Deloitte.

Efma

Global market, global clients but local specificities

Wealth Management
and Private Banking

2016

Contents

Foreword

Dear Reader,

Deloitte and Efma are delighted to present you the results of the second edition of the wealth management and private banking survey. This year, our white paper addresses challenges and opportunities that are specific to today's wealth management and private banking cross-border activities.[1]

Cross-border wealth management and private banking players will need to adapt to a new competitive landscape, **as the industry has entered an unprecedented era of transparency**. Growing scrutiny from tax authorities—at a global level—has been at the origin of a significant client re-domiciliation trend which, in turn, has urged **Wealth Management firms and Private Banks, notably from international wealth management centers[2], to follow their clients to their home countries.**

In parallel, **a series of substantial evolutions in the cross-border environment has rocked the industry to its foundations.** Indeed, political tension has been intensifying in some regions of the world and new client types, of a more global and mobile nature, have emerged. These phenomena have led to a **rise in asset volumes in cross-border markets**. On top of that, in a context of fierce domestic competition, **onshore players are looking for new customers in foreign markets.**

Simultaneously, **the industry has witnessed a regulatory avalanche over the last few years.** Many new restrictions have been implemented, ranging from the marketing of products and services, to customer protection, distance selling, and financial advice.

Furthermore, **the fast-changing fiscal environment continues to redesign the cross-border wealth management and private banking market**. This translates into additional costs and investments for the players.

Many wealth managers and private banks foresee that **the future of cross-border markets will be subject to further regulatory and fiscal developments.** The players will need to demonstrate their ability to comply with such developments and to adapt their business strategies accordingly. In our view, there remains much to be done. **Our analysis shows existing challenges revolving around the value proposition delivered to cross-border clients, and more importantly, how this value can be delivered, through a combination of multi-channel interaction, appropriate product and service offerings, at a fair price, and supported by optimal operating and organizational models.**

We believe that these considerations will shape the industry for years to come. For this purpose, **we have collected data from executives of over 75 institutions** through an online questionnaire. In addition, **we have conducted extensive interviews with recognized professionals from the industry and combined their input with our own consulting expertise**, developed through a broad range of assignments across the wealth management and private banking industry around the world.

We believe that our study will be an insightful and pleasant reading, and provide guidance in the current market context. We invite you to share your thoughts with us and look forward to our continued dialog.

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[1] Activities such as the provision of financial products and services in a country which is not the bank's domicile or the client's residence country

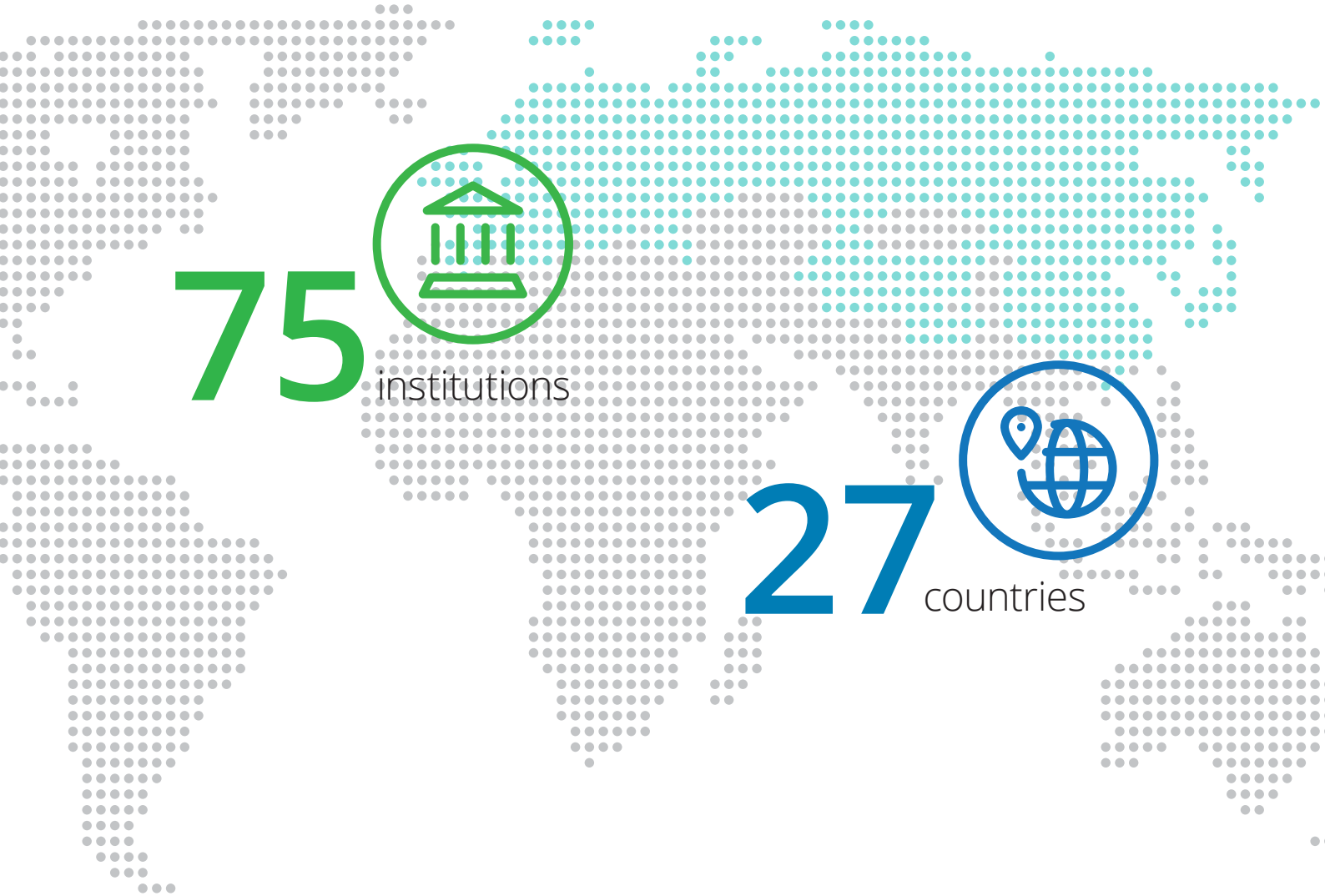
[2] International wealth management centers are usually locations with high political stability and pragmatic fiscal and regulatory frameworks favorable to the wealth management and private banking industry (e.g. Luxembourg and Switzerland)

Scope and reach

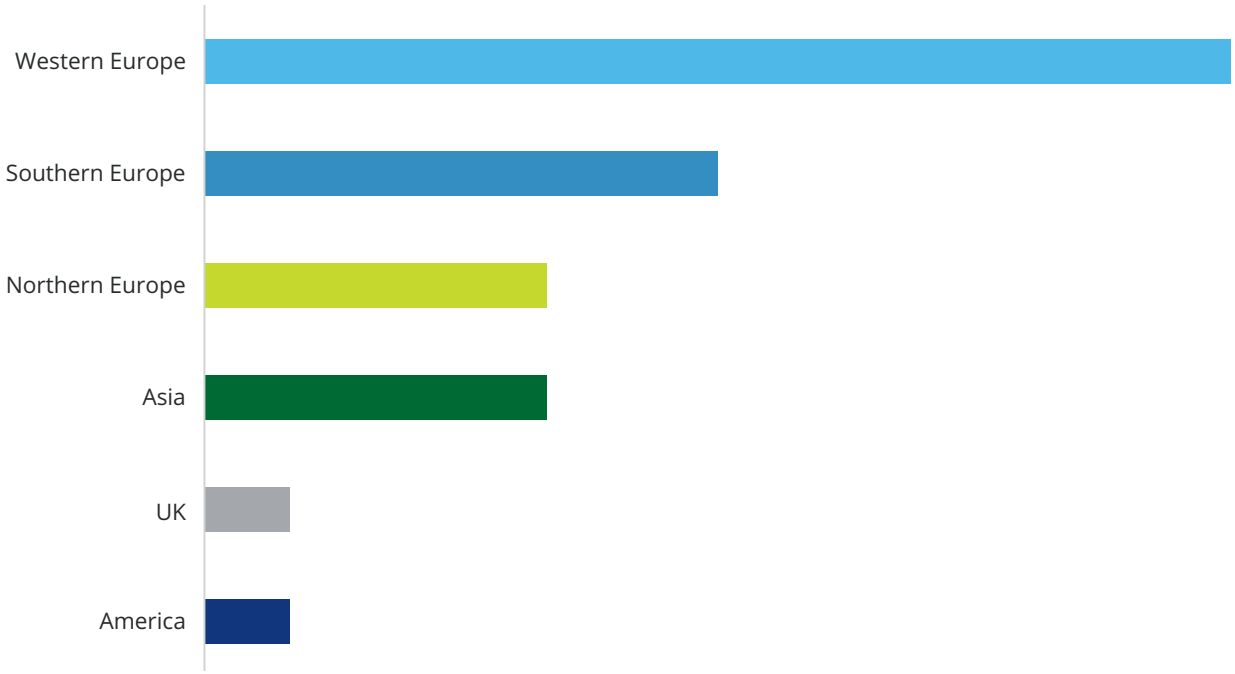
Methodology:

Web-based questionnaire with a broad range of participants:

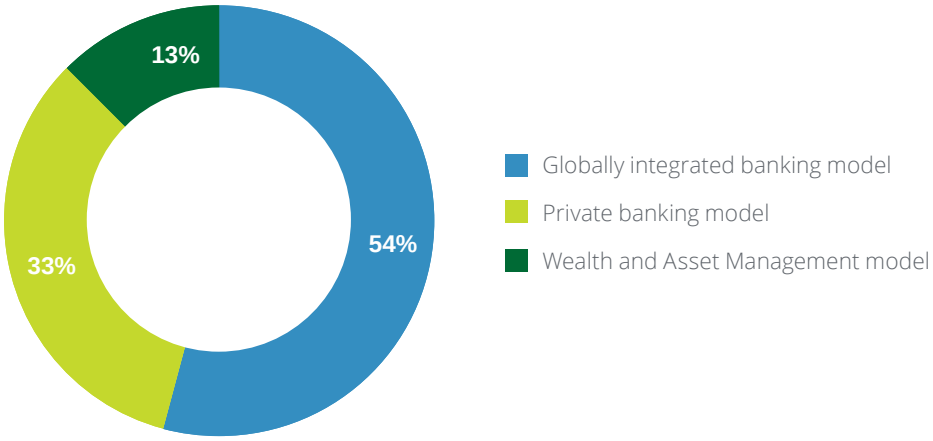
- Application of qualitative and open questions analyzing 50 KPIs and metrics
- Application of quantitative questions
- Interviews with recognized professionals from the industry



Survey geographical footprint



Respondents business models



Snapshot of key messages

Topics	Key messages
Strategic considerations	• Cross-border wealth management and private banking activities are a must in today's highly competitive context • Players from international wealth management centers must leverage upon their service quality to continue to benefit from asset inflows in cross-border markets • In international wealth management centers, client retention and acquisition can only be achieved by leveraging upon competitive edge of proven capabilities in tailored product and service development for cross-border clients
Regulatory and fiscal environment	• Grasping the complexity of local regulations and compliance is a must to capture growth opportunities in foreign markets • Industry players need to consider the changing fiscal environment for each target market to adapt their business and operating models • Wealth managers and private bankers must be equipped with supporting tools providing insight on regulatory and fiscal aspects to mitigate the potential regulatory risks in foreign markets
Operating and organizational models	• Relationship managers should adapt their expertise from a generalist that covers one geographical area to a specialist in fiscal, regulatory, and wealth engineering aspects covering a particular type of client across multiple locations • Players will need to select the operating model that best fits the specificities of each local market rather than one single model for all markets • Choosing one operating model over another for each market should be decided by taking into account factors such as market potential, target client type, cost, and regulatory and fiscal considerations • Industry players should build a strong corporate governance to incentivize the collaboration of product specialists and fiscal experts across departments, in order to deliver real value to clients through a single point of contact—the relationship manager • Players need to develop harmonized operational workflows and integrated IT systems to support a redefined value proposition for cross-border clients

Topics	Key messages
Interaction channels	• Players must find the optimal mix of interaction channels, taking into account cultural specificities, to bring more value to clients • Players should integrate digital channels with existing processes to ensure a seamless and fluid customer experience • Players should take into account digital maturity, client perception of personal relationships, and cultural specificities of each target market
Products and services	• Industry players should consider new products and services such as tax reporting, tax reclaim, and wealth structuring to bring more value to clients while offering commodity-like services at a discounted price • Industry players can strengthen their role of a trusted adviser by developing new products and services tailored to their clients' needs and expectations
Pricing	• Players must adopt a differentiated value-based pricing across client segments while ensuring transparency to gain clients' trust • Institutions must recognize business intermediaries as a separate client segment with specific needs and expectations

Executive Summary

Focus on growth opportunities in cross-border wealth management and private banking will predominate in the future

Cross-border wealth management and private banking will continue to develop over the coming years as clients are becoming increasingly mobile, with assets spread over various countries.

In addition, the current context intensifies the case for cross-border wealth management and private banking. The trend toward tax transparency is causing a significant increase in client re-domiciliation, leading many international wealth management firms and private banks to follow their clients in their home countries. On the other hand, wealth management firms and private banks operating in domestic markets where competition is fierce are looking for new customers in foreign markets. Furthermore, security and political tension around the world is expected to remain the biggest concern in many regions and countries (including Russia, Ukraine, and the Middle East), strengthening asset inflows in domiciles with political and regulatory stability and high quality services.

Altogether these factors lead wealth management and private banking players to focus on opportunities in foreign markets.

Regulatory compliance and fiscal awareness are required to tap into cross-border markets

Despite increased understanding of regulatory and reputational risks by cross-border wealth management and private banking players, regulatory compliance still represents the biggest hurdle to successful cross-border provision of products and services.

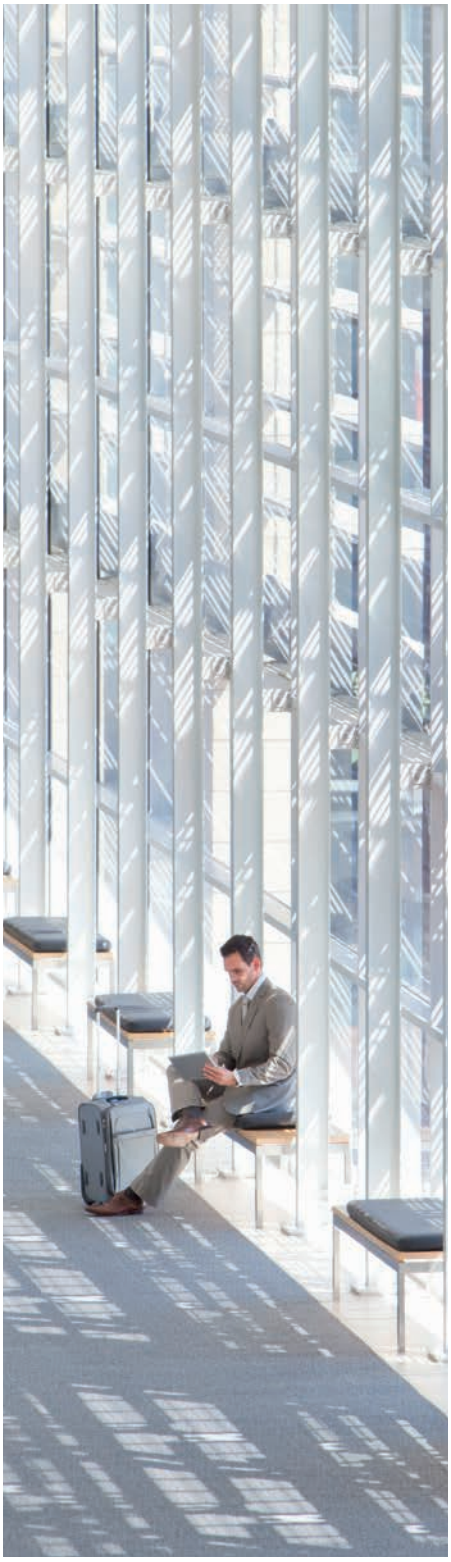
In fact, over the last few years, the market has witnessed a regulatory avalanche, composed of a whole range of new restrictions regarding marketing of products and services, consumer protection, distance selling, and financial advice. On top of that, keeping up with regulatory changes when considering cross-border markets is becoming more difficult every day. In the European Economic Area (EEA), while member states may benefit from a harmonized regulatory framework, the "Free Provision of Services" (FPS) principle allows for many regulatory differences across the economic area; local authorities may choose to impose stricter rules at the national level. The landscape outside the EEA is even less harmonized, with wider discrepancies among countries.

Furthermore, fiscal considerations are important for a successful foreign expansion. Particularly, the Base Erosion and Profit Shifting project (BEPS), namely through the revised Permanent Establishment (PE) definition and Country-by-Country Reporting (CbCR), will reshape the fiscal environment governing cross-border activities.

In principle, companies carrying out cross-border activities are taxable mainly in their country of head office unless a part of their activities is seen as a PE abroad. Under the revised PE definition by the OECD, the threshold to recognize a PE (e.g. based on substance, involvement in the concluding of agreements, and type of activities carried out in the foreign market) will be lowered, resulting in more players subject to foreign taxation on business profits generated in cross-border markets. Furthermore, BEPS CbCR obligations will go beyond the Capital Requirements Directive IV (Article 89) and will compel players to provide foreign tax authorities with additional key business data and financial performance indicators for each country in which they operate.

Alongside BEPS, Common Reporting Standard (CRS) obligations will further intensify tax transparency, leading to increased operational complexity for wealth management firms and private banks. In fact, players will be subject to new reporting requirements to their tax authorities, who will then exchange such information with foreign fiscal authorities regarding their cross-border clients. A major challenge for players is to meet the reporting requirements regarding their customers in multiple jurisdictions where the implementation calendars differ.

Grasping the complexity of local regulations and compliance is a must to capture growth opportunities in foreign markets



Operating and organizational models must be adapted to new, global, and mobile clients

In light of the changing cross-border wealth management and private banking landscape, market players need to find an appropriate operating model to better serve their clients. Four traditional models are widely used, all of them having different dynamics depending on the target market. The most effective approach would thus be for each market to select the model that best fits its local specificities rather than one single model for all markets.

The "Remote" model features only one booking center from which relationship managers travel abroad. In this configuration, the risk of PE status is substantial. Indeed, the relationship managers' activity, albeit not supported by local legal entities, can be considered as a PE under certain circumstances and imply tax and contract requalification issues.

The "Hub-and-spoke rep. office" model features a main hub and representative offices, with no legal entity status, established in foreign markets with a uniform branding.

The "Hub-and-spoke branch" model is quite similar to the "Hub-and-spoke rep. office," except that the entities connected to the main hub are fully-fledged entities established in foreign markets. The client benefits from a local IBAN account, which is an important aspect in some European countries. This underlines the psychological bias and rising fear of fiscal scrutiny to which even regulatory- and tax-compliant clients can be subject.

Finally, the "Best of brands network" model consists of independent local entities with booking center capabilities and one group booking center. While the group booking center can be leveraged by local entities for certain functions such as support, marketing, product development, or asset management, the local branding provides a strong cultural flavor for clients and facilitates group acceptance in the country or region.

While all players would like to tend toward a "Hub-and-spoke branch" or "Hub-and-spoke rep. office" model, subject to business case in target foreign markets, an optimal solution—in the absence of such business case—would be a selective approach by market. In other words, choosing one model over another for each market should be decided by taking into account factors such as market potential, target client type, cost, and regulatory and fiscal considerations.

Players will need to select the operating model that best fits the specificities of each local market rather than one single model for all markets

Players need to find the optimal mix of interaction channels, taking into account cultural specificities, to bring more value to clients

Relationship managers should adapt their expertise from a generalist that covers one geographical area to a specialist in fiscal, regulatory, and wealth engineering aspects covering a particular type of client across multiple locations

On the other hand, results highlight the expected reshaping of front office organization. Indeed, while geographical organization is by far the most common organizational model, client type organization is expected to be increasingly adopted by wealth management firms and private banks as cross-border clients become more global and mobile with assets across various countries and regions.

Consequently, relationship managers should adapt their expertise from a generalist that covers one geographical area to a specialist in fiscal, regulatory, and wealth engineering aspects covering a particular type of client across multiple locations. In order to successfully achieve this transition, strong corporate governance is key to incentivize the collaboration of product specialists and fiscal experts across departments, in order to deliver real value to clients through a single point of contact—the relationship manager. Hence, players should adapt their organizational and remuneration models to align objectives between the different stakeholders across the organization. In addition, the setup of Chinese walls might be required within the organization to prevent conflicts of interest when it comes to serving both traditional direct wealth management and private banking clients and the new growing segment of business introducers such as Independent Financial Advisers (IFAs). A strict segregation is needed for industry players to comfort business intermediaries and to ensure trust and effective collaboration. In doing so, a major challenge for the industry will thus be to limit potential process and staff duplication so that it remains economically sustainable.

Interpersonal relationships and multi-channels interaction will be key differentiating factors in the short term

Respondents highlight the importance of personal relationship as a main decision criterion for clients to select their Wealth Manager or Private Bank. In fact, traditional interaction channels (phone and face to face) will remain key to deliver tailored advice on non-traditional investment strategies and trigger client's investment. Surprisingly, wealth management firms and private banks do not seem to consider digital technology capabilities as an important decision criterion for cross-border clients. This translates the gap in expectations between cross-border clients, in particular next generation clients, and the offering and perception of wealth managers and private bankers. Indeed, new cross-border client types such as generation Y self-directed clients consider digital capabilities as a key component of the relationship with the wealth manager and private banker. These clients are increasingly seeking around-the-clock information and data analytics as well as access to e-communities that connect investors across various locations to share trade ideas and investment strategies. Over 50 percent of generation Y cross-border customers would even change their wealth manager or private bank for a better online platform solution.

Conversely, when it comes to serving cross-border clients, the respondents agree that foreign physical presence is not always required. In fact, remote services (website, mobile) represent a large share of their existing channels, both within and outside the European Union. Due to the current economic context, players are cautious about engaging capital to set up physical presence abroad, which can partly explain this trend.

In the future, players will need to take cultural aspects and regional specificities into consideration when setting up a mix of interaction channels. The right mix will vary depending on the countries targeted, notably due to their respective digital maturity and client sensitivity to personal relationships in each region.

Industry players should consider new products and services such as tax reporting, tax reclaim, and wealth structuring to bring more value to clients while offering commodity-like services at a discounted price

Products and services should be tailored in line with cross-border client type and increasing complexity of client requests…

To successfully compete in cross-border markets where there is usually little brand recognition, wealth management firms and private banks need to increase their focus on their product and service offerings and determine how these can respond to the rising complexity of client needs and expectations. In fact, industry players should find new ways to add value through existing services such as portfolio management and core advisory, as well as new services such as wealth structuring and tax efficient solutions. These services are expected to be the key constituents of a redefined value proposition for cross-border clients.

On the other hand, the new generation of cross-border clients is increasingly looking to invest in products with positive social and environmental impacts. Moreover, these new types of client tend to be cautious about state-controlled pension schemes and increasingly require tailored retirement pension plans. Players can respond to those needs through a new generation of products and services.

Furthermore, it is particularly notable that commodity-like services such as banking services (payment and loans) and transactional services, which all survey respondents offer today, are expected to become less important.

…and the pricing approach needs to be redefined accordingly to foster business development

To accompany the transformation of product and service offerings, industry players will also have to adapt their pricing approach. While transaction, management, and custody fees are currently of high importance, respondents foresee that they will fade. In the meantime, they predict a strengthening of performance fees, advisory fees, and all-in fees. In other words, players will need to price according to the value delivered to clients.

This trend promises to be a major evolution in relationship managers' remuneration framework, shifting from incentives based on the volume of assets under management (e.g. basis points charged over assets under management or custody) to the value added services brought to the client (e.g. fees for advice or fees as a percentage of portfolio performance).

Pricing practices will need to embrace a segmentation based on a combination of factors, including the type of client, the complexity of client requests, and their location. Besides, pressure on pricing increases as new client segments appear—first and foremost Independent Financial Advisers (IFAs) and External Asset Managers (EAMs)—and transparency is a rising concern for players to gain clients' trust.

Finally, while most players are aware of existing tools and processes to monitor client and product profitability, these tools give an incomplete picture, translating only the product performance without taking into account cost components, such as direct product and service manufacturing or distribution costs.

Players must adopt a differentiated value-based pricing across client segments while ensuring transparency to gain client's trust

1. Strategic considerations

Political tension around the world, onshorization, and the emergence of global and mobile clients will reshape the cross-border wealth management and private banking landscape

The cross-border wealth management and private banking landscape is going through a significant transition. Political tension in some regions of the world, onshorization, and the emergence of new client types are the drivers of this change. From an asset inflow-outflow perspective, total cross-border asset volume is expected to rise. Indeed, increasingly global and mobile clients are emerging and their assets are widely spread over many countries in various regions. This will provide a driver for a sustainable growth in cross-border assets. On the other hand, political tensions and onshorization will drive asset inflows into domiciles with high political and regulatory stability and limited asset outflows from international centers.

In fact, our survey respondents recognize that political and regulatory stability, along with high quality services, are key criteria for choosing a foreign booking center. This should strongly benefit international domiciles with renowned stability and service quality such as Luxembourg and Switzerland. Nevertheless, the growing tax transparency pressure triggers a significant client re-domiciliation trend, leading many international wealth management firms and private banks to follow their clients into their home countries. This phenomenon concerns mainly sub-scale clients. Indeed, despite tax transparency pressure, large scale clients still see advantages in staying in international centers, notably to access favorable country-specific vehicles as well as high-end products and services such as wealth structuring and tax efficient solutions. Additionally, many wealth management firms and private banks operating in domestic markets are also targeting customers in foreign markets.

Altogether these factors are expected to lead to a sustained growth in cross-border wealth management and private banking assets. This is the beginning of a genuine race for growth opportunities in foreign markets.

Reasons for using foreign booking centers

Players from international wealth management centers must leverage upon their service quality to continue to benefit from asset inflows in cross-border markets

Players are increasingly seeking to expand in foreign markets

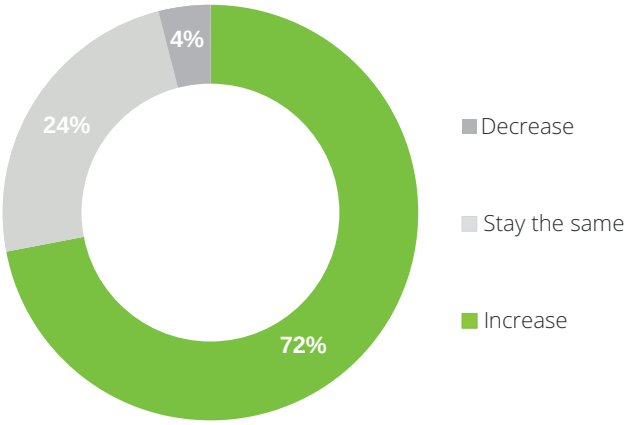
A considerable 72 percent of respondents believe that their institutions will enter or expand in cross-border markets in the near future. Many of them are looking to scale up their coverage of Asia, which is widely predicted to re-establish its growth trajectory on the short term. Players, especially European ones, are also looking at Western and Central/Eastern Europe to increase their customer base. In fact, European banks are less likely to increase coverage in Asia than Asian institutions themselves. This is indicative of the recent strong growth in the region, which has resulted in high levels of retained earnings that are now reinvested to develop region-wide champions. This emergence of regional leaders is expected to occur in Europe as well.

The Middle East is also mentioned as a favored region in many banks' future plans for cross-border coverage. In fact, many players consider the recent ease of restrictions on foreign direct investments and ownership in Saudi Arabia and potential upgrade to MSCI Emerging Markets as a promise for a surge in liquidity in the region despite the political instability and low oil prices. Again, Middle Eastern wealth management firms and private banks are most likely to increase cross-border coverage in the region. The least attractive region from the point of view of respondents for cross-border activities is Latin America, where the recent uncertainty over its short/mid-term political and economic outlook has produced substantial risk aversion.

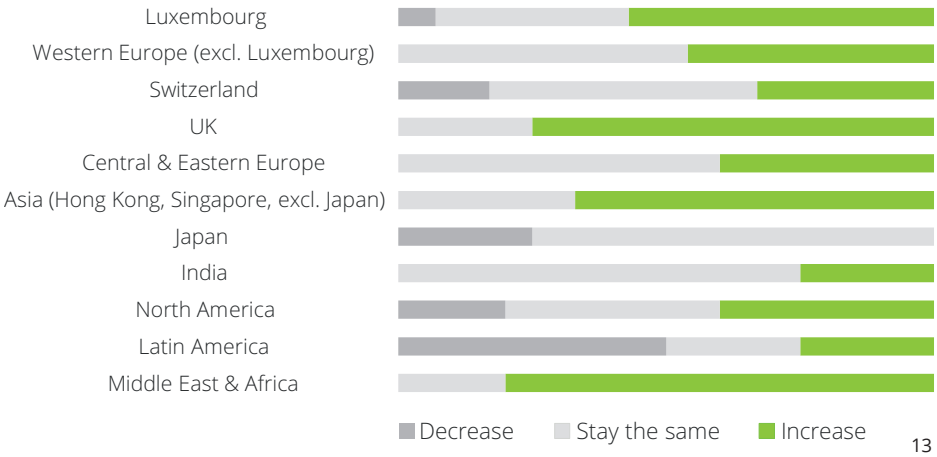
On the other hand, the scale of players and the competitiveness in home markets are also indicative of cross-border activities. In fact, large-sized wealth management firms and private banks that operate in unsaturated home markets are less likely to expand their cross-border activities than small-sized wealth management firms and private banks operating in home markets where competition is fierce. The latter is applicable to Luxembourg where many players have been increasingly looking at cross-border expansion opportunities in neighboring countries as a result of increased competition.

Cross-border wealth management and private banking activities are a must in today's highly competitive context

Expectations for the evolution of AuM in the next 5 years



Expected geographic coverage in the next 5 years



Intended investments reflect institutions' awareness of the need for a redefined value proposition to serve cross-border clients

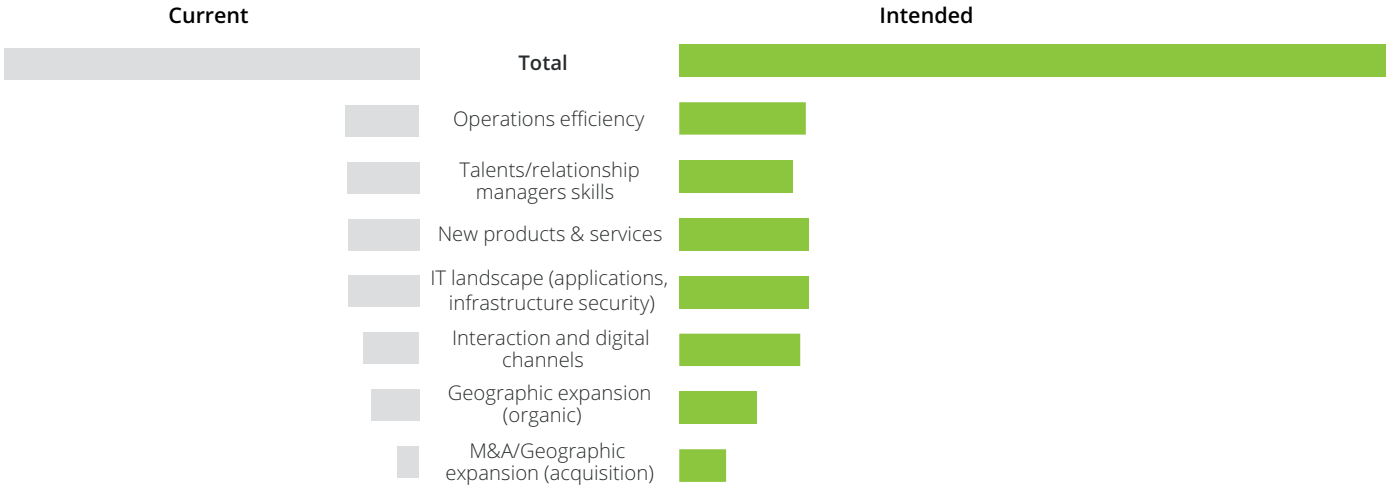
Overall, institutions intend to increase their investment across all areas as a result of increasing complexity of client needs and expectations.

Respondents expect higher investments in both areas directly related to the value proposition and the ones that support the value delivery to clients. Indeed, the "new products and services" item, embodying the core of the value proposition, shows an increase in the intended investments. At the same time, the "operations efficiency" and "IT landscape" items—which are crucial elements of the delivery of such value proposition—are also rising. Indeed, harmonized operational workflows and integrated IT systems are important when it comes to launching new products across locations as well as providing timely and accurate data to clients about their portfolio.

On the other hand, geographical expansion—both organic and through mergers and acquisitions—is considered as the least important area. This reflects the current economic outlook in Europe and the risk aversion trend, which leads the players to re-center their attention to clients in target geographical areas at an optimal cost, notably through remote services (e.g. via website, mobile relationship managers). This is a conservative view, as opposed to a riskier geographical expansion.

Players need to develop harmonized operational workflows and integrated IT systems to support a redefined value proposition for cross-border clients

Relative importance of current and intended investments



Products and services emerge as a key element to compete in foreign markets but need to rely on a more granular segmentation

Any market entry requires a competitive advantage. Getting an edge on the competition is a necessity in order for a new player to be successful in a market where existing actors are well established.

Our survey shows that the products and services offered are the cornerstone to compete in cross-border markets. Indeed, most respondents agreed on the fact that "Products and Services" was the key element of their strategy in foreign markets. While this number one position is clear, the "Promotion" (i.e. brand and marketing) and "Distribution" elements are important too, ranking respectively second and third.

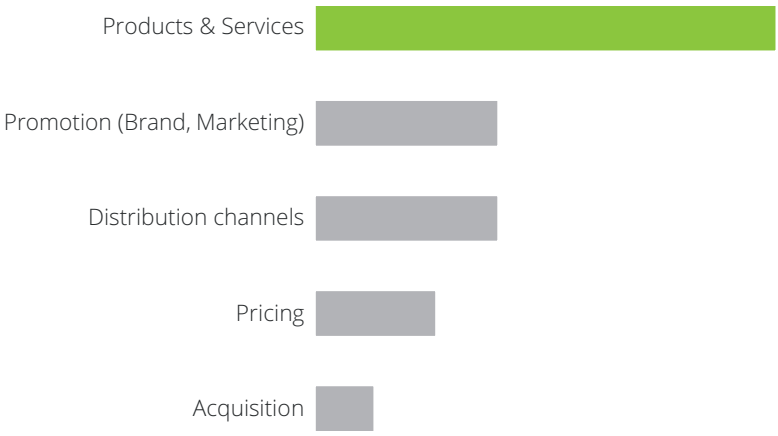
In order to implement the winning products and services strategy, and to develop the right products that fit the client needs and expectations, wealth management and private banking institutions must build advanced client segmentation. Doing so would allow them to split the customer base into relevant groups and to match each segment with the appropriate offer. Finding the product that provides the client with real value is crucial. Traditional segmentation has consisted in geography- and wealth-band-based groups of clients. To go beyond this view, behavioral aspects, such as whether the client is "self-directed," "fully dependent," or "advice seeking," must be taken into consideration. The next step, that is already becoming a trend, is to combine traditional and behavioral segmentations with a client type approach (e.g. self-directed Italian millennials holding over 10 million euro). In this context, institutions should take advantage of the tremendous amount of client data available internally to define micro segments, investment patterns, or products to re-advise to their clients.

While retail banking players have been using robots to push product ideas to their advisers for some years, wealth management firms and private banks are still to achieve such a transition. This evolution will largely industrialize advisory, which as of today remains highly subject to the relationship managers' perspective. Resistance to change will most likely be the main hurdle for achieving this transition. Furthermore, robots can help players meet regulatory requirements through automatic processes for pre-trade checks, risk simulation, and smart asset allocation.

In the meantime, players from international wealth management centers can retain existing and acquire new cross-border clients by leveraging on their experience and skills in serving foreign customers. In addition, unlike onshore players, who usually only remain local, players from international wealth management centers have an international investment universe covering different asset classes from several countries and regions. International hubs have a large set of country-specific vehicles as well as high-end products and services such as wealth structuring.

In international wealth management centers, client retention and acquisition can be achieved only by leveraging upon competitive edge through proven capabilities in tailored product and service development for cross-border clients

Key elements of strategy to compete in foreign markets



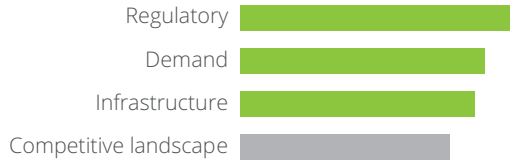
2. Regulatory and fiscal environment

Regulatory constraints are perceived to be the biggest obstacle

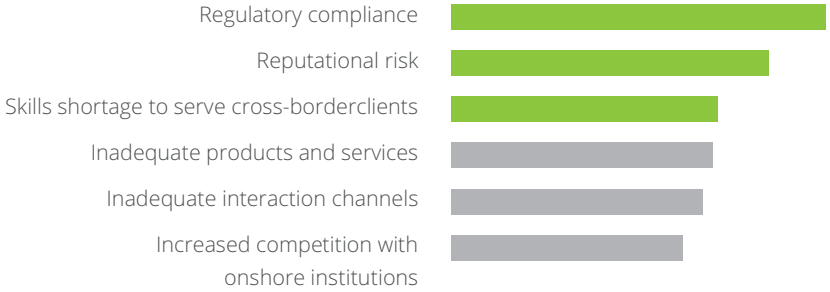
Respondents agree that the biggest challenges to expand in foreign markets are regulatory compliance and the inherent reputational risk. In Europe, the "Free Provision of Services" principle (FPS) aims to facilitate the provision of financial products and services in the EEA through a full harmonization of relevant laws across member states. However, many discrepancies subsist among local regulations, leading to potential regulatory and reputational risks for cross-border wealth management and private banking players. These discrepancies are even higher when considering non-EEA countries (e.g. Singapore). Next to this, clients have increasingly complex businesses and family profiles stretching across several countries and regions with multiple fiscal frameworks. This requires wealth managers and private bankers to be well versed in local regulatory aspects to respond to the increasing complexity of client needs.

In this context, access to real time digital solutions, providing insights on regulatory aspects such as Anti-Money Laundering/ Know Your Customer/Counter-Terrorist Financing (AML/KYC/CTF), can help wealth managers and private bankers mitigate potential regulatory risks when serving cross-border clients. At the same time, staff training and certification, especially for relationship managers, are becoming increasingly important for both clients and local regulators. For instance, the Swiss Financial Market Supervisory Authority (FINMA) has enforced certification and licensing for wealth management firms and private banks to conduct advisory activities. Next to this, defining the proper level of requirements to prevent certificates from becoming empty shells is a challenge for the industry to ensure customer protection and added value to clients.

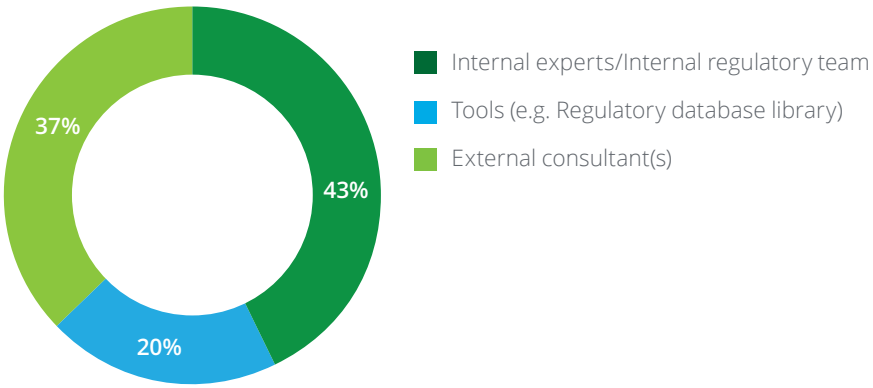
Relative importance of various trends on your cross-border wealth management activities



Relative importance of major challenges to conduct cross-border wealth management activities



Monitoring of regulatory developments in foreign markets



Wealth managers and private bankers must be equipped with supporting tools providing insight on regulatory and fiscal aspects to mitigate the potential regulatory risks in foreign markets

Fiscal considerations such as the revised Permanent Establishment definition, Country-by-Country reporting, transfer pricing, and Common Reporting Standard obligations will have serious implications on business and operating models

Companies and their operations are currently under increasing scrutiny from fiscal authorities. This is especially reflected in the accelerated emergence of stricter tax requirements with the BEPS actions and CRS obligations coming into play.

On the one hand, BEPS will have an impact on the cross-border wealth management and private banking industry mainly through the revised PE definition, CbCR, and the new transfer pricing standards. In fact, with the revised PE definition, any local presence (even temporary mobile relationship managers) with a significant involvement in the conclusion of agreements may lead to the recognition of a PE where before no PE would have been recognized. Whether or not double tax treaties are amended to adopt the new definition, tax authorities have already adopted a new behavior that makes them more aggressive regarding the existence of a PE. The key challenge for players is to have an optimal operating model with the right mix of physical presence and remoteness depending on the location. As of today, the new PE definition is not fully clear and the behavior of the tax authorities may be inconsistent, which is creating uncertainty among industry players. Some EU countries such as France are pushing for a more constrictive local transposition. This in turn is expected to encourage players to rethink their positioning when serving the French market.

On the other hand, BEPS, CbCR, and the new transfer pricing standards will further enforce transparency on the way players are organized. Indeed, Indeed, the CbCR Directive - which has to be implemented by June 2017 for reporting of 2016 data - will require players to report a set of information such as turnover, number of employees, profit, or loss before taxes and income taxes. This will enable fiscal authorities to ensure that transfer pricing results reflect whether profits are aligned with the value-creating functions. In institutions that have separated the entities that contribute to value creation from the ones to which the profits are allocated, the relevant contributions of each entity will need to be clearly assessed and documented. "BEPS—with a first implementation at EU level from 2019 decided with the Anti Tax Avoidance Directive on June 21 2016 at the Economic and Financial Affairs Council—would also affect institutions' service offering. Mainly, some products and vehicles offered to clients could be subject to a less favorable tax treatment due to a change in double tax treaty entitlement (i.e. denial of double tax treaty reduced rate or risk of double taxation).

In addition, CRS obligations—applicable in 82 jurisdictions as of June 2016—should bring more operational complexity to industry players. In particular, players will be subject to new reporting requirements to their clients' tax authorities that will then exchange information with their foreign counterparts. Players will need to report important information including client personal details, account balance, and total gross proceeds from the sale or redemption of financial assets. This reporting will represent a major operational challenge for institutions due to the increasing complexity of client profiles with multiple countries of residence, as well as assets spanning across several locations. In addition, players will need to comply with different reporting implementation dates depending on the client jurisdiction.

Another challenge for the industry players is to ensure compliance from a tax and social security perspective for their mobile employees (e.g. mobile relationship managers) who might be subject to individual multi-state tax liability.

While we see challenges for players to comply with these upcoming regulations, we believe that this is an opportunity to revisit their business and operating models, and equip themselves with supporting tools to monitor fiscal and regulatory developments.

Industry players should consider the changing fiscal environment for each target market to adapt their business and operating models

3. Operating and organizational models

Industry players should adapt their operating models to serve cross-border clients

Wealth management firms and private banks currently serve cross-border clients mainly through 4 different operating models: the "Remote" model, the "Hub-and-spoke rep. office" model, the "Hub-and-spoke branch" model, and the "Best of brands network" model.

Institutions tend to increasingly centralize back-office operations in search of cost efficiency, while operating front-office activities locally. Thus, players would ideally adopt a "Hub-and-spoke branch" or "Hub-and-spoke rep. office" model, subject to business case in target foreign markets. In the absence of such business case, the optimal model is a selective approach, with specific uses of each model depending on the market. This framework, mixing the four traditional models, allows institutions to define a tailored strategy, best adapted to address the characteristics of the target markets.

It is interesting to note that the prominence of each of these operating models will vary across countries. In Luxembourg, we see all of these models, while in other markets such as Switzerland, players usually opt for the "Hub-and-spoke branch" or "Remote" model.

The four traditional models presented below are followed by further details regarding the selective approach by market.

Remote
This model is centered on a single global legal entity—a hub—from which relationship managers travel. These relationship managers, crossing borders as representatives of the central entity, are organized as a taskforce leveraging on the FPS principle in the EEA. Nevertheless, to go beyond EEA borders, they must obtain business visas. The hub is responsible for booking center capabilities as well as advisory and processing capabilities. In this model, there is no local flavor or enhanced acceptance of the bank in foreign markets, due to the absence of local branding or physical presence apart from the core center. Under these circumstances, the digital aspect is crucial to establish client proximity as well as ensure regulatory and tax compliance.

Furthermore, as relationship managers are in charge of the prospection and provision of services remotely, there exists a risk of PE. Indeed, despite the fact that there is no legal entity in the countries visited, the nature of the relationship managers' activity can lead to a PE status.

In addition to regulatory and fiscal limits, the industry witnesses an increasing pressure on the players operating under the remote model, exerted by competitors establishing a physical presence in their target markets.

Hub-and-spoke rep. office
This model is built around a single global hub supported by a group of representative offices abroad. The hub includes booking center capabilities such as treasury and credit processing, advisory, and processing capabilities like trading and execution. The representative offices are not actual entities from a regulatory and tax perspective since they usually have less activities than a PE. They are in charge of front marketing and client acquisition. There is less local flavor but the risk of PE may become real with the revised PE definition.

A variant of this model is one where there are many centralized regional booking and processing centers. This would lead to increased process efficiency and a faster response time to clients.

Hub-and-spoke branch
In this configuration, the single global hub is supplemented by a network of fully-fledged branches in foreign countries. Similarly to the "Hub-and-spoke rep. office" model, the hub at the heart of this setup includes booking center capabilities as well as advisory and processing capabilities. The branches provide local services and are focused on front (e.g. servicing and advice) and near front activities (e.g. local risk management). Even if branches are not different legal entities from their head office, they usually must fulfil their own regulatory and tax requirements. They can, to that extent, issue a local IBAN to their clients, leading to stronger local flavor and enhanced acceptance of the bank. The branch is usually a per se PE and the new PE definition should not change that. However, with the new transfer pricing standards of BEPS, impacts might be expected regarding the income to be allocated to the branch.

Similarly to the "Hub-and-spoke rep. office" model, there could be a variant of this model with multiple centralized regional booking and processing centers.

Best of brands network
The "Best of brands network" setup also features a global hub, supplemented by independent affiliates. The latter present different brands, often national ones, which have been preserved despite past acquisitions connecting the affiliates to the central hub. Although both the hub and the affiliates have their own booking center capabilities and advisory and processing capabilities, the affiliates can still benefit from the hub's support in terms of marketing, product development, and asset management. Moreover, they have legal personalities, and thus can issue local IBANs for their clients. Furthermore, their local branding implies an even stronger local flavor and enhanced acceptance of the group. The PE risk seems remote but cannot be ignored in some specific cases.

Overall, and despite the strengths associated with each of those four models, issues arise when one of them is applied in a systematic way, regardless of the markets covered. Institutions must be aware of the specificities of their target markets and adopt a selective approach, combining the four traditional models.

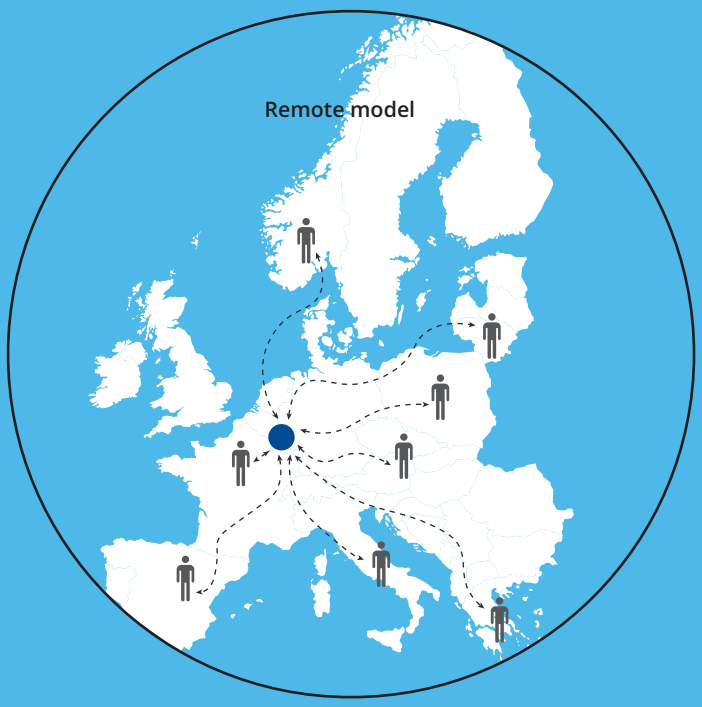
A selective approach by market
In order to best serve cross-border clients, wealth management firms and private banks must select the appropriate model in each situation, taking into consideration several drivers.

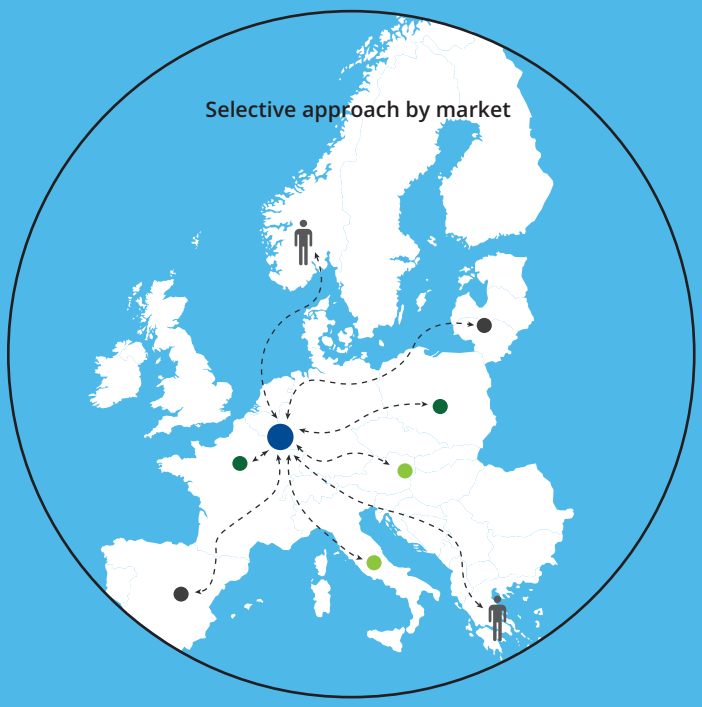
First, client proximity is a key differentiating factor and must be accounted for when deploying branches, representative offices, or affiliates. The choice must be based on individual country business cases and the assessment criteria should include regulatory requirements—notably how much substance for risk management and compliance functions is required by local authorities, assets under management originating from the country, potential growth in assets, and the number of relationship managers currently "remotely" serving the specific market.

Secondly, cost reduction can be achieved through capability centralizing/optimizing on a regional or global level (streamlining, standardization, bundling). This should be done, as much as possible, without undermining the quality of client-related activities (added-value activities perceived by clients).

Thirdly, taking into account regulatory and fiscal aspects allows the mitigation of any potential restriction or fiscal impact on the bottom line.

Operating and organizational models





- Branch
- Representative office
- Flow of information
- Booking center
- Affiliates
- Fly-in relationship manager

Choosing one operating model over another for each market should be decided by taking into account factors such as market potential, target clients type, cost, and regulatory and fiscal considerations

Developing a client type organization will be crucial to compete in cross-border markets

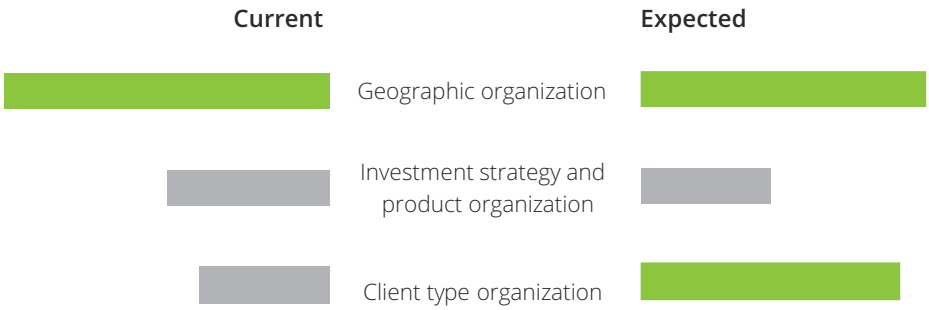
We expect the front office organization to soon experience a significant reshaping. The survey respondents confirm this forecast by stressing the rise of client type organizational models and the weakening of geographical ones. Indeed, players must adapt their front office organization to better serve cross-border clients, in a context where the latter are becoming increasingly global and mobile, and hold assets across various countries and regions.

Wealth management and private banking institutions should not underestimate the implications of such a transition. In fact, this will lead the industry to thoroughly redefine the relationship manager role as well as the companies' corporate governance as a whole. More precisely, some relationship managers will need to adapt their expertise. Traditionally, they have been generalists covering clients in one particular geographical area. Henceforth, they will have to become specialists in regulatory, fiscal and wealth engineering aspects covering clients across various locations.

This relationship manager role redefinition will only be possible if supported by strong corporate governance. Specifically, organizational and remuneration models will need to align objectives between product specialists and fiscal experts across departments so that they collaborate extensively with the relationship managers.

There are further implications regarding organizational models. Serving new types of clients, namely business introducers, will require wealth management firms and private banks to enhance segregation (Chinese walls) in order to avoid conflict of interest situations in which the relationship managers would directly target their clients' customers.

Current and expected front office organizational model to serve cross-border clients



Industry players should build a strong corporate governance to incentivize the collaboration of product specialists and fiscal experts across departments, in order to deliver real value to clients through a single point of contact, the relationship manager

4. Interaction channels

A combination of traditional and digital channels is key to serve cross-border clients and improve institutions' cost efficiency

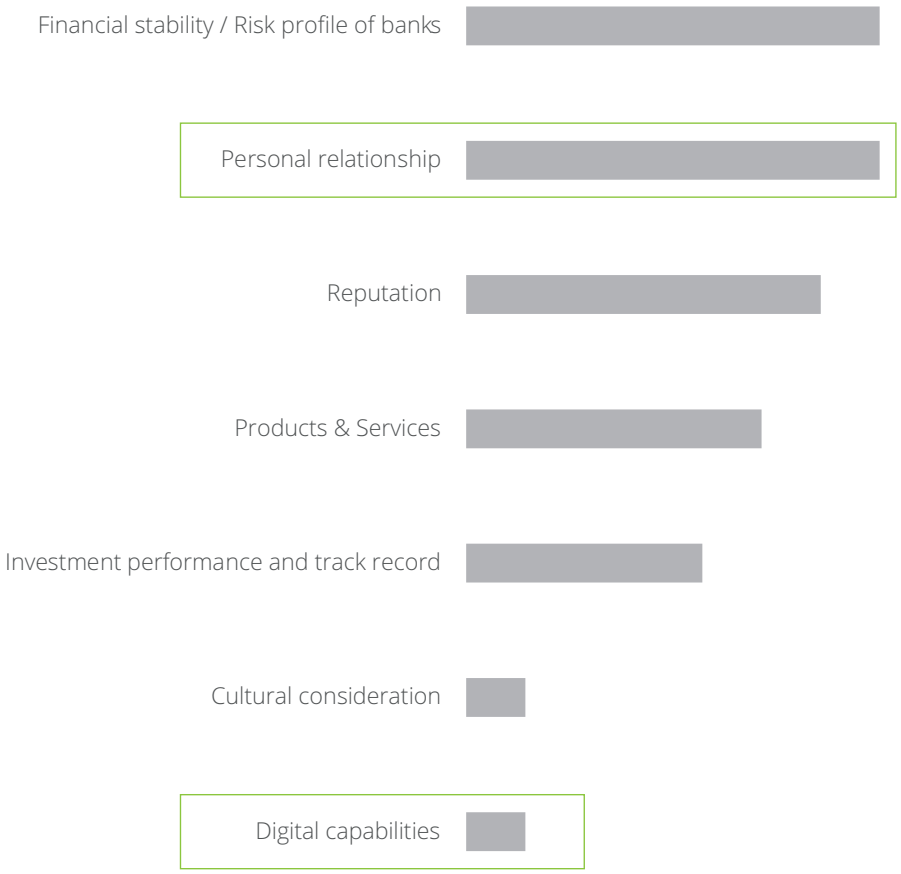
Respondents do not fully grasp the importance of digital capabilities when serving cross-border clients. Many factors, including personal relationships, are perceived as much more critical. By thinking so, they fail to realize the forthcoming trend that will make the digital factor essential to an effective interaction channel mix.

In order to remain competitive, institutions must engage in digitalization and integration of digital channels with existing processes. This will be key to achieve a seamless, fluid customer experience across multiple channels; consider a smooth transition from face-to-face/phone to online and back to face-to-face/phone for "Connect," "Advice." and "Invest." While players have been using online "Connect" for a while now, the path toward online "Advice" and "Invest" is still underway. Next to this, some main players are investing in robo-advisers, but the readiness level differs across markets. In Switzerland, the industry is in the midst of this evolution, with several players integrating robo-advice in their service offering. This will enable players to achieve higher cost efficiency and competitive pricing to retain and attract cross-border mass affluent clients. Those clients constitute a segment that is usually more price-sensitive than other high-end client segments.

Players should integrate digital channels with existing processes to ensure a seamless and fluid customer experience

In particular, the transition to digital in order to complement traditional channels is crucial when considering the current legacy costs of wealth management firms and private banks. These costs were transferred to clients through higher transaction fees compared to online platforms, resulting in volume losses for traditional wealth managers. This puts the pricing models and revenues of wealth management firms and private banks at risk.

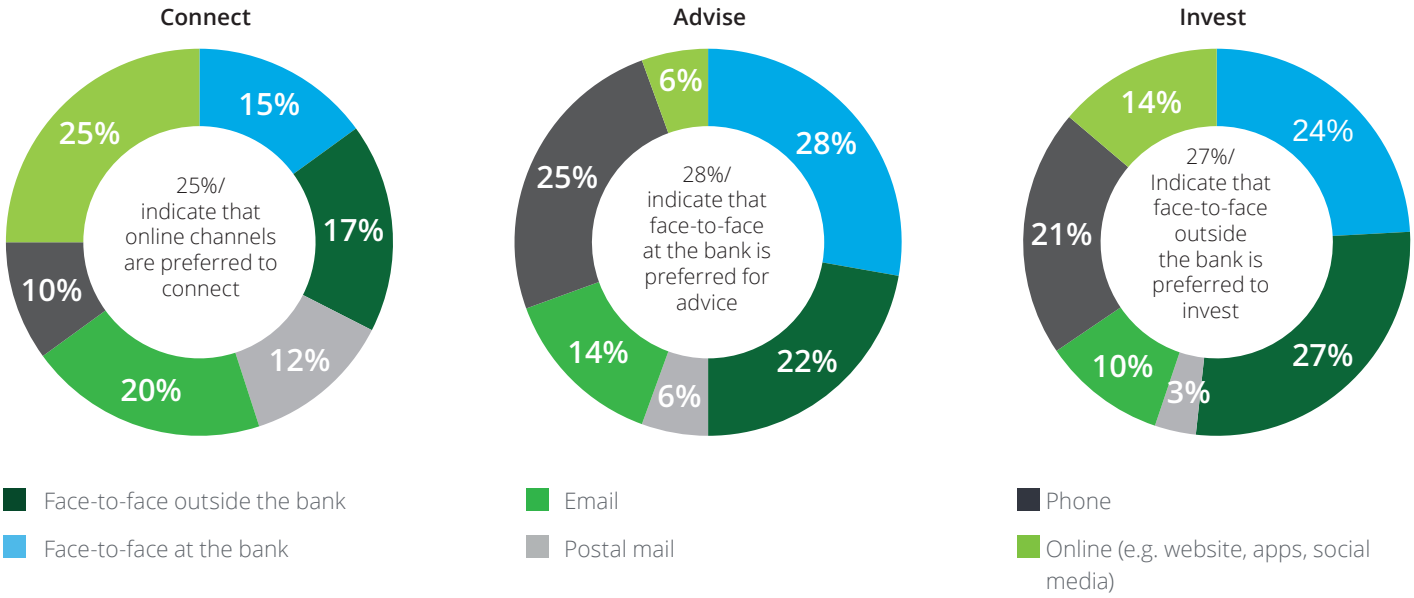
Main client decision criteria for selecting a wealth manager or private bank



While achieving the digital transition is a must for institutions, traditional channels remain crucial to monetize the advice into a client investment. Next to this, we note that the "face-to-face outside the bank" is becoming more important. In other words, relationship managers will not only need to engage with their clients at the bank but also outside the bank for advice and investment.

An emerging model is one where the relationship manager will need to engage with his clients outside the bank rather than inside the bank for advice and investment

Usage of key interaction channels by cross-border clients



Most players agree that cross-border clients do not necessarily need to be served through a foreign physical presence

While neglecting the perception of digital capabilities as a decision criterion, most institutions serve cross-border clients through a variety of channels, and foreign physical presence represents a minority of them. They agree on the fact that cross-border clients can be served through non-physical channels. In fact, a combination of local physical presence, remote service (website, mobile), and fly-in business is key to best serve cross-border clients.

Furthermore, as cross-border clients are spanning through many countries, the regulatory complexity and interaction burdens increase. Hence, players need to find the optimal mix between these channels to maintain effective and profitable client servicing by building a consistent approach that spans through all channels.

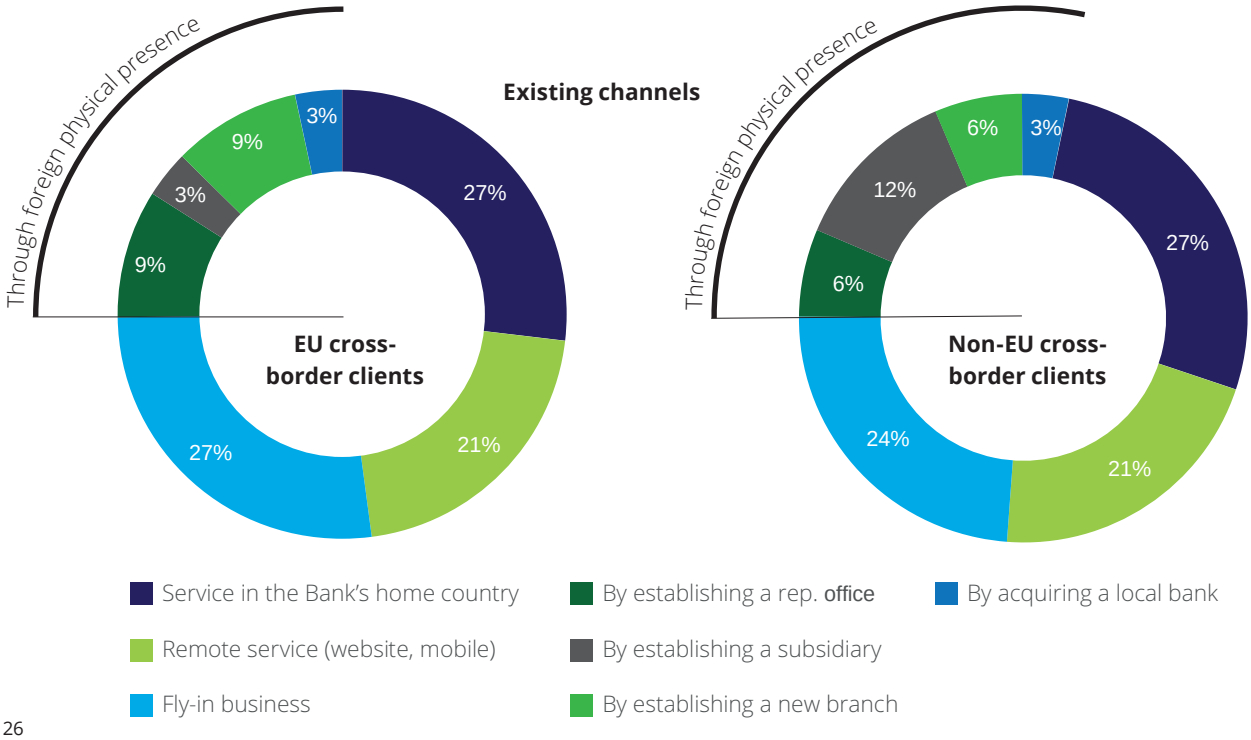
Results indicate that both EU and non-EU cross-border clients are served through similar channels. A considerable 75 percent of respondents are serving their cross-border clients through services in the bank's home country, fly-in business, and remote services.

Institutions must recognize geographical differences among cross-border customers to deliver a better client experience

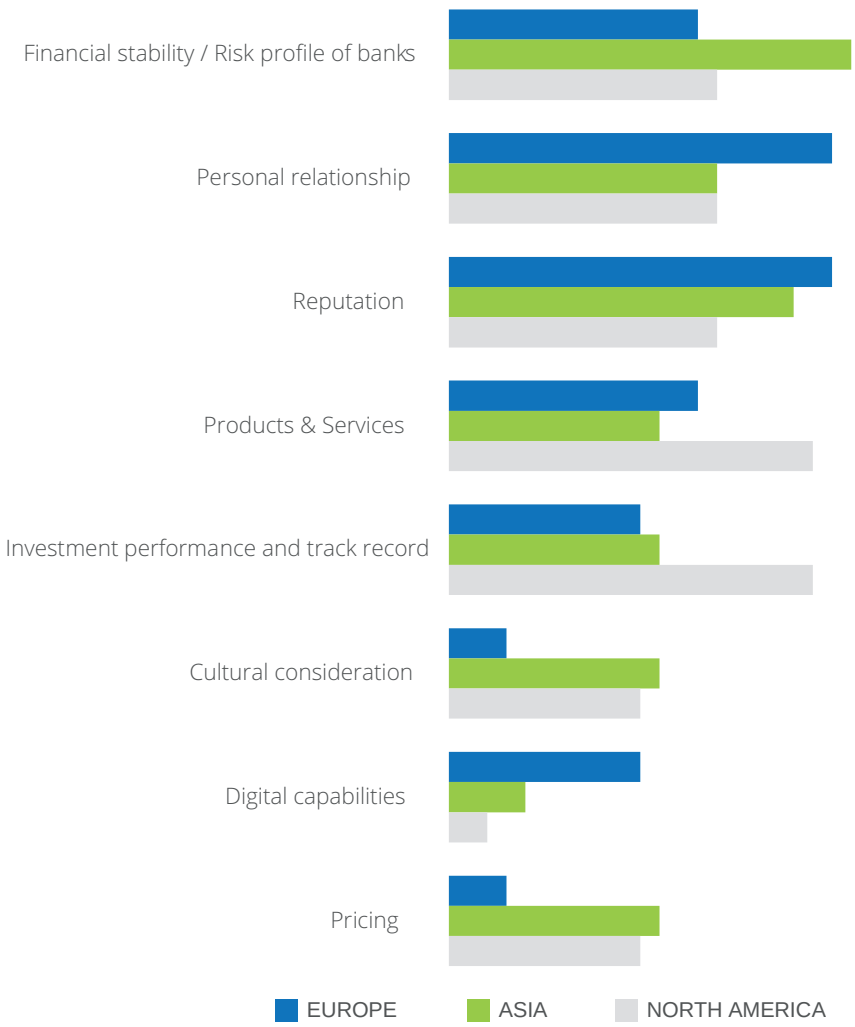
Another factor institutions need to consider is the geographical differences among customers. It is important to note that the overall maturity of the digital transformation in each region is a key driver for client decision criteria. In Asia and North America where the digital transformation is relatively mature, clients are more price sensitive and grant little importance to personal relationships with wealth managers and private bankers. On the contrary, in Europe where the path towards digitalization is less advanced, clients are less price sensitive and grant more importance to personal relationships with wealth managers and private bankers.

At the same time, cultural considerations have a tremendous impact. This is particularly true in Asia and North America where cultural considerations are key for clients, fostering the need for relationship managers who are well versed in local specificities. In Europe, cultural considerations are less important, favoring wealth management and private banking across borders in the continent.

Players should take into account digital maturity, client perception of personal relationships, and cultural specificities of each target market



Main client decision criteria for selecting a wealth manager or private bank per region



5. Products and Services

The industry has not yet fully grasped where the value is for cross-border clients

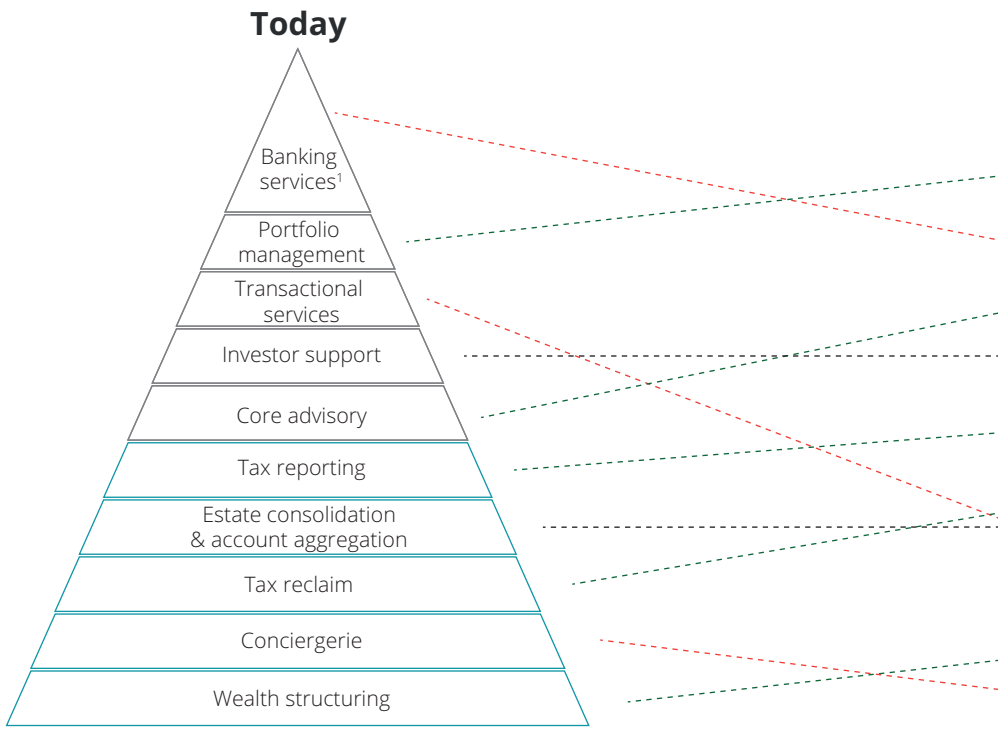
Client needs and expectations are becoming increasingly complex. In order to respond to those needs and expectations, banks should adapt and target their product and service offerings more accurately. Doing so through products and services including wealth structuring, tax reporting, tax reclaim, and specific vehicles brings real added value to the client, especially in a cross-border context.

The survey respondents have not yet fully grasped the importance of such services for cross-border clients. In fact, these products represent opportunities for the respondents to differentiate in the future.

Wealth management and private banking institutions should consider new products and services to offer to their cross-border clients. By doing so, they will be able to further leverage their role as a trusted adviser. We expect a trend in which institutions' service offerings will need to go beyond standard products and services, to include for instance relocation services at both personal and professional levels (e.g. enrolling in locally-based pension schemes and tax systems) as well as safe-keeping, not only for financial assets or precious metals but also clients' sensitive documents. Furthermore, industry players would highly benefit from enforcing a closer follow-up of their clients throughout their lives, in order to adjust their product's push strategies to respond to clients' changing needs.

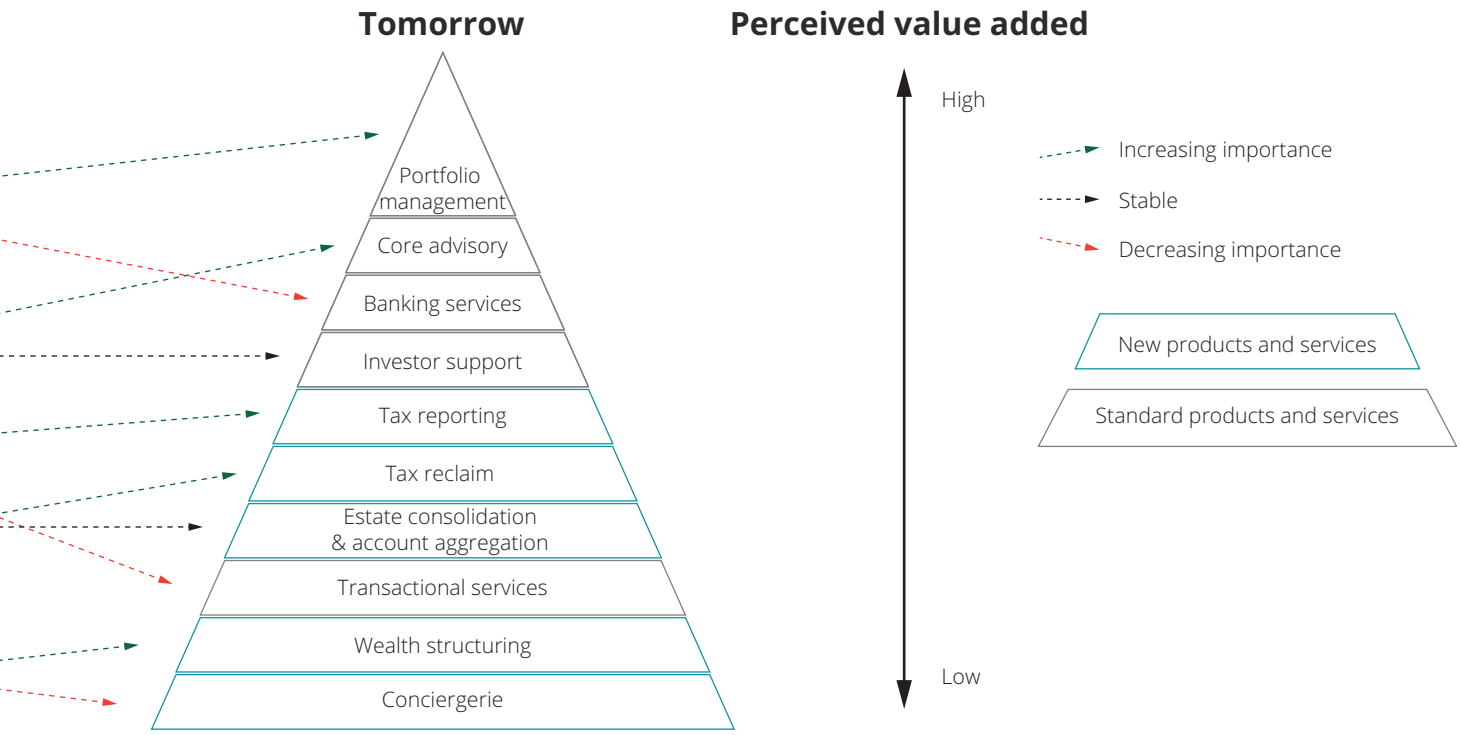
To plan ahead and ensure a better future, wealth management and private banking institutions might also want to consider new asset classes such as cryptocurrencies. In this specific case, players will need to reflect upon the appropriate management policies and the roles the bank can play (e.g. custody for the key).

A new service Maslow pyramid for cross-border clients
Wealth managers and private bankers' perspective



[1] Payment and loans

Industry players can strengthen their role of trusted adviser by developing new products and services tailored to their clients' needs and expectations


Tomorrow
Perceived value added
Portfolio management
Core advisory
Banking services
Investor support
Tax reporting
Tax reclaim
Estate consolidation & account aggregation
Transactional services
Wealth structuring
Conciergerie
High
Low
Increasing importance
Stable
Decreasing importance
New products and services
Standard products and services

6. Pricing

Pricing needs to reflect the added value to clients

Similarly to last year's results, the survey indicates that transaction, management, and custody fees are more often used compared to performance fees and advisory fees. 38 percent of respondents apply transaction fees, management fees, and custody fees, while others are equally divided into performance fees and advisory fees as well as all-in fees. While transaction, management, and custody fees are expected to fade, respondents foresee an opposite trend for the other two pricing models.

This forecast is consistent with the expected general evolution toward pricing value-added services. This will entail a major shift, as relationship managers have been incentivized based on the volume of assets under management, which is translated into management and custody fees, rather than on the advice provided and added value to the client, which is translated into advisory and performance fees.

This is confirmed by the emergence of new types of performance fees including fiscal, social and environmental impact performance. These types of fees particularly concern the new generation of cross-border clients.

Pricing policies should ensure consistency while granting some flexibility to relationship managers

As of today, most wealth management and private banking institutions give substantial latitude to relationship managers when it comes to pricing decisions. We note a lack of consistency and clarity as a result of price discounts that relationship managers grant in order to retain and attract client assets. In fact, in most institutions there is little correlation between the size of assets and the level of fees charged to the client.

Industry players should enforce greater pricing discipline by centrally setting limits to relationship managers. This will ensure consistency while providing the necessary leeway to relationship managers to adapt pricing depending on criteria such as a client's price sensitivity, their strategic value for the firm, and asset volume.

The industry should adopt a pricing segmentation, taking criteria such as client type into consideration

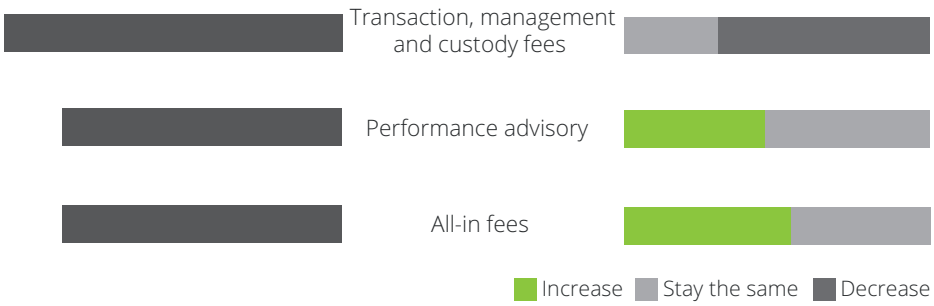
Pricing is traditionally segmented by products and services and size of client. This remains the main segmentation pattern as of today. Next to these criteria, ethnicity, gender, and national culture are associated to different behaviors and attitude to risk. Thus, pricing should aim toward a segmentation based on a combination of the complexity of client request, type of clients, and other factors.

This is consistent with the reshaping of the front office into a client type organization.

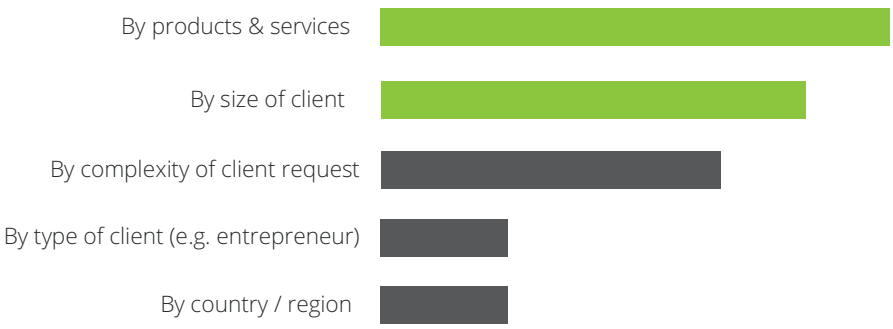
On the other hand, the rise of new client segments, namely business intermediaries such as IFAs and EAMs, has put more pressure on pricing. In fact, IFAs and EAMs promise better, cheaper and independent services to their customers. Consequently, these new players have gained a significant market share over the last decade, which compels wealth management firms and private banks to rethink their pricing models and service offering to remain competitive.

Wealth management firms and private banks also need to recognize business intermediaries as a separate client segment with specific needs. In fact, this segment is looking for support services such as reporting, transaction services, and custody. While the revenues derived from these services are considerably lower than those obtained through direct wealth management and private banking services, it is still crucial for wealth management firms and private banks to serve this segment with a redefined value proposition considering the potential volumes. Moreover, players need to provide more pricing transparency to gain clients' trust. This need is reinforced by new generation clients benchmarking wealth management and private banking services across multiple sources of information.
In addition, new regulations such as MiFID II are requiring players to provide greater transparency to customers.

Pricing model for cross-border clients and expected usage in the future



Institutions' pricing policy for cross-border clients



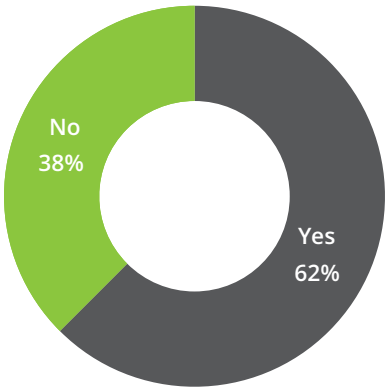
Institutions must recognize business intermediaries as a separate client segment with specific needs and expectations

Institutions must be equipped with adequate processes and tools to monitor profitability both client-wise and product-wise to more accurately define go-to-market

In this context, players should equip themselves with processes and tools to break down client's and product's profitability. While most respondents acknowledge the existence of tools and processes to monitor client's profitability or access historical fees charged, existing tools give only a narrow view (e.g. indicators such as average cost per client). In fact, most players do not have a good handle on their activity-based costs, due to the fact that many costs are shared and therefore difficult to allocate to a specific activity.

Only certain institutions have been able to break down the cost of their product and service types into components, from research costs and direct product manufacturing to administrative and distribution costs. Similarly, some players have analyzed the profit contribution of each product and service type in parallel with the time spent by relationship managers and product specialists to sell and structure these products. Such indicators, combined with profitability data regarding client segments, will allow for the definition of an optimized go-to-market strategy.

Existence of tools to monitor client's profitability or access historical fees charged



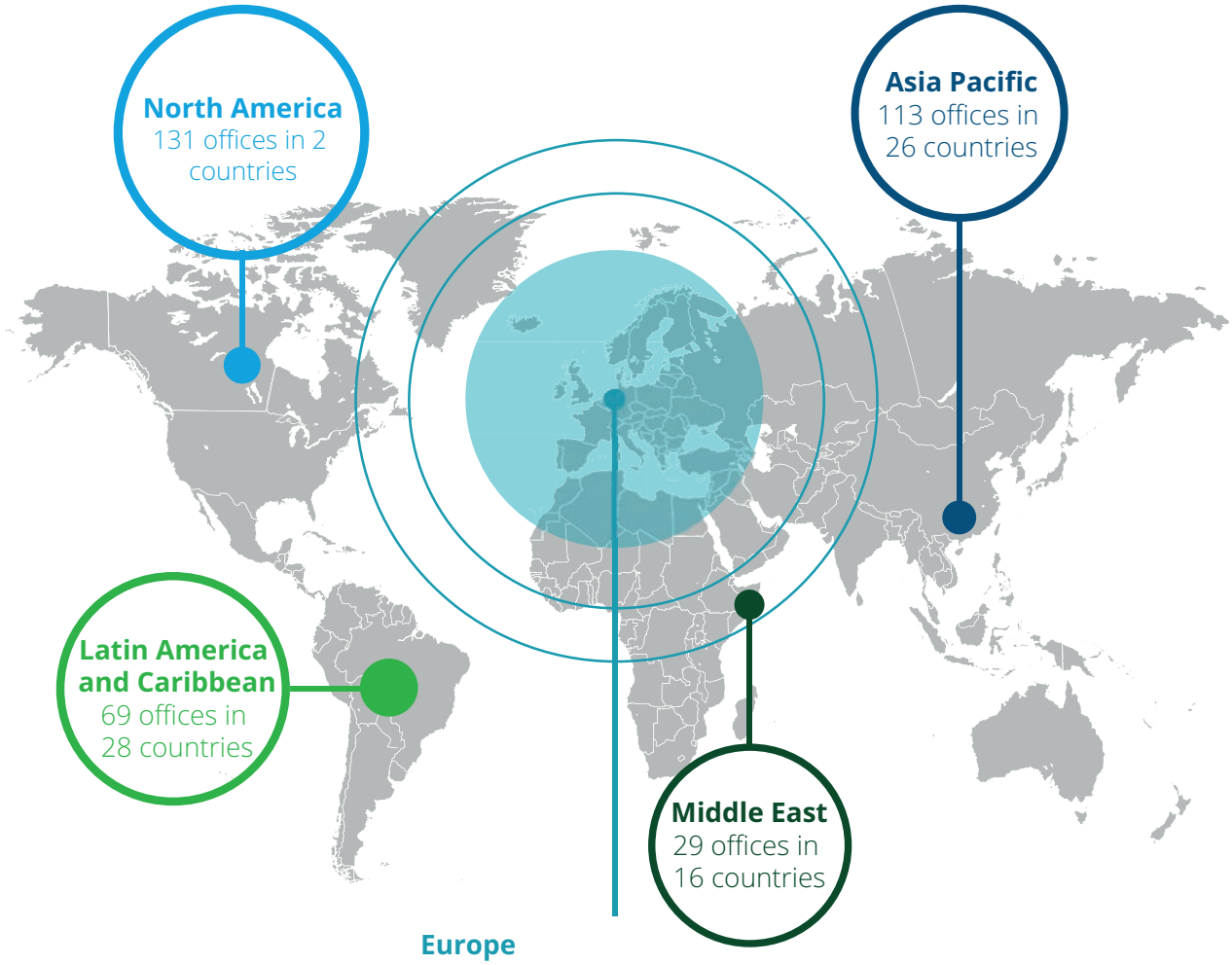
7. Our International Wealth Management & Private Banking practice at a glance

The Deloitte International Wealth Management & Private Banking practice has a solid track record in tackling the issues that matter for the industry. We provide services ranging from diagnostic to implementation on issues of strategy, operations, technology and risk, compliance and regulatory. We serve all types of industry players including global integrated banks, private banks, multi-wealth managers, wealth managers and family offices. As a result, we have acquired an extensive knowledge of the Wealth Management & Private Banking industry. Our team is made up of experts who have performed numerous local and international assignments in the industry. Our Wealth Management & Private Banking professionals are highly qualified with a variety of academic backgrounds and professions, including finance, engineering, government and law.

Our team also includes professionals who are members of industry leading organizations and regulatory panels.

Our team is committed to supporting the industry by remaining close to clients and their challenges, constantly watching for industry developments and conducting ongoing focused research.

Thanks to our network and dedicated professionals in all major industry locations and markets, we are able to support our clients across all geographic regions globally.



Europe
- Wide network: 297 offices in 47 countries
- Covering all of key Private Banking clients
- Leading practices: Luxembourg, France UK, Switzerland
- Other practices: Asset management, Insurance, etc.

8. Our services

We offer a wide range of products and services and our goal is to become your preferred service provider.

Type		Product & service
Strategy & Operations	Strategy & Regulatory	Corporate and business unit strategy
		Customer and market strategy
		Digital and social media strategy
		Regulatory strategy
	Operations	Target operating model design
		Business process transformation
		Procurement and sourcing
		Operational excellence
		Outsourcing advisory (BPO/ITO)
	Outsourcing services	Outsourced reporting services
		Outsourced tax treaty reclaim services
Financial Advisory		M&A advisory
		Due diligence services
		Valuation services
		CFO Services
Human Capital		Organizational change
		HR transformation
		Leadership development
Risk		Actuarial insurance and solution
		Capital markets and financial risk
		Forensic and dispute services
		Information and technology risk
Technology		CIO advisory services - IT strategy
		Digital strategy and solutions
		Core systems transformation
		IT architecture
		Enterprise applications
		Information management
Tax		Tax advisory
		Tax reporting
		Tax reclaim
		Tax relief at source
		Transfer pricing

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