Scorpio Partnership

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Press Release

Global wealth management businesses continue to surf wave of prosperity: Scorpio Partnership's Private Banking Benchmark 2007

LONDON — The global wealth management industry has continued to surf the wave of prosperity, delivering a 14% median increase in assets under management in base currency terms, according to the **Private Banking Benchmark 2007** from leading consultancy **Scorpio Partnership**. This asset growth, driven by the global equity markets and net new money, has combined with improved efficiencies to fuel an impressive median growth of 24% in operating profits across the industry.

The *Private Banking Benchmark 2007* is Scorpio Partnership's sixth study of the international private banking and high net worth wealth management industry. This year it covers a record 180 private banking entities, managing a total of USD10.8 trillion of assets. The *Benchmark* is a unique study of both the global wealth management market as well as the performance and characteristics of individual wealth managers.

Sebastian Dovey, managing partner at Scorpio Partnership, said: "The pace of growth has been sustained in 2006 in terms of both assets and profits, and for organisations of all shapes and sizes. However, this global dynamism masks a contrasting landscape within the industry. There is a feeling that there is easy money to make at the moment, but our research shows that long-term successes are only built on sensible strategies, successful hires and, most crucially, a constant focus on clients."

Looking specifically at assets under management, the trillion-dollar league is limited to three members: UBS, Citigroup and Merrill Lynch. UBS still tops the table, despite a slowed rate of growth this year in Swiss franc terms. And once again, US-based Citigroup and Merrill Lynch secure places on the podium. Of note, Swiss partnership bank Pictet has leapt into the top 10, with an impressive growth of 30.5% in Swiss franc terms.

The Scorpio Partnership top 10 largest wealth managers

	Institution	AuM YE06 (USD bn)	Change (base currency)	Change (USD)	Reporting currency
1	UBS	1,608	13.1%	22.0%	CHF
2	Citigroup	1,438	9.8%	9.8%	USD
3	Merrill Lynch	1,209	10.4%	10.4%	USD
4	Credit Suisse	642	13.1%	21.9%	CHF
5	JP Morgan	465	10.7%	10.7%	USD
6	Morgan Stanley	450	20.0%	20.7%	USD
7	HSBC	408	17.2%	17.2%	USD
8	Deutsche Bank	249	16.0%	29.2%	EUR
9	Wachovia	206	19.8%	19.8%	USD
10	Pictet	192	30.5%	40.7%	CHF

Source: Scorpio Partnership

Notes: Assets under management figures are for the high net worth wealth management divisions of these institutions.

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The *Benchmark 2007* clearly illustrates how fragmented the private banking and wealth management industry is. Indeed, while the top 10 banks manage some 63% of the total assets of the *Benchmark* banks, they in fact manage less than 20% of the estimated universe of high net worth assets according to market research data. The question that remains to be addressed through the *Benchmark* process is what proportion of the remaining 80% of high net worth assets is within the reach of the wealth management industry.

"As transparency continues to improve, at Scorpio Partnership we have started to examine modelling the true market share distribution of private banks. Perhaps we should think the unthinkable, that the actual size of the private bank market is different to the widely stated size estimates for HNW assets. It is still a work in progress", said **Cath Tillotson**, partner at Scorpio Partnership.

The Scorpio Partnership leading wealth manager market shares

	Institution	AuM YE06 (USD bn)	Potential market share	2007 Benchmark market share	Reporting currency
1	**UBS**	**1,608**	4.5%	14.8%	CHF
2	**Citigroup**	**1,438**	4.0%	13.3%	USD
3	**Merrill Lynch**	**1,209**	3.3%	11.2%	USD
4	**Credit Suisse**	**642**	1.8%	5.9%	CHF
5	**JP Morgan**	**465**	1.3%	4.3%	USD
6	**Morgan Stanley**	**450**	1.2%	4.2%	USD
7	**HSBC**	**408**	1.1%	3.8%	USD
8	**Deutsche Bank**	**249**	0.7%	2.3%	EUR
9	**Wachovia**	**206**	0.6%	1.9%	USD
10	**Pictet**	**192**	0.5%	1.8%	CHF
	Top 10	**6,869**	19.0%	63.4%	–
	Total Benchmark	**10,840**	30.0%	100.0%	–

Source: Scorpio Partnership

Note: Potential market size is estimated based on Cap Gemini World Wealth Report 2006 and Scorpio analysis.

There is some uncertainty about how long the party is going to last, however. "One of the long-term indicators of success for a private bank is the capacity to attract investments from new and existing clients. However, there is a strong correlation between assets under management and global market indices, and this will eventually test the stickiness of these assets. If the asset management capability of a private bank is so closely correlated to the indices, then when the markets eventually turn south, clients will not necessarily see private banks as the safest option," cautioned **Ted Wilson**, consultant at Scorpio Partnership.

The *Benchmark 2007* highlights that there is still a lot of room for improvement and differentiation in all segments of the industry. Wealth managers constantly face new challenges and they address them with varying degrees of success, which can be measured by certain key performance indicators (KPIs).

These KPIs are developed further in the *Benchmark 2007* this year. They include the **cost-income ratio**, the **gross margin on managed assets**, the **average assets per relationship**, **regional distribution of assets**, and the **number of clients per staff member**. For example, cost-income ratios—with a 2006 industry median of 63%—have been improving constantly. There are, however, dramatic variations in the actual numbers, from less than 40% for the most efficient private banks, to more than 90% for the least efficient banks.

Other KPIs in the Benchmark, especially those linked to staff and clients, also vary considerably from bank to bank, and give a measure of the diversity of business models in the wealth management industry.

About the Private Banking Benchmark

The *Private Banking Benchmark 2007* is the most comprehensive review of key performance indicators in the global wealth management industry. The objective of the *Benchmark* is to provide extensive and detailed data and analysis for more than 180 reporting firms, with a focus on the quality of collected data and robustness of the analysis. Over 400 private banking entities were researched for the *Benchmark 2007*.

This year's *Benchmark* includes key performance indicators, information and analysis on assets under management, net new money, profitability and staff for individual entities, as well as aggregate data for the industry.

About Scorpio Partnership

Scorpio Partnership is an international wealth management consultancy firm, established in 1998. Our team's deep market expertise gives us an unparalleled level of insight into the non-US wealth management and family office arena. Our familiarity with the market and the individuals in this field allows us to offer both long-term strategic advice on how the market will develop and the tactical insight required to manage specific products and services.

We work with private banks, global private client investment managers, industry suppliers and HNW/UHNW individuals, undertaking more face-to-face interviews among millionaires, multi-millionaires and family offices than any other firm worldwide.

In our view, the financial needs of HNW and UHNW individuals can only be properly met by the financial industry when they are understood.

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The *Private Banking Benchmark* 2007 includes detailed information on operating units of private banking operations. The individual units for the top 10 wealth managers are as follows.

The Scorpio Partnership top 10 largest wealth managers

	Institution
1	**UBS**
	UBS – Wealth Management International
	UBS – WMI – International Clients
	UBS – WMI – European Wealth Management
	UBS – WMI – Swiss Clients
	UBS – Wealth Management US
2	**Citigroup**
	Citigroup – Smith Barney
	Citigroup – Private Bank
3	**Merrill Lynch**
4	**Credit Suisse**
	Credit Suisse – EMEA ex Switzerland
	Credit Suisse – JO Hambro Investment Management
	Credit Suisse – APAC
	Credit Suisse – Clariden Leu
5	**JP Morgan**
	JP Morgan Private Banking
	JP Morgan Private Client Services
6	**Morgan Stanley**
7	**HSBC**
	HSBC Trinkaus & Burkhardt
	HSBC Guyerzeller
8	**Deutsche Bank**
9	**Wachovia**
	Wachovia Wealth Management
10	**Pictet**