The 2013 guide to
Private Banking and
Wealth Management

Published in conjunction with:
Agricultural Bank of China
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UBS
Delen Private Bank is specialized in private asset management. Our strategy is based on a prudent long-term approach: proactive risk management, diversification, simplicity and transparency. Your assets deserve our expertise.

*Delen Private Bank manages your future*
Wealth managers jostle for business as the rich get richer

By Helen Avery

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Banco Madrid
Wealth managers jostle for business as the rich get richer

As the world’s wealth begins to rebound, private banks and wealth managers are adapting to lower profit margins

After a decline in the world’s wealthy following the financial crisis, the number of high-net-worth individuals (HNWIs), and the size of their assets, is growing again. The global population of individuals with more than $1 million grew by 9.2% to 12 million in 2012, according to Capgemini/Royal Bank of Canada’s 2013 World Wealth Report. Together they command some $46.2 trillion in investable wealth – the highest amount recorded. The wealthy are becoming wealthier. On aggregate their assets grew by 10% over 2012, with the ultra-wealthy (those with more than $30 million) seeing the largest growth in assets at almost 11%.

Banking those clients is ever more appealing to financial institutions. Regulatory pressures on other parts of the business, such as investment banking, have caused institutions to rethink their strategies. Many are turning their attention to their private banking and wealth management franchises.

According to wealth management strategy and research firm Scorpio Partnership, the global wealth management industry manages just $18.5 trillion of that $46.2 trillion total. That figure should alleviate fears that there is not enough room at the table for the hundreds of private banks and wealth managers. Institutions appear to be making better strides to attract money from the wealthy – at the 200 institutions tracked by Scorpio Partnership in its 2013 review, the inflow of new money rose 23% year on year – but there is much more headway to make.

The advantage of being global

It is hard to attract the largest amount of net new assets without being global. More than half the world’s wealthy is domiciled in three countries, each on a different continent – the US, Japan and Germany. The largest number of the world’s wealthy live in the US – some 3.5 million of the 12 million total. Japan comes next with 1.9 million HNWIs, followed by Germany with 1.05 million.

Yet it is in Asia that the rate of growth is highest. Hong Kong and India have seen huge rebounds in their wealthy populations, partly as a result of higher allocations to strong equity markets. Of the top 12 countries, China and Australia saw the largest percentage growth in HNWIs. By 2014 Asia-Pacific is expected once again to be the region with the largest number of wealthy individuals, and Capgemini/RBC estimates the region will have $15.9 trillion among its wealthy population by 2015. According to Boston Consulting Group (BCG), China will become the second wealthiest nation after the US by 2017. In Euromoney’s 2013 private banking survey, respondents pointed to some 7,500 employees engaged in private banking in China – second only to the US, five times as many as in India and more than twice as many as in Brazil.

Being global also spreads risk for private banks and wealth managers. Europe’s wealth has grown at a slower pace than the rest of the world in the past two years as a result of the economic uncertainty surrounding Greece, Portugal, Italy and Spain. Spain, once among the top 12 countries in terms of HNWIs, was nudged out by South Korea in 2011.

Some emerging markets have also slowed. Many wealth managers and private banks invested heavily in Brazil and emerging European countries, only to see growth stall. Latin America has seen the smallest rates of growth in both population of HNWIs and assets due to a slowdown in GDP growth and contraction in equity markets. Brazil’s wealthy population was stagnant during 2012. Those global financial institutions with strong franchises in the US have had an advantage as the economy has emerged first from the great recession. They have been
able to turn their attention away from cutting costs towards expanding, and many are setting their sights on Europe.

But it is not just for diversification or to access new assets that banks and wealth managers are feeling the need to be global. HNWIs have always demanded products and services in multiple geographies as their businesses, homes and children span the globe. Now however, as the divergence of economies among regions becomes increasingly apparent, HNWIs are leaning on banks with a global presence for investment opportunities and asset management. Arbitrage opportunities between countries are what clients are looking for as they seek to compensate for the low interest rate environment.

**The cost of managing assets**
The recession underlined the importance of asset allocation. The ability of banks and wealth managers to ensure their clients were invested in products that suited their risk appetite was put to the test. HNWIs, although slowly upping their interest in riskier products, still do not fully trust their banks. Clients are also concerned about credit risk and the perceived safety of their financial institution.

Level of service is still a top consideration in choosing a wealth manager, but more important now is how that wealth is managed. This is encouraging banks to reassess the way they advise clients. Some are introducing an internal chief investment office that collects research and analysis from across the bank’s regional businesses and sets a macro-economic view for the house. This affords clients much greater transparency about how their money is managed, and simplifies investment decisions for relationship managers. Other banks are distancing themselves from products altogether and adopting a pure advisory model.

The challenge is, of course, providing advice at a cost that is both reasonable for the client and profitable for the institution.

The share of discretionary mandates fell from 30% to just 21% between 2007 and 2012, according to BCG. And the share of high-margin investment products has also declined over the past five years by about 20%. At the same time, cost-to-income ratios have risen 19% as regulatory and back office costs have increased. As a result, pre-tax profit margins at private banks have declined significantly since 2007. According to BCG, the industry’s pre-tax profit margin was 23 basis points in 2012, down from 33bps in 2007.

Europe’s onshore and offshore institutions had the highest average profit margins in 2012, but along with Asia-Pacific based institutions they also had the biggest differences in margins between top and bottom quartiles, indicating potential for improvement. According to data from Euromoney, it is the Nordic and Baltic countries that are driving up average margins. Growth in net income over 2012 fell 321% in Portugal and 2.7% in Greece.

**Adapting to a new era**
A larger global footprint and better investment advice are just two requirements for the industry as it moves into the post-recession era of wealth management.

Efficiency is key. The majority of banks have made several rounds of cost-cutting, yet further cuts will need to be made. Client segmentation began at the start of the recession and has become increasingly important as financial institutions determine which clients are most profitable, and which can be offered more customized solutions. Clients were segmented typically by levels of wealth, but that is no longer enough. Grouping clients by their preferred means of interacting with the financial institution or preferred products and services is now part of the process. The banks that put their IT investment into mining data will be the best positioned.

Relationship managers are also being asked to take on more clients, relying on better information distribution to reduce the time required for each. The exception is for relationship managers who serve the coveted ultra-high-net-worth client segment. Many private banks have highlighted this segment as being a driver of profits – yet those with more than $30 million are few in number – just 111,000 globally, according to the Capgemini/RBC report.

With all clients there is pressure on the banks to ensure that relationships are profitable – that means cross-selling all parts of a financial institution’s offerings – commercial banking for business owners, investment banking solutions and structured products.

Finally, the role of technology is cited by private bank and wealth management chief executives as one of the biggest catalysts for change in the industry. Those early adopters will find it easier to gain net new assets not only from existing HNWIs but also from the large demographic of younger and technologically savvy individuals. That demographic stands to inherit the estimated $43 trillion that will be passed on from the baby boomers and their parents to younger generations over the next 40 years. While 40 years is a long time, the majority of that money is moving in the next 20 years and institutions need to prepare themselves to capture clients who will demand state-of-the-art mobile technology.

The industry is at a pivotal moment and there are clear challenges for private banks and wealth managers to overcome. With the world’s wealth back in growth mode, however, while many other parts of the financial industry remain in question, wealth management is a bright spot for those who can rise to the challenges.
10th Private banking survey - 2013 Data

No. of Private Banking Employees - BRIC

No. of Private Banking Employees Globally 2009-2012

% Change in Net Income Globally by AUM Bucket 2010 - 2012
% Change in Net Income by Region 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>% Change in Net Income</th>
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<tbody>
<tr>
<td>Nordic &amp; Baltics</td>
<td>44.1%</td>
</tr>
<tr>
<td>Africa</td>
<td>26.0%</td>
</tr>
<tr>
<td>Latin America</td>
<td>23.6%</td>
</tr>
<tr>
<td>Asia</td>
<td>21.4%</td>
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<tr>
<td>Middle East</td>
<td>18.5%</td>
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<tr>
<td>North America</td>
<td>18.3%</td>
</tr>
<tr>
<td>Caribbean</td>
<td>17.0%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>15.7%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

% Change in Net New PB Assets (Net New Money) Global y-o-y 2009 - 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>13%</td>
</tr>
<tr>
<td>2010</td>
<td>25%</td>
</tr>
<tr>
<td>2011</td>
<td>31%</td>
</tr>
<tr>
<td>2012</td>
<td>25%</td>
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% Growth in Absolute Number of PB clients Globally 2009-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>8.0%</td>
</tr>
<tr>
<td>2010</td>
<td>19.4%</td>
</tr>
<tr>
<td>2011</td>
<td>18.1%</td>
</tr>
<tr>
<td>2012</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

% Growth in Absolute Number of PB Clients Globally by AUM buckets 2009 - 2012
Based on 672 responses globally
Euro crisis: it’s not over till it’s over

The current calm shouldn’t lull us into letting down our guard

One can date the start of the euro crisis to some time in the first quarter of 2009. Fast-forward four-and-a-half years to today and we can look back on many crisis peaks, which included Greece defaulting on its private investors (and now operating under a rescue package, along with Portugal and Ireland), and Spain and Italy regularly capturing headlines to remain fixtures in the back of anxious investors’ minds. In between the peaks we’ve also had calm, which usually led European politicians to make naively enthusiastic pronouncements about the end of the crisis.

That the current period of calm has lasted longer and been calmer than previous ones shouldn’t lull us into letting down our guard. It is true that the Eurozone as a whole exited recession in the second quarter of 2013, even though parts of it might still contract economically until at least the end of the year. It is also true that imbalances within Europe have started to recede. The periphery has recorded current account surpluses for the past nine months. It is finally true that Mario Draghi’s ‘put’ on the euro, placed by saying he would ‘do whatever it takes’ to save it, can already be seen as constituting the central bank intervention with perhaps the lowest cost-to-benefit ratio, since he hasn’t had to back up his words with any action.

Three major risks

Still, in my view, those factors are insufficient to bring the euro crisis to a conclusive close. While the overall movie leaves the impression of improvement, the frame-by-frame images remain bleak: many European countries confront record-high unemployment rates and some face real GDP levels lower than when the common currency was introduced 14 years ago. Moreover, three major risks could quickly reignite the crisis.

The first risk is political. Many countries on the periphery are making do with fragile and unstable governments, and the current calm is itself a remnant of politics in which the forthcoming German parliamentary elections are playing an important role.

The other two risks are foreign in nature. The Eurozone relies on overseas demand to fuel its ongoing recovery. But at this stage global growth is far from solid. The US is certainly pulling ahead, but emerging markets, the pillars of world growth in recent years, face major obstacles. Further weakness in this region could jeopardize European export-led growth.

Finally, the very real possibility of the US abandoning quantitative easing has led to a surge in interest rates worldwide. This surge is occurring in an environment in which European banks, still suffering from balance sheet difficulties, remain reluctant to lend; so credit activity has stayed sluggish in the Eurozone.

Hence, thinking of the euro crisis as ‘over’, while a pleasant fantasy for European politicians, would be dangerous for cautious investors.
Akbank Private Banking: the science and art of wealth management

With a mission to provide the best private banking experience in Turkey, Akbank Private Banking is a market leader that never forgets the personal touch. By Saltik Galatali, Akbank executive vice president in charge of private banking

Akbank Private Banking is the leading provider of private banking and wealth management services in Turkey, specializing in asset management and investment advisory for high-net-worth (HNW) individuals and institutional investors. A strong, dedicated team of private banking experts works closely with investment advisers, lawyers, business consultants and tax advisers to provide customized financial solutions for clients. Akbank Private Banking currently manages total assets worth TL27 billion in its 10 strategically located branches across Turkey.

Based on Akbank’s decades of accumulated financial expertise, Akbank Private Banking’s vision is “to become the most admired company, with the best people, constantly delivering outstanding results” and its mission is “to provide the best private banking experience in Turkey, offering outstanding value for its stakeholders”. A strong code of ethics and customer-based services are the key elements of our corporate culture. Akbank Private Banking’s main objectives are to provide the best service quality to customers and to create optimal customer satisfaction, enabling customers to create a fortune, manage it, preserve it and pass it on.

Integrated expertise
Private banking is more than simply the management of individual portfolios. Akbank Private Banking serves investors who expect customized private or corporate investment alternatives beyond standard banking products and offers them integrated expertise and innovative financial services that range across multiple products, multiple institutional providers and multiple markets.

The starting point for tailor-made investment is a careful analysis of each client’s current needs and expectations for the future. We believe in the significance of understanding clients before advising and of planning strategy before investing in delivery of services. To facilitate this, before beginning a relationship with Akbank Private Banking, clients undergo a thorough assessment of their risk tolerance.

Following this process, investment strategies are based on a thorough understanding of clients’ investment needs. Customized portfolios are created, reflecting clients’ risk and return preferences to compute their optimal portfolio strategy based on the distinct principles of diversification, optimization and control. This leads to an appropriate balance between controlling market risk and seeking higher returns. This model is continually adjusted using data from ongoing client satisfaction surveys.

To maximize the efficiency of the investment process, Akbank Private Banking has established a special group, the Strategy and Investment Division, consisting solely of dealers, investment managers and investment researchers. This focuses exclusively on assisting the relationship managers in managing client accounts. This creates far more flexibility in constructing, enhancing and personalizing customers’ portfolios. This group also assists customers on a daily basis in their asset management with investment ideas and direct execution of their orders regarding FX, bond and derivative transactions.

Tailor-made services
Akbank Private Banking also delivers tailor-made portfolio management services for its institutional and ultra-HNW clients in discretionary portfolio management business line in collaboration with Ak Asset Management. The management of private banking clients’ expectations sometimes becomes a bigger challenge than the management of their investments.

Apart from investment purposes, the bank’s customized value-added services include a wide range of subsidiary products: leasing, insurance and retirement packages. Private banking customers who collect art works are supported by one of the biggest international auction institutions in the world, visiting important collections, participating in auctions and providing consultancy for their collections. Private sales of their pieces, as an alternative to auctions, are also offered.

Akbank Private Banking, as the sponsor of Contemporary Istanbul since 2007, is recognized by the international art community for its contribution to one of the most important contemporary art events in Turkey. Besides the art fair, Contemporary Istanbul presents many side events and art projects throughout the year, from discussion panels to exhibitions.

Akbank Private Banking’s new growth strategy for 2013 is to assess the Middle East as the potential area for diversification abroad. Private banking marketing activities will be held in this region, mainly through Akbank Dubai, to serve HNW clients.
Euromoney awarded Akbank Private Banking as the “Best Private Banking Services Overall in Turkey” for the 6th time.

We feel honored to share with you the pleasure of having this award, which is granted to the financial organizations establishing standards of excellence in the field of private banking, in the years 2006, 2008, 2010, 2011, 2012 and now in 2013.
The ABC of successful private banking

Four years after launching its Private Banking Department, the Agricultural Bank of China (ABC) has seen its service enjoy phenomenal growth thanks to a combination of highly professional staff, a nationwide network of outlets and services, and a firm commitment to putting customers’ interests first. ABC’s executives explain why their private banking service has been such a success.

Why did ABC decide to set up a Private Banking Department?

ABC set up its Private Banking Department to provide professional, customized services for our high-net-worth clients. ABC has a very strong client base comprising some 320 million retail customers. Our clients include entrepreneurs and leading professionals who have succeeded and prospered from the reforms and the opening up of China over the past 30 years. It was their need for reliable private banking services, with a bank they know and trust, that inspired us to launch this service.

When was ABC’s Private Banking Department established?

We began detailed research for the private banking business in 2008 and made the necessary preparations to establish it the following year. Approval was given by the China Banking Regulatory Commission in October 2009, and the Shanghai bureau of the commission the following May, enabling ABC to become only the second private bank to operate with a separate financial licence in China. Since then, ABC has set up private banking outlets in 20 provinces and municipalities, including Beijing, Shanghai, Guangdong, Jiangsu and Zhejiang. In branches where there is no private banking department so far, customers can obtain the services directly from our head office. This arrangement ensures that our services are within reach of all our customers.

How did you ensure your employees have the right expertise?

We worked closely with world-leading consulting companies and professional service providers to formulate a development plan and launched a management system for our Private Banking Department. We also sent some of our top employees to study private banking business management in Singapore, Hong Kong, Canada and Switzerland, to give them the chance to learn from some of the world’s best private bankers, while other employees went on business courses and private banker certificate programmes within China. These measures ensured that we had the strongest possible team of private banking professionals, equipped to meet our customers’ needs and to allow our business to grow.

What private banking services do you offer to set you apart from the competition?

ABC’s Private Banking Department is a pioneer in providing the very best operating mechanisms, client service models and product service systems to its customers. A wealth management team has been established under a client service model called ‘1+1+N’, fulfilling the roles of wealth consultants, branch customer managers and a team of experts specialized in financial products and other realms. The Private Banking Department has also been a dedicated innovator of products and services. We draw on resources inside and outside the bank, enabling us to provide tailor-made products and service solutions to clients, covering wealth and asset management, consultation and advisory services and a variety of other services. The department has also launched cross-border financial services with overseas banks and rolled out a range of special categories of value-added services, such as health management, life and leisure services, travel management and social networking services. And to build on our relationships with our clients, we have held a wide spectrum of customer events with special themes and agendas.

How popular have your private banking services been so far?

Private banking has proved extremely popular with our customers. The Private Banking Department is enjoying exponential growth in the number of clients and a rapid expansion in the scale of assets, with increasingly optimized asset allocation.

What will you do in future to improve and expand your private banking services?

Looking ahead, the department will continue to integrate internal and external resources, and draw on domestic and overseas experience to position our brand as a reliable and client-oriented partner. Our service concept is a simple one: prioritize clients’ needs and strive for sustained progress. By following those principles, the Private Banking Department will stand out from the competition because of our unique advantages. Our objective and goal is to create a platform for our high-end clients to achieve lasting, long-term growth and security.
A Trustworthy Partner For Your Prosperous Future

Sincerity and Reliability: we are a trustworthy partner for the long-term continuity and growth of your family wealth.
First-rate Services: we are a provider of smart financial solutions to help you create greater value for the future.
Private Banking of Agricultural Bank of China – A Trustworthy Partner For Your Sustained Prosperity And Brilliant Future

- **Wealth Management**: Comprehensive Financial Planning | Customized Insurance Planning | Exclusive Financing Services
- **Asset Management**: Comprehensive Asset Review | Open Investment Platform | Diversified Investment Portfolio | Exclusive Products | Product Customization
- **Tailor-made Services**: Health Management | Life And Leisure | Travel Management | Appreciation | Social Networking Services
- **Cross-border Finance**: Overseas Account Opening | Cross-border Financial Services | Overseas Assets Management | Financial Arrangements for Overseas Study | Investment Immigration Consulting
Banco Madrid: a growth strategy that works

A return to key values of stable private banking, implemented by a talented team recruited from around the world, has enabled Banco Madrid to achieve strong growth in a difficult market.

Banco Madrid’s distinctive formula has succeeded in delivering growth in a challenging market as well as a far-reaching reorganization. Over the past 12 months we have experienced unprecedented growth in Spain, a market where private banking has largely stagnated. Organic growth alone during this period has reached 35%, attracting more than 1,400 new customers.

This project has evolved from the determination of a family entrepreneur to build an industry-leading institution.

What are the underlying reasons for this leap forward? Banco Madrid’s strategy has three key objectives to provide the client with excellent advice in private banking.

Firstly, there is a model centred on efficient asset management and simple, profitable products, coupled with a strict approach to risk control designed to ensure capital preservation. This means a return to the traditional values of secure, stable private banking. This is firmly underpinned by a balance sheet that is unequalled in the Spanish market, showing a 39.4% solvency ratio, more than three times the average of our competitors. Our sound financial situation benefits our customers and allows us to focus on serving their needs. We are not diverted from our target by the restructuring that many of our competitors are compelled to carry out.

Secondly, Banco Madrid brings together a consolidated team of respected financial experts. New professionals have joined us from the best private banking institutions in locations including Switzerland, London, Germany and the United States.

And, thirdly, Banco Madrid implements a proven policy of strategic partnerships and acquisitions that has enabled it to increase market share and attain a prominent standing among private banking customers in the Spanish market.

A flexible investment management model

The two guiding principles of our investment management strategy are risk management and capital preservation. We believe this makes a difference at Banco Madrid.

The results of this policy have propelled Banco Madrid Asset Management to become one of the top 10 fastest-growing managers in the Spanish market. Our investment funds are currently ranked in the first quartile of their respective categories, and their managers have achieved international recognition.

The funds include Banco Madrid Renta Fija (fixed income), which has been the best performer in its category in Europe since mid-2011, and the Morningstar five-starred Banco Madrid Ibérico Acciones, the best-performing three-year Spanish equities fund, which generates returns more than 30 points above the Ibex 35 benchmark. Both these funds, as with all the other products in the Banco Madrid range, aim to deliver consistent added value to our customers.

This is also the case for our portfolio management service. Our portfolios have outperformed our competitors’ portfolios both in terms of yields and volatility.

Key role for new talent

The new talent we have taken on board has played a key role in our growing success, helping to build a strong brand image in a challenging banking sector.

This talent, now firmly established in Banco Madrid, was responsible for the highly successful mergers into our organization of Nordkapp and Liberbank Gestión, formerly parts of Banco de Valencia and Liberbank (Spain’s seventh largest financial institution) respectively. These moves contributed to doubling our assets under management. In combination with our strategic partnerships, these acquisitions have strengthened our position and expertise in key areas, such as Sicavs (open-ended collective investment schemes with a minimum capital of €2.4 million – the Spanish equivalent of the UK’s OEICs), where our group has become one of Spain’s 15 leading players.

Our model is based on robust, long-term focused banking and seeks solely to preserve our customers’ capital by means of talent and attention to detail. We believe it is precisely this approach that has brought us this far and will enable us to hit new highs.
Pure private banking

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Private Bankers
A new kind of market.
A new kind of portfolio management.

In today’s volatile, complex markets, your portfolio requires the level of in-depth global knowledge and insight that institutional clients receive.

Watch 120 seconds on ‘Portfolio Management’ with Jakob Stott, CEO UBS Wealth Management Europe.

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We will not rest

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