

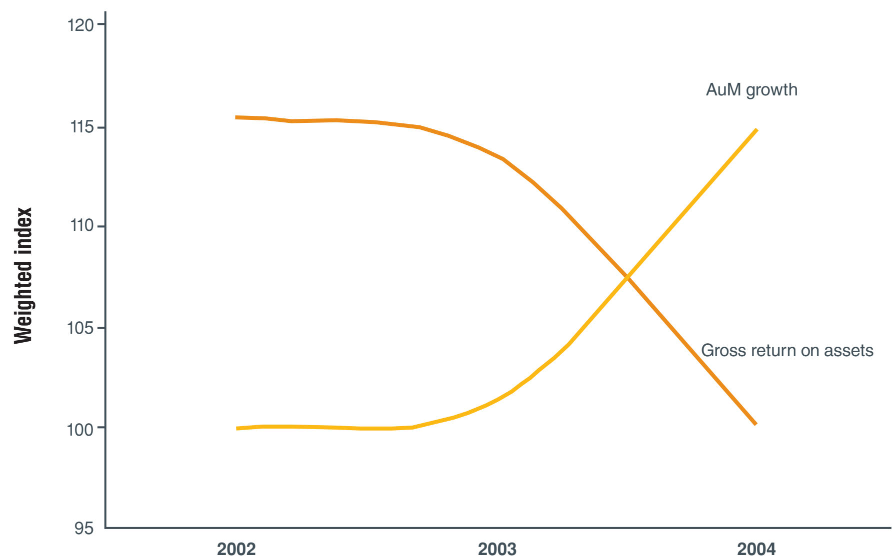


Not surprisingly and given the market recovery, 60% of respondents are now focused on increasing their revenue streams. The remainder are adopting a mixed approach, undertaking both revenue enhancing initiatives and cost reduction in parallel. This illustrates that the industry has now moved beyond pure cost reduction, which was a key characteristic of recent years, towards a greater focus on revenue generation.

Recent revenue growth and profitability

However, our respondents have also acknowledged that achieving growth in client assets is becoming harder. Over time, our database highlights that in aggregated form, the historical evolution of assets under management has shown an upward trend, but at a slower rate than in the past to what was achieved in the last financial market rally. Interestingly, participants' gross return on assets has been under pressure and has over time slowly declined, compounding the revenue pressure that the industry is facing.

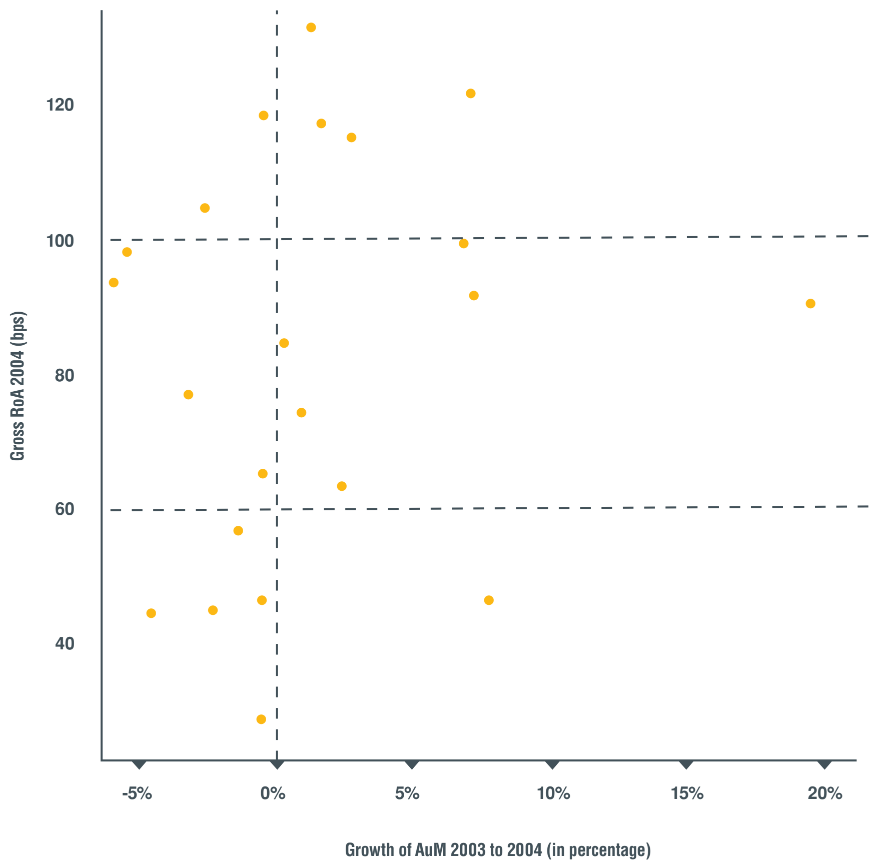
Profitability trends over time



Trends by individual participant

The survey data also shows that there are significant differences among players in terms of both overall client asset growth and in the quality of this growth expressed in gross basis points. We have shown below the data for offshore private banks.

Gross RoA compared to growth of AuM
Offshore respondents



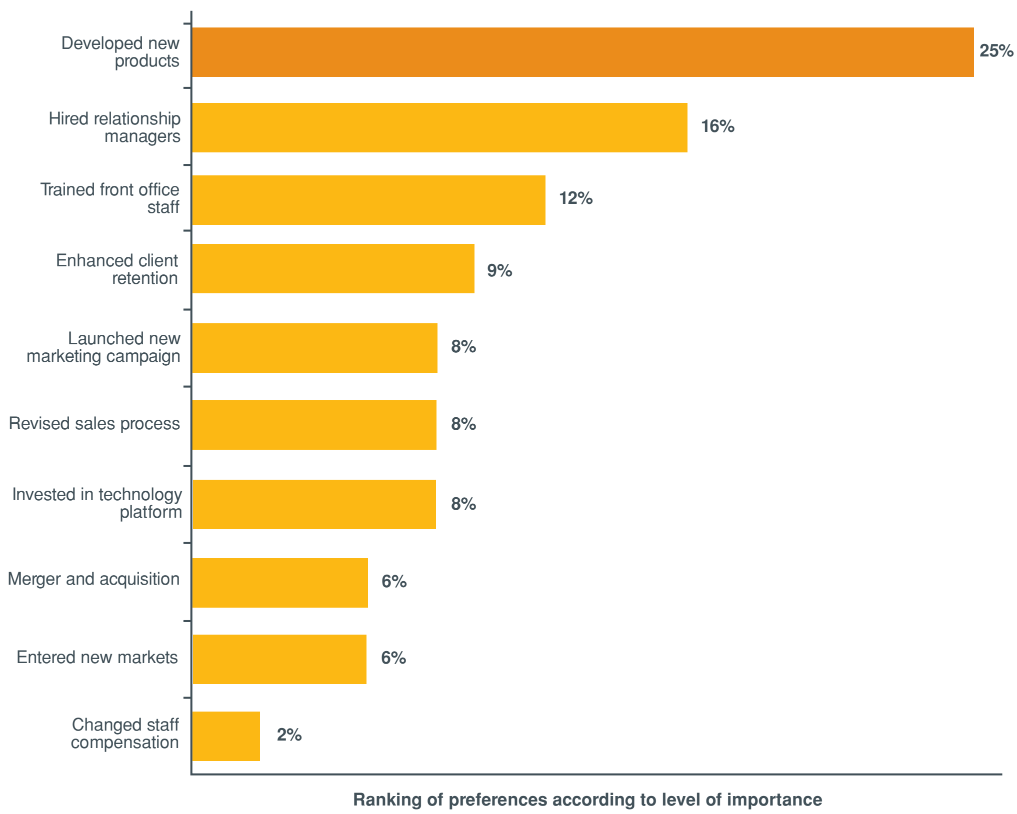
What is surprising is the significant number of participants on the offshore side who are achieving negative or low growth in terms of assets under management. This reflects the pressures identified by participants in the “market trends, geography and industry structure” section of this survey. Participants identified that they were working to address their revenue and cost issues.

Revenue actions

We asked our participants to give the three main strategic actions that they have taken in the last twelve months to increase the revenue streams. Interestingly, the overwhelming majority of respondents were focusing on developing a new offering in line with the trends on product maturity and requirement for innovation identified in the “products and services” section of this survey. This was followed by the traditional route of hiring client relationship managers and increased attention devoted to training of front office staff.

These three top criteria were followed by improved client retention mechanisms and emphasis on direct client acquisition. Renewed emphasis on technology platform investments in the front office is also apparent. Increasing evidence of structural change in the industry identified in this survey was also borne out with respondents using mergers and acquisition and entering new markets as ways of increasing and optimising their revenue streams.

What main strategic actions did you take in the last 12 months to increase the revenue stream?



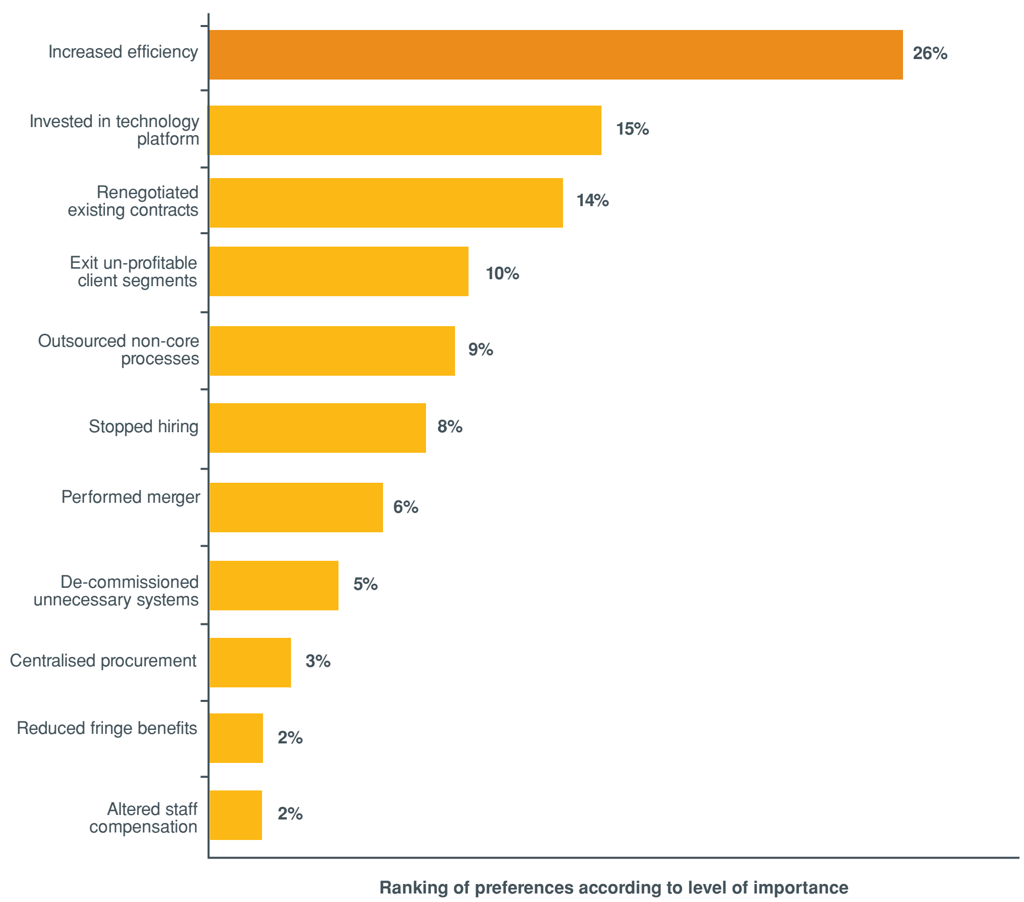
Achieving revenue results

In terms of effectiveness, we asked respondents from their experience which actions yielded the best results to increase the revenue streams. They told us that the main areas of success were the hiring of relationship managers and teams followed by the development of new products and services, revisions to the sales process and the launch of a new marketing advertisement campaign.

Cost actions

Even though the main focus of our participants is on revenue generation initiatives, they are still emphasising tight cost control. We asked them what key cost reduction initiatives they undertook to manage the effectiveness of their cost base. The main strategic actions identified were the optimisation of key processes to increase efficiency and streamline operations. This was followed by the renegotiation of existing contracts with suppliers. Players also indicated that they were investing in their technology platforms. Other actions were more pro-active management of the unprofitable client segments and also outsourcing non core processes, a theme which is examined in more detail in the operating models and system section.

What main strategic actions did you take in the last 12 months to reduce costs?



Achieving cost results

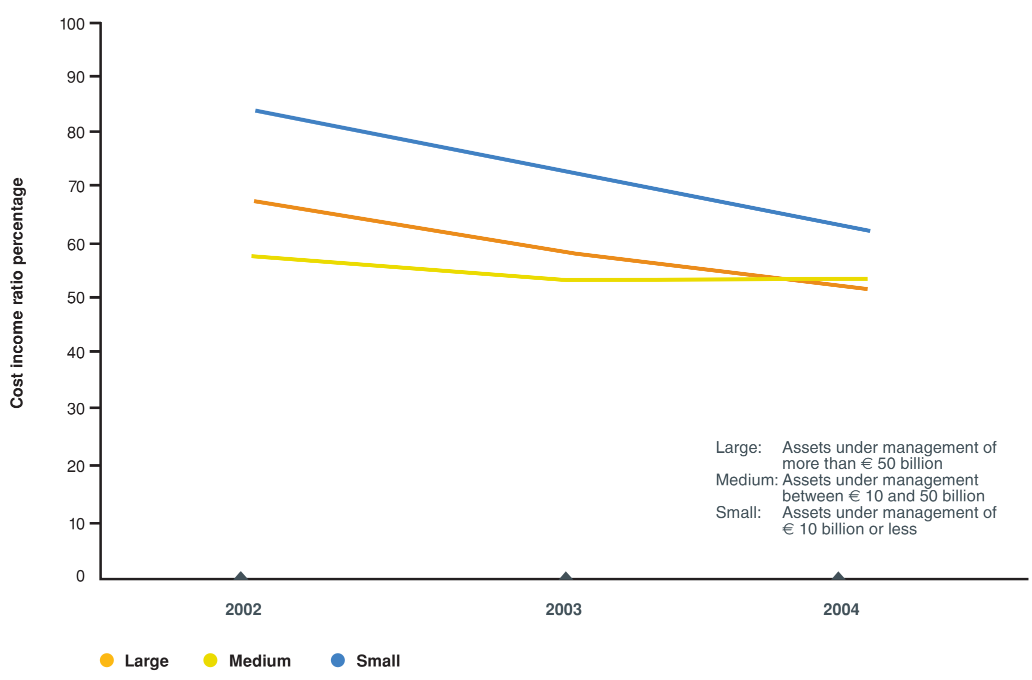
In terms of effectiveness, we asked respondents from their experience which actions yielded the best results. Participants told us that the most effective cost reduction actions were process optimisation followed by pro-active management of unprofitable segments and investments in technology platforms.

Cost income ratios

To tie all of this information together, we asked our participants to provide us with their cost income ratios. In terms of historical trends, our participants indicated that their cost income ratios had moved in the manner shown in the chart below.

There continues to be significant differences between the large, medium and small private banks whereby the medium size players have not been able to reduce their cost income ratio to the same extent as the large and smaller players. It is also interesting to note that size now appears to matter more as the larger groups have been able to better leverage their parent organisation and more intelligently share infrastructure across business divisions. This reinforces our opinion that further consolidation of the private banking sector, although difficult, will continue.

Evolution of cost income ratios for large, medium and small players



Conclusion

There are a small number of high performing players who are both managing growth of assets and cost containment effectively. The other participants reflect a need to improve performance on one or more dimensions. What is more revealing is that there is still a significant number of players in the industry who are neither able to grow revenue nor manage their costs. As the level of competitiveness intensifies, these players will need to take drastic actions to improve or the future viability of their business will be in question.

11.

The voice of the CEO

For the second time, we have focused in greater detail on understanding the characteristics of high performing CEOs and Executive teams across Europe. As part of this, we spent time interviewing the CEOs of a selection of leading players to gain greater insight on the strategy and execution priorities that they perceive are driving their success.

We want to thank these CEOs for their valuable time and openness in sharing their views and insights with us. We asked each of them to specifically focus on key themes:

Raoul Weil, Member of Group Managing Board, Head Wealth Management International, UBS AG
Walter Berchtold, CEO, Credit Suisse
Clive C.R. Bannister, CEO, HSBC, Group Private Banking
Philippe Damas, CEO, ING, Group Private Banking
Anton Simonet, Head of Dresdner Private Banking International
Javier Marin, CEO, Banif Banca Privada

Success as a global player

Interview with **Raoul Weil**, Member of the Group Managing Board, Head Wealth Management International, UBS AG

How has UBS managed to continue to develop its offshore franchise and in parallel develop a significant onshore franchise?

If you want to grow this business globally, you have to have a presence in both offshore and onshore markets. We have major hubs in international centres like Zurich, Geneva, London, New York, Hong Kong and Singapore. In addition, we are also present in the major domestic markets, such as Europe, and are expanding into two to three additional markets per year, more recently for example, Taiwan and Brazil.

The reasons for this are twofold. Firstly, we want to give our clients the choice whether they want to invest in our international hubs or in the countries they are domiciled. Second, we want to have access to the growth opportunities the onshore markets represent. There is also a tremendous commitment from top management within UBS because private wealth management is a core business for us.

We have a well-defined accelerated growth strategy in the domestic markets we have targeted. Our ambition is clear: we want to be amongst the top five players from an asset size perspective in each of our core markets. The preferred growth option is organic. However, we will selectively make add-on acquisitions if they create value.

Our acquisitions have to meet specific criteria. They have to create value by either adding new client segments, capabilities and know-how or add market share. When we review potential acquisitions, we ensure that there is a strategic fit, that the senior management of the acquired company has a shared vision of what we want to achieve and that commercial terms are acceptable when it comes to price.

And our strategy works: in Europe, we have built in four years what it takes decades for others to build.

In achieving this success what capabilities did you focus on and how did you develop them?

Our overall goal is to perfect the client experience. In order to achieve this, there are three main pre-conditions for success: a high-quality advisory process to systematically analyse client situations; a state of the art product offering; and the best quality people in place.
These aspects really make the difference. If our clients are happy they will bring more of their money to us and happy clients will refer their friends.
We follow a rigorous and disciplined process to understand what the client's needs are and then provide solutions that make sense for the client's business, personal situation and circumstances. Cooperation with the other lines of business within UBS is also important for wealthy clients as their needs may go further than just wealth management alone. And sometimes size can also make a difference: very wealthy clients do not want to entrust their fortune to a bank whose balance sheet is smaller than their own!
A critical success factor is to have a strict controlling and measurement system for all markets in a build-up phase in place. In addition, once a year I personally visit all the start-up offices. Needless to say, we also need to give consideration to local circumstances and acknowledge cultural diversity and local market characteristics.

In terms of developing the operational and organisational aspects what have been the major priorities?

I would say that two thirds of our processes are global (advisory processes, core offering, asset allocation processes) and a third are local including local research, domestic tax optimisation solutions, tailoring of products to local rules and regulations, regulatory and tax reporting. In some countries clearing is a local business due to domestic regulations.
We do not have a single platform for Europe, but we try to standardise and centralise our processes as much as possible and where it makes sense. We can centralise some processes and certain aspects of IT. But local laws and regulations may restrict the feasibility of centralisation when it comes to tax and regulatory statements, for example.
There is no doubt that advisory effectiveness is a key factor. We have a clearly structured advisory process in place all over the world to help us support and maximise the client experience. Several tools are being integrated to help our relationship managers. For instance, a fully integrated advisory workbench is available to our front office staff, which is most advanced in Switzerland. Within the next 20 months the global roll out should be completed, and we will use similar tools around the world to support the advisory process in terms of risk and advisory profiling.

What have been the biggest challenges?

The main challenge we face in growing our business is to find enough top quality people. Wealth Management is a people business and success is dependent on finding and retaining the right people. It is not enough just to have a rigorous selection process. When relationship managers join us they undergo comprehensive coaching programs to ensure that they make the most of their skills and the resources that UBS has to offer.
You cannot underestimate the importance of logistics. Expanding into onshore markets each with

their own rules and regulations is a very complex business and you have to be prepared to make the appropriate investments.

All of our efforts are geared towards perfecting the client experience and this is the basis to grow and develop our franchise in the future.

How do you think the private banking and wealth management industry will evolve and what might we expect to see?

The industry has witnessed a substantial tightening of the regulatory environment over the last decade and new risk management standards necessitate highly increased support levels compared to say, ten years ago. Putting this support in place in turn requires substantial financial investment and raises the entry barriers for new players.

In general we believe that there will be more growth coming from the domestic markets compared to the international markets and we feel that this trend is likely to continue. We expect to see more segment specific client offerings being developed as players will have to make more conscious decisions about who they want to serve and what they want to offer. At UBS we made this decision sometime ago.

The wealth management industry will also continue to consolidate due to a variety of factors that will influence structural change including the rising cost of risk management and compliance with regulatory requirements. The capital commitment required to take advantage of domestic market opportunities will exclude many players, while the ability of smaller players to be able to afford the necessary investment to remain competitive in wealth management has to be called into question. These financial pressures will also force those banks for which private banking represents less than 10% of their activities to examine their commitment to a non-core business.

Profitability through innovation and exceptional client service

Interview with **Walter Berchtold**, CEO, Credit Suisse

How has Credit Suisse achieved and consistently maintained its strong profitability in the field of private banking?

Credit Suisse has always been at the forefront of innovation in the Private Banking industry. This has enabled us to stay ahead of many of our competitors in terms of revenue and profit. We have achieved this through our structured advisory processes and specially tailored services, as well as through innovative products that generate mutual benefits for our clients and the bank in terms of profit and performance. In addition, we have succeeded in improving efficiency throughout Credit Suisse.

When achieving this success, what capabilities did you focus on and how did you develop them?

Our structured advisory process has a long history. We have been developing this process since 1999 and have also enhanced the corresponding tools for advisors.

We are committed to improving the skills and expertise of our client advisors and invest a great deal in employee training. Our Credit Suisse Business School therefore offers specialized training

courses in banking and sales for its employees. Our client advisors have access to state-of-the-art tools and systems when advising clients. We consider it essential for our advisors to have a firm understanding of our structured advisory process and to make maximum use of this key tool and its capabilities.
In addition, we have actively asked our clients about their specific requirements and expectations. We have applied their feedback to our processes, which enables us to deliver a targeted response to their needs and to create value for them.
And finally, we have constantly refined our structured advisory process. As a result, client advisors can serve clients more effectively and interest them in a broader range of products and services as part of our efforts to generate added value.

How does Credit Suisse's advisory process differ from that of its competitors?
With this process, our advisors obtain a comprehensive overview of a client's assets and liabilities before proposing solutions that are tailored specially to his or her needs and risk profile.

What is the driving force behind Credit Suisse's innovative strength?
We have developed a culture of innovation which gives our employees the freedom they need to be creative. For example, we have people structuring new products or identifying new investment themes, as well as examining how to adapt wholesale products for our private banking clients. Credit Suisse was also one of the pioneers in the field of open architecture solutions.

You mentioned continuous efficiency gains throughout the bank. Can you expand on this?
Keeping costs under control is always a challenge and, like other banks, we are committed to improving productivity and quality on an ongoing basis. We have already achieved cost benefits from our recent integration of Private Banking and Corporate & Retail Banking and will continue to do so going forward. Additional opportunities will arise from increased cooperation with our investment bank. Furthermore, we have launched various new initiatives such as lean sigma to improve our client focus, overall efficiency and our approach to costs.

What are/were your major priorities in terms of the development of operational and organizational issues?
We look after bringing the bank closer together in terms of cooperation between the private bank and the retail and corporate bank with a view to exploit cross-business opportunities. Here, the greatest potential can be found in the areas of client service and product use.
Looking beyond this, we want to work more closely together with our investment bank particularly on an international scale and to attract further net new assets. We can capture the potential of the international markets by leveraging high-end clients through their investment banking business. Here, the aim is to combine the product-oriented approach of the investment bank with the client-centric approach of the private bank.

How do you plan to develop and grow in the future?
The growth potential in Switzerland is limited. Consequently, we expect to achieve our major growth outside our home market. We are focusing on four key growth markets at present: Asia,

the Middle East, Central and Eastern Europe and Onshore Europe, and Latin America.
We are adopting a targeted approach to these markets by focusing on higher-range assets and leveraging our Group capabilities, enriching our global expertise with local skills to meet the specific needs of each market.
In all of our markets, it will be vital for us to clearly set ourselves apart from our peers. Every private bank is a trusted partner to its clients and offers excellent service, expertise and outstanding performance. We want clients to come to us because they believe we can offer them something different and unique and because our people demonstrate exceptional enthusiasm and commitment. Ultimately, it is our employees who make all the difference.
Constantly improving the efficiency of our processes will, of course, also help us to develop and grow. I am convinced with Operational Excellence, our lean sigma-based deployment that we started to implement last year, we will be able to transform the way our people work together using a common language and approach across all our businesses and at every level of the organization. This will enable us to promote a spirit of teamwork throughout the bank and to thus generate even greater value for our clients. We expect to see the first real benefits of these efforts in the next nine to twelve months.

How do you think the private banking and wealth management industry will evolve and what do you expect to see?

I believe that we will see even fiercer competition between the larger banks as they vie for achieving a top position. This will put pressure on margins although we believe that clients will also in the future be willing to pay an adequate price for excellent products, solutions and services.
The costs of doing business will continue to rise with upward pressures on salaries and compliance and probably there will be a handful of global players who will grow by a mix of organic and acquisitions although consolidation will pose a number of challenges in our industry.
The Swiss banks will play a dominant role in this market if they are able to draw on their long-established tradition of excellent service and their unique value proposition for clients. But some of the smaller private banks will face challenges as the costs of innovation and expertise begin to rise.
The winners in the markets of the future will be those private banks that can deliver an unparalleled level of service and innovation that makes them the immediate partner of choice for clients in their chosen segment of the market.

Growth to become a global player

Interview with
Clive C.R. Bannister,
CEO, HSBC, Group Private Banking

How did you position to grow to become a successful top global player in the last five years?

In 1995, our offering was a number of disparate private banking operations in Hong Kong, the British Bank of the Middle East, Guyerzeller in Switzerland and Trinkhaus in Germany. Combined, these operations had some 850 people in 10 locations and achieved some $50m pre-tax profit. This was our starting point.

HSBC Group's strategic intent was to build a top 5 private bank, a credible alternative to the Swiss model and the plan was to achieve this through a series of acquisitions and by building on the Group's existing strengths.

The first major acquisition was in 1999 with Edmond Safra's Republic businesses, which gave significant and critical mass globally. This was followed in 2001 by Credit Commercial de France (CCF) in France. We then acquired the specialist private client tax business of Arthur Andersen in the USA and Property Vision in the UK. Most recently, we acquired Bank of Bermuda in 2004.

By putting all these entities together, within five years we have become a top global player. This positioning is based on a) assets under management of some $290bn, b) profitability; at the half year stage of 2004, we had generated $350m pre-tax profit for the Group and c) global reach; over 50 locations and some 5,300 people.

Our success has been based on four key factors; the strengths of our relationships with our clients, closely supported by the quality of our service and product provision, a dedicated management team with a shared vision, strategy and responsibility and lastly, the sustained support and global footprint of the HSBC Group.

In achieving this success what capabilities did you focus on and how did you develop them?

We focused - and continue to focus - on strengthening our relationships with our clients. This is fundamental. We are constantly vigilant in being seen to be keen to respond both to the demand from our clients and the market place as a whole and being innovative in providing individual, value-adding solutions.

We have also combined our traditional offshore destinations with the onshore presence of the HSBC Group world-wide. The Group's network has been a real accelerator in building our presence and capabilities and we are now developing those synergies and further strengthening those ties. The main issue for us is the related cost and speed required to meet client demand, particularly those looking for onshore investment opportunities in places like Kuwait, Dubai and Mexico. Development of our presence and capabilities will, of course, be especially relevant in key emerging markets like India, China and Brazil.

In terms of products, we have systematically enriched our competence in banking, credit, asset management and add-on products such as hedge funds, tax and trust and fiduciary services. This has increased our ability to offer inter-generational wealth management, protection and transfer expertise.

We also developed a global brand – HSBC Private Bank – which we launched in January of 2004. This has created a consistent and cohesive market position for our business, which is serving us well.

In terms of developing the operational and organisational aspects, what have been the major priorities? In reflecting on their achievement, what have been the biggest challenges?

People are the critical component of the operational and organisational elements of our strategy. In contrast to some other banks, who have been letting staff go, we are actively recruiting in key markets. We have adopted an approach of tenure and trust, seeking to enhance the quality of our workforce through training and performance management coupled with a strategy to retain and reward the best for outstanding client service. We offer compensation partly based on HSBC equity to retain our best people. Our investment in people and the growth of the business has become a virtuous circle; by building and growing our business, we have been able to offer people enhanced career opportunities and support to achieve their aspirations.

The other major organisational priority we face is the need to further develop our geographic/functional management structure. Our aim is to gain higher productivity through team work and a partnership style; in short, shared responsibility where every individual in the team recognises their contribution makes a definitive difference to the end product or solution.

Bedding down the acquisitions and shaping the optimum infrastructure to gain the necessary cost and operational efficiencies is the area that created the biggest challenge for us. The acquisitions we have made have been complex in terms of products, regulation, cultural legacies and people. We expected the latter to be the biggest challenge, which in fact was not the case, evidenced by the fact that we have lost very few people. The other area we expected to be a challenge was IT. Creating cohesion and uniformity across a global network and a number of product lines was always going to be demanding. We are currently in the process of building a more consistent operational platform and we are most mature in Asia. There, we have two core systems, one for private banking and one for the trust and fiduciary business. We also have the capability there to plug into domestic HSBC Group systems to leverage intra-Group referrals. In Europe, we are in the middle of our evolution towards standardising on two core systems and in the USA we are at an earlier stage.

How do you plan to develop and grow in the future?

We may operate in a crowded and competitive market place but research shows that less than 10% of global private wealth is managed by a handful of top private banks. The scope is there for growth. To seize some of this, we need to focus on 3 main areas:

1. We need to continue with our quest for product enrichment. We have a proven commitment to open architecture. We now need to further leverage our core competence in credit and demonstrate our strengths in alternative investments, trusts and tax planning.
2. HSBC Group's strategic plan – Managing for Growth – clearly recognises that HSBC Private Bank is well placed to serve the Group's highest value individuals and families around the globe. In responding to this, we need to find ways to better connect to the Group to achieve these intra-group client relationships, thereby providing an even greater holistic approach to a client's personal and corporate banking needs.
3. Continue to develop our presence in onshore markets.

Underpinning this we are taking inspiration from the 'Good to Great' philosophy of Jim Collins of having a) disciplined people, thought and actions and b) targeting breakthrough points by leveraging the flywheel concept. In short, by executing lots of focused things well, these create transformational results. We will know we have become great when clients are clamouring to join and recommend us, private bankers want to join us and competitors say where did HSBC Private Bank come from? We are making progress along many of these dimensions.

How to position a mid-sized player in Europe

Interview with **Philippe Damas**, CEO, ING, Group Private Banking

How do you think the private banking and wealth management industry will evolve and what might we expect to see?

Probably the best way to describe this is to see the parallels between private banking now and investment banking some years ago; particularly in two respects, scale and complexity.

In terms of scale, we saw the emergence of the bulge bracket players and a fall out of several players.

In terms of complexity we also saw products, economic risk, compliance, systems and competition for talent all becoming more critical to success.

What is perhaps most interesting in this comparison is that in the 1980s, the investment banking industry hit a major inflection point and the US players seized the opportunity and reinvented the industry.

We are now seeing this consolidation and reinvention story in private banking. We believe the private banking industry has reached a similar inflection point and the next 3 years will see a reshaping of the industry. This will provide many opportunities for the "good players to become great".

What will be the most important driving forces in the private banking industry in Europe in the next couple of years?

The major driving force in Europe in the next two years will continue to be European integration. Although it will not be a smooth process, fiscal harmonisation will continue and this will have a major impact on the private banking market. The tax amnesty in Italy clearly demonstrated the influence fiscal measures have on market dynamics. In general, fiscal harmonisation will significantly re-shape the relationship between on and offshore markets, making private banking a more homogenous market segment and enabling better exchange of information.

Clients' attitudes and needs will continue to develop, requiring appropriate responses from the banks. How clients respond to further European fiscal harmonisation will be strongly influenced by whether or not their money is "clean", however tax amnesties will probably dampen the impact somewhat. Apart from that, a new generation of private banking clients is emerging with a different attitude towards money, which is more value-driven than in the past. They are more critical about what banks offer and they will be more open to propositions from competitors and new entrants into the market.

There will be an emerging need for cross border service offerings in Europe due not only to fiscal harmonisation, but also by the growing number of non-residents per country. Clients will expect their private bank to follow them and offer specific products tailored to non-residents. This cross border market need is already a reality for SHNWs.

Finally, the increasing regulatory burden (anti-money laundering and fraud, Sarbanes Oxley, etc.) and heavy pressure from regulators to comply with regulation will have a major impact on banks' internal organisation. Against a background of more stringent demands on banks in terms of knowing their clients and the quality of advice, I anticipate an increase in the number of lawsuits against private banks, which will be another factor driving up costs.

How will this impact the private banking market, particularly for medium-sized European players like ING?

Scale matters in private banking. For some players it will be difficult to expand their market position further while simultaneously realising an acceptable cost-to-income ratio. However, having said that, size is not an objective in itself. I believe that there are strategies other than consolidation alone that can realise the advantages offered by economies of scale.

Consolidation in private banking will be partly driven by the next wave of cross border retail banking mergers in Europe. These mergers will be driven primarily by considerations on the retail side. The private banking business units of these financial institutions will have to accommodate and leverage the resulting synergy and scale in the new organisation. For some quite consolidated markets in Western Europe, this will have the largest impact on competitive positions.

Other, often smaller, banks have adapted and will continue to adapt their operating model by outsourcing back and middle office processes where scale really is a differentiator. Another element in this strategy is an open product architecture. These banks will differentiate by a strong local knowledge and expertise benefiting from their focused and lean business model.

For European players, it is certainly not scale on a European or global level alone that matters. It is just as important to have an acceptable size in your local markets compared to other competitors, as this will result in a more robust and profitable business model. Although we will gradually move to a more cross border, homogenous European market, a large part of our client base will continue to be a locally driven business. I believe that it is difficult to create value from a portfolio of relatively fragmented businesses in Europe leveraging cross border competencies or servicing client segments with European needs.

How did you position ING as a medium-sized player in the European private banking industry?

When I started managing ING´s global private banking business two years ago, my first priority was to create a sound coherent portfolio of private banking businesses as a basis for further expansion. We have already made significant progress by rationalising our portfolio, for example selling C&E Bankiers in the Netherlands, increasing management control, aligning business models and leveraging synergies in part by moving towards common platforms. As a result we have significantly increased our profitability and have demonstrated strong asset growth when corrected for the selling of some of our businesses.

There are a few guiding principles in our strategy to develop into an even more profitable European player.

First of all, we try to take full benefit from the fact that we are part of one of the world's largest financial institutions. To give you an example, we have only just now started to capture fully all of the existing value in our group client base by actively using referrals of other group labels such as ING Direct. Cannibalisation between the various labels is often negligible, which provides further encouragement for following this route. In addition to more ´traditional´ referrals from the retail network, this will be a major revenue driver over the next few years on top of ´normal´ market growth.

A second important element in our strategy has been to strive for a strong position in our key

markets. We established this in our home markets of Belgium and the Netherlands and the offshore Swiss and Asian markets. In other markets we consider expanding our position or opt for an exit strategy. One example of the latter is selling our wealth management activities in France. A third element has been moving towards a broader product portfolio based on an open architecture. This enables us to provide value added, individual solutions for our clients and supports our objectives of above market AuM growth and increased earnings stability. As part of the ING Group, we have the advantage that we can differentiate using internal products or capabilities, for example in real estate and insurance.

Where are the main opportunities for synergy for a player of your size in Europe?

Over the past years we have spent a lot of time creating a more optimal operating model for our global operations in order to achieve the necessary cost and operational efficiencies. We have gradually streamlined our businesses and as a result we currently have three models in place. In our home markets, we leverage the existing retail infrastructure as far as possible to realise economies of scale. In the front office, we have implemented the same dedicated private banking portfolio and CRM platform, optimally tailored to the specific needs of private banking clients. In the offshore markets, we use the same portfolio and CRM system and, in addition, have standardised our core banking systems and centralised some components and functions in our two major operating centres. Then we still have operations which have not yet been migrated to one of these models and for which we are reviewing our options.

Although we have made progress, I see clear opportunities for further efficiency gains. For all components in our business model, we will have to reassess whether we should do it ourselves, or if it would be better to outsource it. This will be especially true for markets where we lack sufficient scale and where the cost of moving to our existing platforms is high.

Another challenge is to find a better equilibrium between reuse and local initiative. I believe that the local touch is to a large extent driven by marketing and branding and a dedicated local sales force. There is still a lot of value to be gained from moving towards more standardised processes and products in banking across borders.

Finally, as I said earlier, a major goal is to leverage the ING Brand, our product capabilities and group client base. In an increasingly homogenous - and for specific segments more cross border - European market, this will be a major driver for revenue and profitability growth.

How to position a mid-sized player in Europe

Interview with **Anton Simonet**, Head of Dresdner Private Banking International

What will be in your view the most important trends and driving forces in private banking in Europe in the next couple of years?

We are going to see a further rising demand in clients who are looking for financial advice. The time for buy and hold strategies is definitely over. Clients will need financial and estate planning, tax advice, legal advice etc.

Secondly, we will see new product and service innovations. The traditional asset classes cash, bonds and stocks will be widened into further areas like property products, commodity certificates, special life insurance products, private equity investments, hedge funds and currency products. We will also see a further increase in regulations in our industry, which could lead to the consolidation of various market players.

Despite take-overs in recent years, Private Banking is still a fragmented market in Europe. Do you expect a further accelerated consolidation in the industry? What is in your view the main rationale behind consolidation?

The speed of consolidation is still linked to capital market growth. After the years 2000/2001 everybody expected a huge wave of consolidation in all market segments (large global players, middle sized private banks and boutiques). The better results in 2003, and especially in 2004, slowed down this process significantly.

Nevertheless one rationale is client driven and comes via the need for new products. Small onshore players with locations in just one country will face a problem delivering enough international product solutions demanded by the private banking clients. In addition, real offshore players are under pressure to build cross border offerings to follow clients into their home market. This is time consuming and very costly. Also important is the current overcapacity in the back office areas of most private banks with a modern infrastructure.

In Europe, where do you see your growth coming from in the next couple of years?

We see a good demand for our product and service offerings. As we can deliver many innovative solutions with our in-house expertise, the clients get a full private banking service from one provider. We can deliver standardised and tailor made products via our investment bank as well as from our colleagues in the asset management and insurance business. We have a wide variety of wealth and estate planning offerings which will bring us new clients with more complex demands. Last but not least, our position in Europe is well prepared for growth as we have a very good standing in large onshore markets (Germany and UK) as well as in the most important European offshore locations (London, Channel Islands, Luxembourg and Switzerland).

Organic or through strategic acquisitions or alliances?

With our position in Europe, we still can grow organically by adding new front staff. In the past we have done this very successfully in various markets (Benelux, Eastern Europe etc). I am more sceptical about alliances in the private banking market. The wealthy client wants to have a clear view with whom he talks, what is the policy of his private bank, who is responsible. Trust is key, along with a clear brand. This means that alliances in the private banking market are not as easy as in other parts of the banking world.

Will the focus remain on the more mature domestic and traditional offshore markets or is there room for expansion in new markets (eg Eastern Europe due to accelerated wealth accumulation after EU accession)?

Most of the players in the private banking industry have to stay in the more traditional markets domestic and offshore). If you are in a relatively short period not able to set up a sizable franchise in new markets such as India, China, Russia, you should better stay in markets where you have

the minimum size and client base. But these more traditional markets also still show quite good growth opportunities. Take as examples Spain or UK. With such booming property markets, there are definitively ways for private banks to increase their revenue base.

What will differentiate Private Banking players in a market that is largely distributed?

People, service quality and innovative products. We all have to invest in our staff and keep a clear focus on the clients demands. To compete with online brokers and direct banks will be very difficult for most private banks, as the cost base is not in favour of the more traditional model. Therefore the service quality must be of a very high level; otherwise, especially younger private banking clients, are not prepared to pay the fees requested by our industry. I still believe you can differentiate yourself by innovation in products and services, knowing that the "time until you are copied" is becoming shorter and shorter. Innovation is certainly the key for successful small players and boutiques.

Does size matter?

Yes, but being big is not the only way to be successful. There are mid size players with high numbers of different activities and a very complex business model which are struggling to reach high profitability and growth rates. But there are on- and offshore market players with less than 10 billion Euro assets under management, good asset growth and very low cost income ratios because they are concentrating themselves purely on private banking clients in the affluent and private banking segment. As long as they stick to this business model and are not going to diversify into other areas they can be very successful in the coming years. But they should try to have an open minded management style, which means concentrating on the core competences of the private bank and outsourcing whatever someone else can do better for a more competitive price.

Is it just the opposite, can only small and flexible players grow at high speed and be profitable?

No, that is not black and white. Larger players can also grow quickly and still be profitable. There are some good examples in various markets. As the market is still very fragmented, especially in the offshore area, growth opportunities still remain intact for larger players.

What is the relative importance of business vs operations vs technology issues on the agenda of a Private Banking CEO?

Because of the complexity of today's environment, the CEO should also focus his view either on the clients or the products/services or the more administrative tasks, but has to oversee the other areas as well. A private bank can only be successful with a clear management team approach. Without a good COO and a modern Chief Investment Officer the CEO will struggle to be successful in the long term.

What message would you want to convey to your competitors in the European Private Banking Survey?

We all have to be aware of expected future capital market growth rates. With interest rates on record lows and difficult stock markets the expectations in our market concerning the revenues should be realistic. The market will not bail us out if we don't have our business model correctly adjusted, especially on the cost side.

Success in a growing onshore market

Interview with **Javier Marin**, CEO, Banif Banca Privada

How did you position to become a successful player in the Spanish market?

Our success has been based on a combination of factors, the main one being our consistency in several dimensions of our business. Consistency in terms of our drive to stay focused on growth and investment. During the early years of the 21st century, our competitors were cutting costs and closing down some of their operations. We chose the opposite. We grew during this period. We opened branches and invested in our people by providing training and professional development. Over the last couple of years, we have been consistent in implementing our strategy relentlessly. In 2003, we changed our value proposition shying away from an asset manager type of private bank towards an Anglo Saxon model by focusing not only on the assets of the clients but also on their liabilities to get the full picture and be able to create value for them and our shareholders. In other words, we became our clients' CFOs. We identified opportunities in a market, saturated with branches, that clients did not get the proper level of services and that advisory skills were either lacking or not structured the way clients expected it. A lot of our competitors have explicit strategies but what matters is your ability to implement and execute it. We have been very focused on executing and implementing our ideas relentlessly.

In achieving this success what capabilities did you focus on and how did you develop them?

We focused - and continue to focus - on developing a deep client centric organisation and culture at all levels whether we are talking about people, products and IT to name a few. Everything we do at Banif is around the client. On the people side, we invest € 3.000 per year per person in training and developing the managerial and technical skills of our staff. Every staff went through an assessment to identify gaps where training and development was required to be able to better serve our clients, to become and remain their trusted advisor. A curriculum was built for each one of them. As a result, we were the first bank to be certified by the European Financial Planning Association. This is recognition of our focus towards excellence.

On the product side, we opted for a open architecture and have gained a leading market share of 13% of third party funds in Spain. We do the same with insurance products or derivatives, for example. Once again, we believe that in order to become customer centric we needed to offer them the widest choice but also the professional advise to find the best fit for their needs and requirements.

Our IT platform is built around the client. We are probably the most advanced bank in Spain when it comes to technology and are proud of our accomplishment in this area. We give our advisors a lot of key information and data that help them do their job better. For example, we have a very advanced client reporting tool that allows us to tailor reporting for each one of our clients. We believe that the quality of reporting is very important to our clients as it represents the image of our bank. We give our management the right tools to help them make the right decision in terms

of cash flow planning, risk management and portfolio management. A further critical issue is online tax information on the client's portfolio. Information on margins, product and client profitability, client acquisition costs, conversion ratios to name but a few is available throughout the bank on our intranet.

What are the biggest challenges that you face today?

The main three challenges are: growth, client relationship officers hiring and development and change management.
Over the last couple of years, we grew substantially but to sustain organic growth is difficult. There aren't too many options to grow externally. In 2004, we grew € 2.4 billion of new assets, this is more than the majority of our competitors total asset base. In these circumstances, it is difficult to see the value of external growth for Banif. We have grown by being very focused and relentless in implementing our new value proposition and need to continue our efforts.
Client relationship hiring and development is another challenge that we face. The recruiting and development of good advisors takes time. We need to make sure that when we bring new client relationship advisors on board, they blend in with our culture. We need to train them in the same fashion that we built up the technical, managerial and interpersonal skills of our existing staff. Finally, we need to make sure that we give our people a solid career perspective so that we can retain our talent.
Change management in our industry is also a challenge. When we introduced our new value proposition, we had to make sure that it would be communicated to our clients, that client relationship officers would not become gate keepers. To ensure success, we have had to change the mindset of our client relationship officers whereby they have to become the CFO of their clients and not merely an asset manager. This takes a lot of persuasion and conviction but the results so far have demonstrated that we are on the right track as we managed to increase significantly the number of new clients and the minimal threshold of assets they bring to Banif. As the CEO, it is my responsibility to emphasise this message any time I can. Nonetheless, the message needs to be re-iterated at every occasion.

How do you reconcile that you are a separate brand in a group, Santander, which competes in the same market place?

Our group is expert at multi branding as three brands - Santander, Banesto and Banif -are operating in the Spanish private banking market. We are competitors but apply common sense when appropriate. At Banif, we are not a bank that deals on conditions. We are in the service and advisory business. We deal with Santander like we do with any other competitor.
There are three key areas where we differentiate from the group. On the product side, we are focused on open product architecture and have gained a leading position in this area. On the people side, we have certified all of our professionals through a rigorous curriculum.
Our brand, as illustrated by our branch concept, differs from the rest of the group. Our branches are not the traditional outlet that you expect to find. We follow a different path. Our locations are inspired by the luxury brands such as Gucci, Chanel, Loewe, Louis Vuitton and how their stores look and feel like. We have been redesigning all of our branches to ensure that our clients can enjoy a more upscale experience that they associate with superior brands. We are very careful when we decide to open a new branch. We run a thorough analysis of where our clients and

prospects live or work and ensure that the ultimate location fits with our exclusive and upscale concept.

And finally there is IT. Information Technology is a case where common sense applies within the Group. IT functions and processes are split along what is core and what is not core. The components that are core such as client relationship management, treasury and asset management applications are developed and managed by Banif. On the other hand, the commodity components such as back office, basic products, settlement are shared with the rest of the Santander Group. We are gaining in efficiency, cost and quality by sharing these elements within the Group. The componentisation of the IT was thus essential to ensure the proper split as we wanted to make sure that we retain the key elements that support our strategy and differentiation in the market.

How do you think the private banking and wealth management industry will evolve in Spain and what might we expect to see?

Spain has been a high growth market for the last four or five years and attracted a lot of attention and hype. The local commercial and savings banks have developed a private banking offering and foreign banks have made inroads. They have created a sense of needs which is good as it opened up opportunities and expanded the market. However, they have also under valued the relationship between the clients and his/her bank. Like in the other major European markets, growth is mostly generated by taking clients away from the domestic universal and savings banks. It is not generated by luring away clients from established private banks mainly for two reasons:

1. Private banks levels of services are superior to those offered by the universal banks and thus make the switch to another provider more difficult.
2. The lack of critical mass of the majority of players makes the luring of assets more expensive. Market share of private banks in the high net worth segments is very low.

Some foreign players have failed to recognise the strong cultural dimension that binds the client and his/her private bank. There have been several cases when acquisitions turned sour and did not yield the value that was expected. For some players, profit levels have been disappointing and as a result have decided to retreat from the Spanish market or reduce their ambitions.

We, therefore, expect to see some small acquisitions (as there is nothing big available) at very high prices. If there is a small downturn in markets, we will see some players leaving, and still more defensive movements from the local players. In two words tougher competition.

12.

Positioning to be a winner in 2010

Slowly, but surely, market forces are leading to a private banking industry that will look very different in 2010 compared with today. Traditional strategies and operating models will be impacted by major changes in markets, client needs, and regulatory trends leading the evolution to new winners and losers. Looking forward to this new reality, private banking management must determine how best to position to drive growth, build new skills, achieve relevant scale and ensure good profitability.

With the identified industry challenges in mind, IBM Business Consulting Services sees five imperatives for management to ensure success.

1. Build stronger client insight and focus

As clients' needs, attitude and behaviours are changing, there is a greater requirement for banks to focus on delivering relevant value to targeted groups of clients. In this respect, private banks need to make more conscious choices about the type of clients they pursue taking account of the sources of their wealth, their geographic requirements, and the level of service that they are expecting. It will be increasingly important to recognise that as clients' needs change, some of the traditional products and profit sources will change. It will also be necessary to identify new sources of clients' value and ensure that the institution has the capability to deliver. Private banks with insufficient understanding and poor differentiation will experience major growth challenges. Winners will clearly understand where they are positioned in the market places they serve as well as developing the capabilities they need to deliver to their chosen clients.

2. Perfect the client experience and offer holistic advice

Private banks need to recognise that clients are seeking more involvement in the relationship, more added value intervention and access to information. It will be important to provide information in a more relevant context and manner that is understandable and valuable to the client. Private banks will increasingly seek to create proprietary advantages through providing holistic advice and asset allocation approaches. They will be supported by tools in order to more systematically evaluate a client's personal and professional situation, diversification requirements and risk return appetite so as to tailor an appropriate solution. They will also focus on delivering a more consistent client experience. Not every player will succeed as this requires the appropriate combination of process, people and information technology complemented by change management skills to enable the advisors and the organisation to become truly client centric. It will also require more structured hiring, training and coaching of employees. This will be underpinned by much tighter integration of front office processes in order to deliver a more consistent client experience.

3. Provide innovative high value added products blended into solutions to offset commoditisation

Private banks will increasingly need to be aware of and manage shrinking product lifecycles and faster commoditisation. They will re-evaluate how products are sourced and packaged to deliver best in class performance. There are now more options for sourcing either through their parent organisations and or via external providers as the rise of open product architecture

continues. In parallel, more sophisticated new product development and introduction processes will be employed across a broader range of providers e.g. in-house, integrated with the parent or with a partner. Achieving the right balance between the various sourcing options will be an increasing challenge as private banks will have to reconcile profitability objectives with clients' requirements.

Successful players are systematically developing their product lifecycle management capabilities. This includes articulating product requirements which maintain the ability to react to changing client, tax, regulatory and marketing requirements. It also encompasses the definition of systematic training requirements and marketing support for new products as well as the monitoring of customer demand, revenue streams, pricing structures and lifetime profitability.

4. Focus on processes of value creation and determine partnering and outsourcing solutions to enable operational agility

Given the continuing high cost income ratios of a significant number of players, there is still, for many, an urgent need to rethink their business model and to create more flexible options. These options may involve more sharing with the parent, outsourcing to a third party provider or combination of both. As the products and services providers become more developed and open standards become the norm, the move to more network type models will allow private banks to better and more quickly respond to shifting market demands.

A key challenge for private banks will be to stop driving incremental improvement across all areas of their business. Instead, they will need to focus the enterprise on those areas which really drive value creation and consider partnering for the remaining non core processes. The historical integrated model will give way to more teaming with the parent organisation and external partners to create more integrated collaborative value networks that offer stronger and more agile operating models.

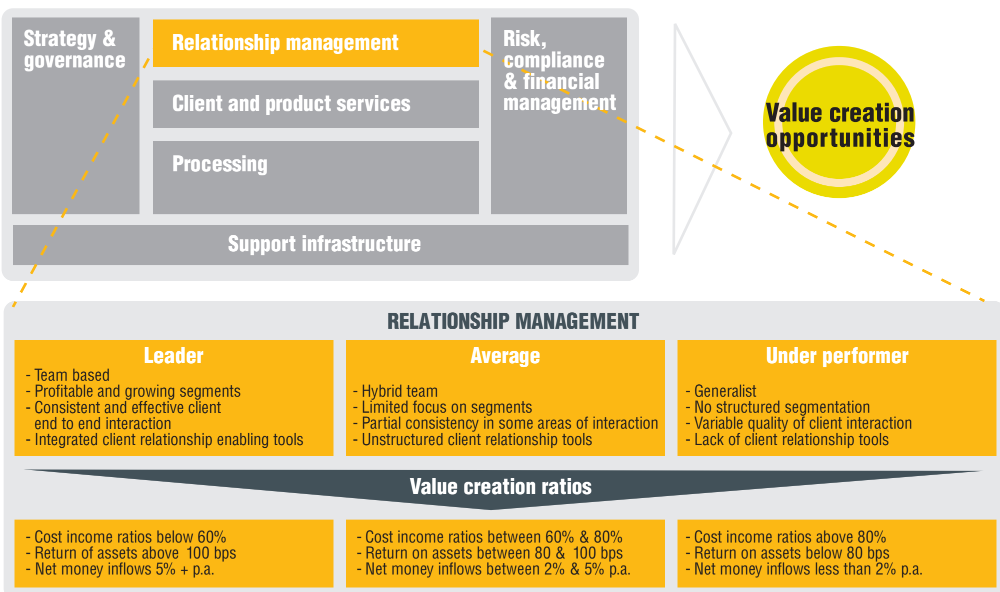
Already, leading private banks with value oriented models are increasing the pressure on their less innovative competitors to transform to be lower cost, more agile and responsive. We observe the emergence of more flexible component based models which can deliver greater value at lower cost. Also driving this process is greater automation of key processes which facilitate a better level of internal and external collaboration.

5. Pro-actively seek out to benefit from industry restructuring by optimising the business portfolio and geographic mix

Some private banks have already recognised the emerging challenges and have the vision and execution plan to respond in a timely way. Last year, there was evidence of some restructuring and consolidation in the industry as several private banks withdrew from some geographic markets, refocused on more attractive segments, and in some cases, undertook acquisitions to raise scale benefits and obtain access to higher growth opportunities. Other players remain stuck in their traditional ways and are falling behind. We expect a few dominant players to lead. Some focused mid tier and niche specialists will also be successful. Other weaker global and mid tier private banks will neither develop sufficient skills nor scale to compete effectively in this dynamic environment and will themselves be victims of restructuring. Overall, the future challenges will require pro-active leadership and sound planning with a focus on execution and effective change management to achieve carefully sequenced and concurrent people and operational results in a few key areas.

To optimise business value, private banks need to be aware of these five imperatives and respond to the changing competitive environment. To maintain and improve their relative competitive position, they will systematically move through the process of identifying the components that drive current and future client and business value. They should also compare themselves with their peer group in order to determine in terms of gaps where to best focus their efforts and resources. The diagram below illustrates part of the IBM BCS proprietary frameworks that we use with clients to help them focus in order to enhance their business value.

Leveraging component business models into business value



Journey to success

This journey happens in steps. However, much depends on the individual institutions' starting point as identified in the profitability and growth section. For all players, however, we can broadly characterise the journey in three main steps:

1. Catching up with peers is about getting the basics right and a necessary pre-requisite to cope in today's market place. However, it will no longer be sufficient by itself to enable the institution to remain competitive.
2. Keeping up with peers is now about ensuring that a robust platform for innovation and growth is in place. This will form the basis to keep up with peers as the industry shifts to greater competition for revenue growth.
3. Finally, breaking away from the rest of the industry to become a leader will require a private bank to implement integrated end to end business processes across the enterprise.This new business model will link partners, suppliers and clients in a network type model. It will be more agile and also able to respond with flexibility and speed to changing client demands, market opportunities and regulatory challenges.

In future surveys, we will continue to track participants progress on the industry's transformation journey.

13.

IBM Business Consulting Services (BCS) private banking and wealth management capability

About IBM Business Consulting Services

With consultants and staff in more than 160 countries globally, IBM Business Consulting Services is the world's largest consulting services organisation. IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues and the ability to design, build and run those solutions in a way that delivers bottom line business value.

Our wealth management and private banking capability

IBM Business Consulting Services offers a unique combination of world class industry knowledge, business and operational consultancy, systems applications, and integration and implementation experience. This is supported by a broad range of sourcing and delivery options. Working at both executive and functional management levels, we help our clients realise economic value and advantages rapidly and effectively in the dynamic and challenging markets in which they operate. IBM Business Consulting Services is committed to the wealth management and private banking industry and continues to make investments in order to bring new and innovative thinking and cost-effective practical solutions to the business and systems challenges to the industry. Our work in this area has developed substantially in recent years, reflecting the increasing attention of financial institutions to the wealth management and private banking sector.

Our client service approach

For the financial services industry, we have organised ourselves around industry sectors such as financial markets, banking and insurance. Financial markets includes our services to investment banks, private banks and wealth managers, asset managers and securities exchanges. We have dedicated account teams serving our major clients. Through our matrix of geographies, client groups and functional expertise, we draw on qualified resources to provide our clients with tailor-made solutions and perspectives to supplement their internal resources and help them achieve better results faster and more cost effectively. For wealth management and private banking, we have an established global network of practitioners, which includes European centers in Geneva, Zurich, London, Paris, Amsterdam, Brussels, Frankfurt, Madrid and Milan. Our client engagements can broadly be placed into a number of categories:

- Business direction and change management
- Programme and project management support
- Client-centricity and customer retention
- Financial and operational process improvement
- IT strategy and implementation
- IT outsourcing and operate

Business direction and change management

We help top management to evaluate objectively the impact of market trends, competition and other external pressures on their institution's strategy and with the design of practical, high-level operational models to respond to challenges and opportunities. We help ensure that all elements are fit for purpose, aligned against the target business objectives and have a clear link to operational implementation roadmaps to speed execution and the delivery of results.

Client-centricity and customer retention

We work with both senior management and client relationship officers to better understand clients' needs and their requirements via client interviews and client relationship officer coaching. Using this, we assist in designing and implementing responsive segmentation models and pricing optimisation schemes. We additionally help redesign front office business processes to improve both efficiency and effectiveness. Our support includes the analysis, design and effective implementation of advisors' supporting tools and technology enablers.

Financial and operational process improvement

We have deep industry-specific knowledge and skills in the front, middle and back-office areas. This enables us to deal with issues of productivity enhancement, cost reduction, management information systems improvement and the redesign of the finance management functions.

IT strategy and implementation

Our IT strategy and implementation capabilities are broad. We have wide experience of working with leading independent wealth management applications providers, in addition to IBM's own leading infrastructure products. Our experience and capabilities also cover Applications Management Services (AMS).

IT outsourcing and operate

Our outsourcing and operate capabilities enable us to operate, on behalf of clients, their support services such as the finance, HR and IT functions. We are also able to operate mainstream business processes enabling our clients to turn fixed cost into variable costs. This is a continuation of the current industry trends within wealth management and private banking. Our services include:

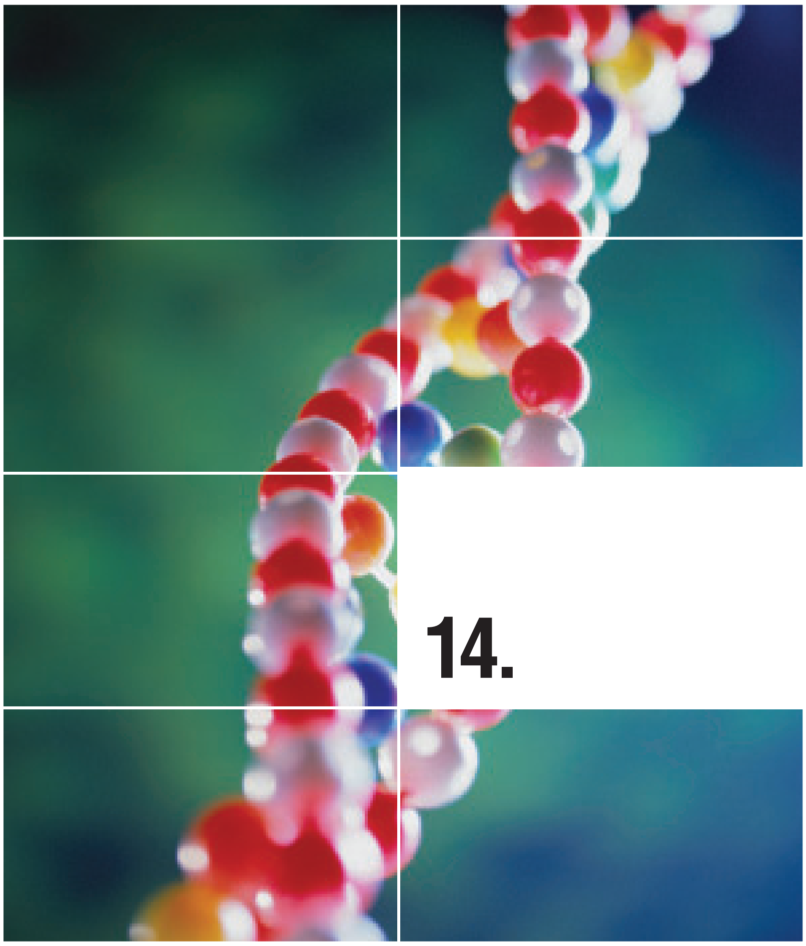
- Improvement of business operational processes prior to outsourcing
- Identification and selection of suitable outsourcing strategies and partners
- Establishment of open joint-use centres

Other IBM Global Services

- Integrated technology services
- e-business on demand
- e-business hosting services
- Strategic infrastructure outsourcing
- Learning services

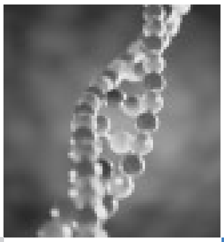
Our clients and our ambition

Our client base includes many of the world's leading wealth managers and private banks where we have long and valued relationships. We typically work in teams with our clients to build joint understanding and commitment to the solutions. We are also dedicated to helping develop our clients knowledge and capabilities, and providing practical and pragmatic support. We are reinforced by proven methodologies, best practice information and knowledge based on our practical track record of more than one hundred assignments in wealth management and private banking in Europe. Clients further benefit from our significant research investments in comprehensive points of view disseminated through articles, books, surveys and white papers as well as our technology-oriented prototypes and proof of concepts. We also maintain alliances and partnerships with the leading software providers. Our goal is to be the world's leading partner, trusted to unlock business value by delivering innovative business and technology solutions.



14.

Survey methodology and approach



The survey covered the following key topics:

- Strategy and market trends
- Client knowledge
- Human resources
- Products and services offering
- Operations and technology
- Financial performance and metrics

The survey was distributed to participants in October 2004 and responses were analysed throughout the period January-March 2005. (2004 data should reflect the first half of 2004). All currency data is in Euro.

Survey sections were completed by:

- Chief Executive Officers
- Head of Client Relationship Management
- Chief Financial Officers
- Chief Operating Officers
- Chief Information Officers
- Head of Corporate Marketing
- Head of Human Resources

Participant profile

The survey results in this report are based on detailed responses from 96 private banking organisations.

Survey responses were received from a total of 12 onshore and offshore countries. The onshore countries (Austria, Belgium, France, Germany, The Netherlands, Italy, Spain and the United Kingdon) represented 62% of the participants, while the offshore centers (Channel Islands, Luxembourg, Monaco and Switzerland) represented the remaining 38% of respondents.

Participants varied by size of assets under management. Large was defined as assets under management of more than € 50 billion. Medium had assets under management between € 10 and € 50 billion. Small had assets under management of € 10 billion or less.

Client survey

Survey responses were received from 45 clients whose wealth range from € 1 million to € 10 million and above. The clients originated from France, Germany, Italy, The Netherlands, Spain, Switzerland and the United Kingdom.

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15.

IBM Business Consulting Services wealth management and private banking network

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