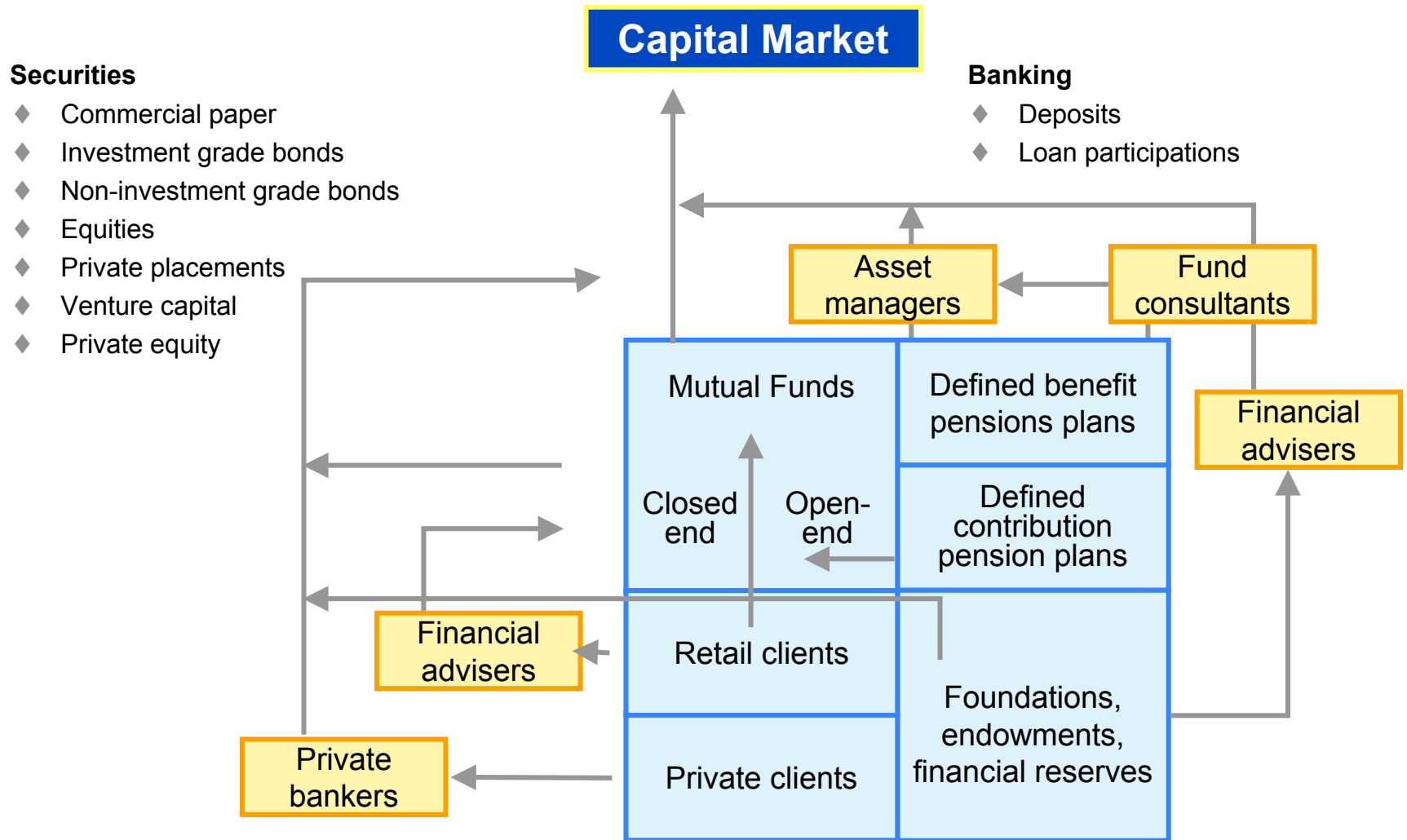


Global Private Banking

Prof. Ingo Walter

Organization of the Asset Management Industry



Estimated Global Assets Under Management

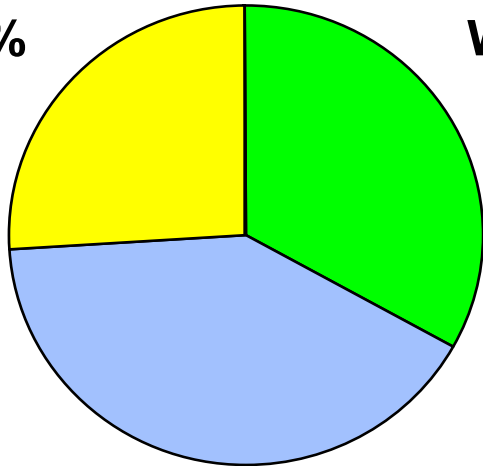
January 2001

Mutual funds	\$	9.3 trillion
Pension funds	\$	12.2 trillion
Insurance companies	\$	8.2 trillion
Onshore private	\$	18.5 trillion
Offshore private	<u>\$</u>	<u>8.5 trillion</u>
Global AUM	\$	56.7 trillion
Approx. global bank assets	\$	46.1 trillion
Global market capitalization	\$	60.0 trillion

Note: Pension fund and mutual fund data from UBS AG. Estimates of private client assets from Merrill Lynch/Gemini Consulting World Wealth Report 2001 based on individuals with more than \$1 million in financial assets. Estimated total of \$27 trillion, of which one-third is held outside the country of residence of the principal. Some double-counting, with an estimated \$5 trillion in high net worth individuals' assets held in other collective investment pools. Market capitalization includes equities and bonds.

Estimated Global HNW AUM, 1999-2002

**Mass
market
26%**

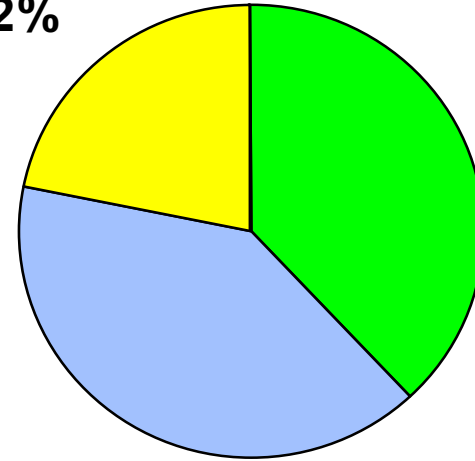


**Wealthy
33%**

**Affluent
41%**

**\$14.2 trillion
1999**

**Mass
market
22%**

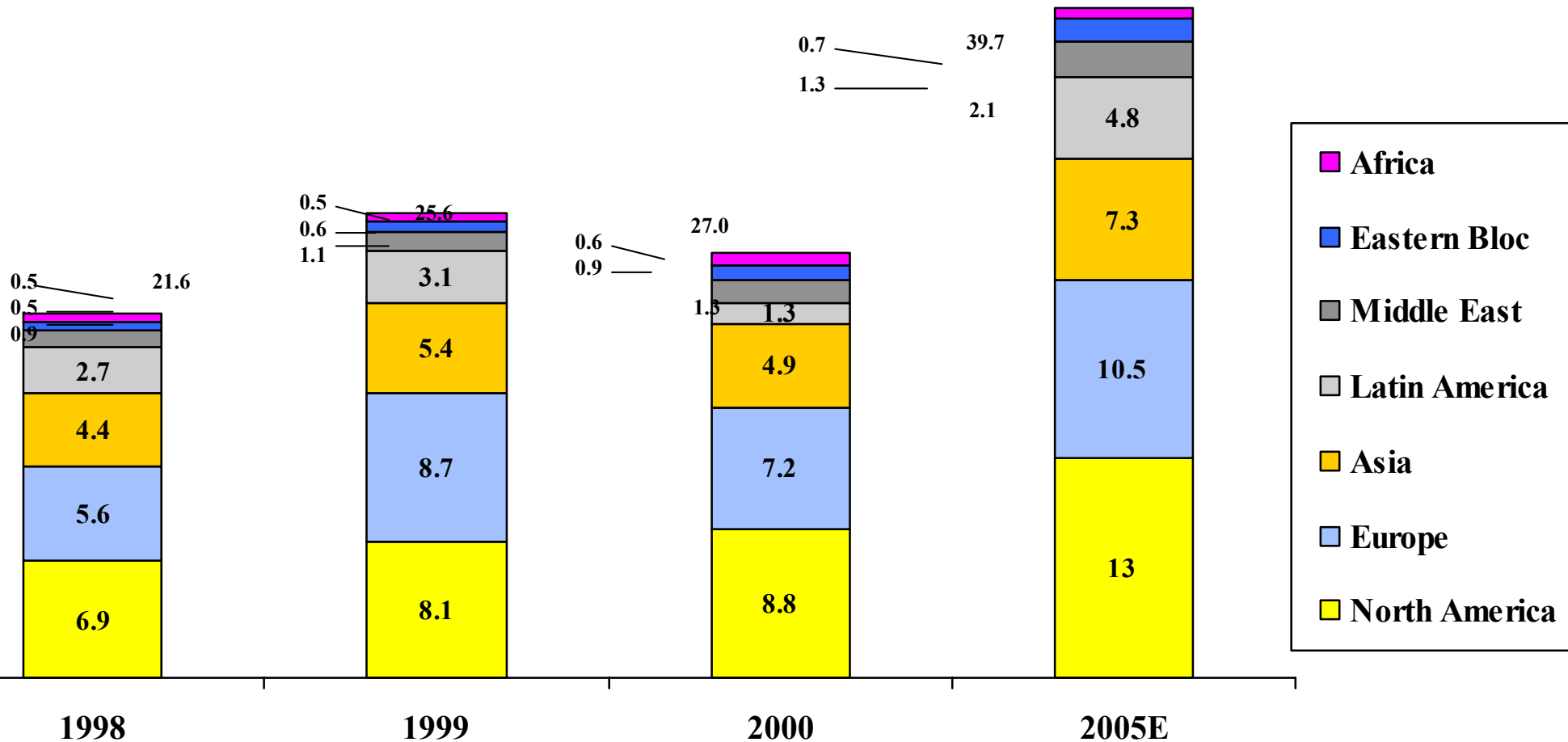


**Wealthy
38%**

**Affluent
40%**

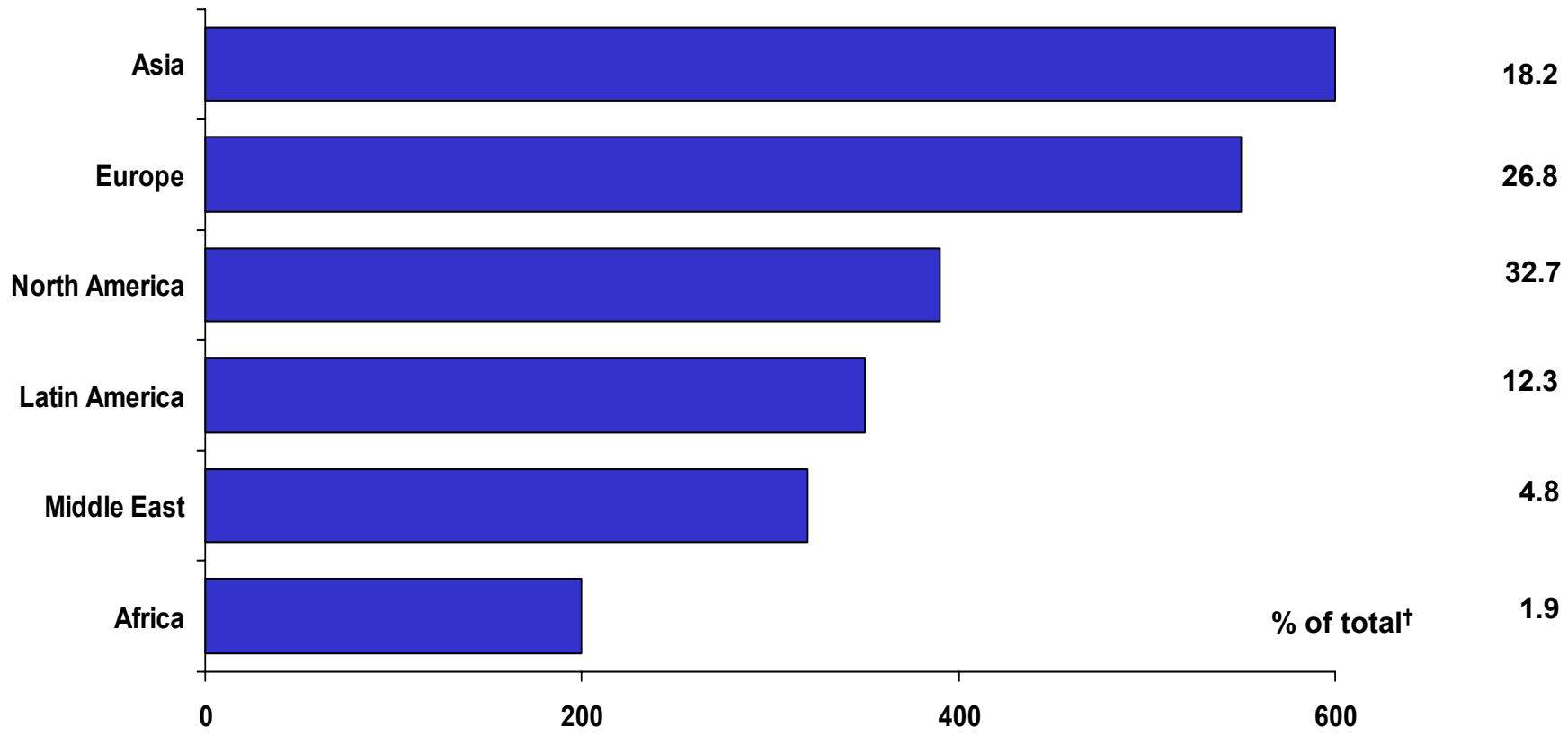
**\$19.8 trillion
2002 est.**

HNWI Wealth by Region, 1998 – 2005 (\$trillion)^a



Source: Cap Gemini Ernst & Young Lorenz curve analysis; base data from multiple sources, including MSCI
 a. Adjusted for foreign HNWI ownership of securities

Growth in wealth held by high-net-worth individuals*, 1986 - 2001, \$ terms (%)

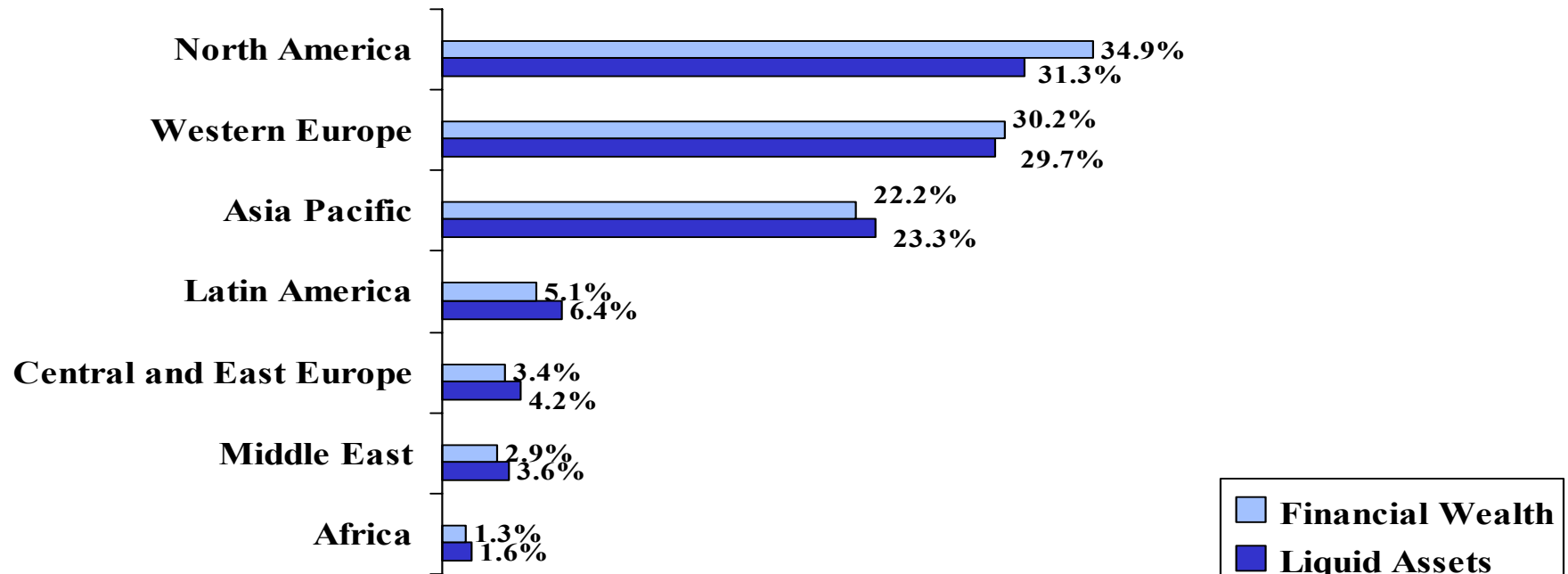


*People with investable assets of at least \$1m

†Eastern block not separately listed

Source: Merrill Lynch/Cap Gemini Ernst & Young: World Wealth Report 2001

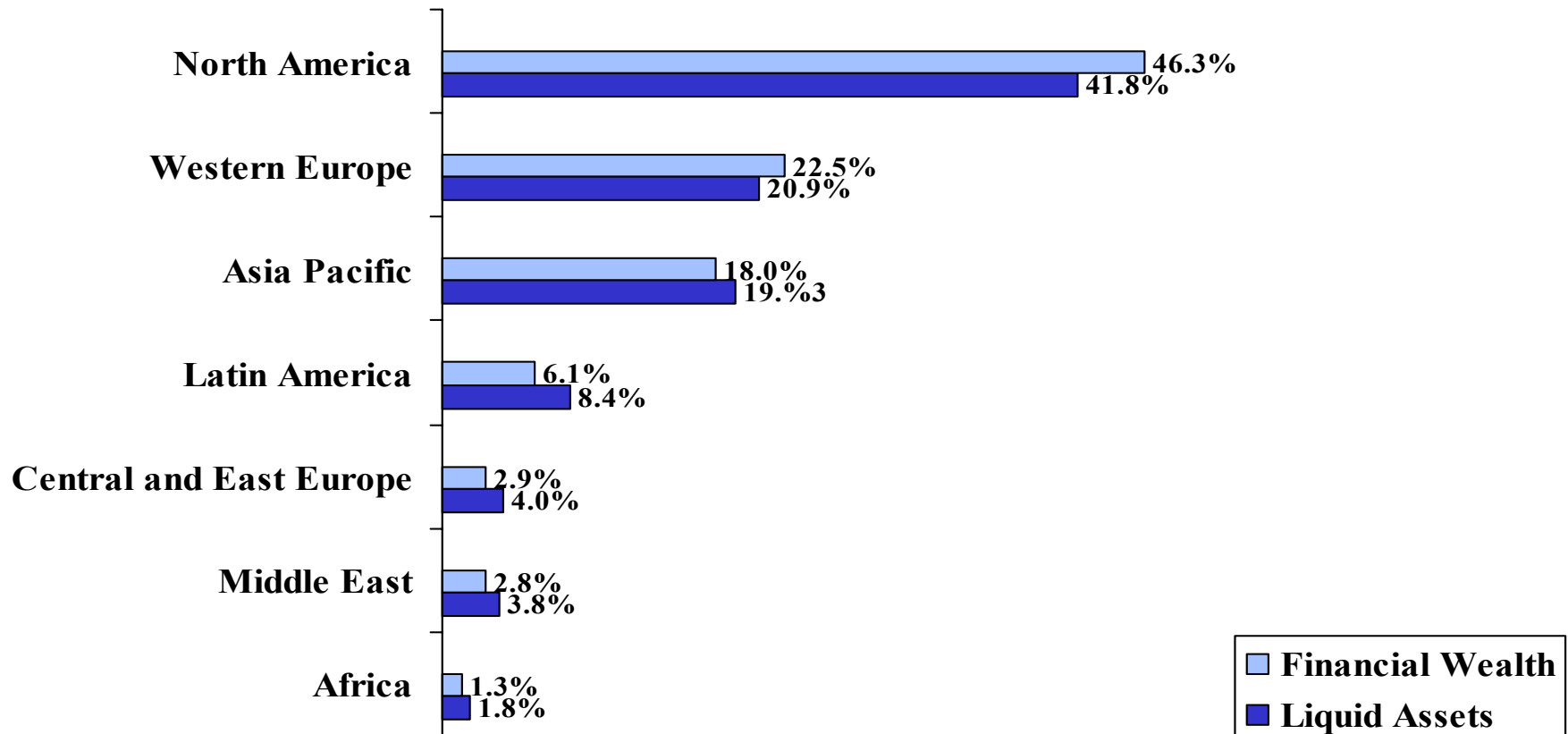
Regional Distribution of **Global Financial Wealth** (Including Pension and Life Insurance Products) and Liquid Assets, 2001*



*Total Financial Assets = €72 trillion, Liquid Financial Asset = €53 trillion

Source: UBS AG

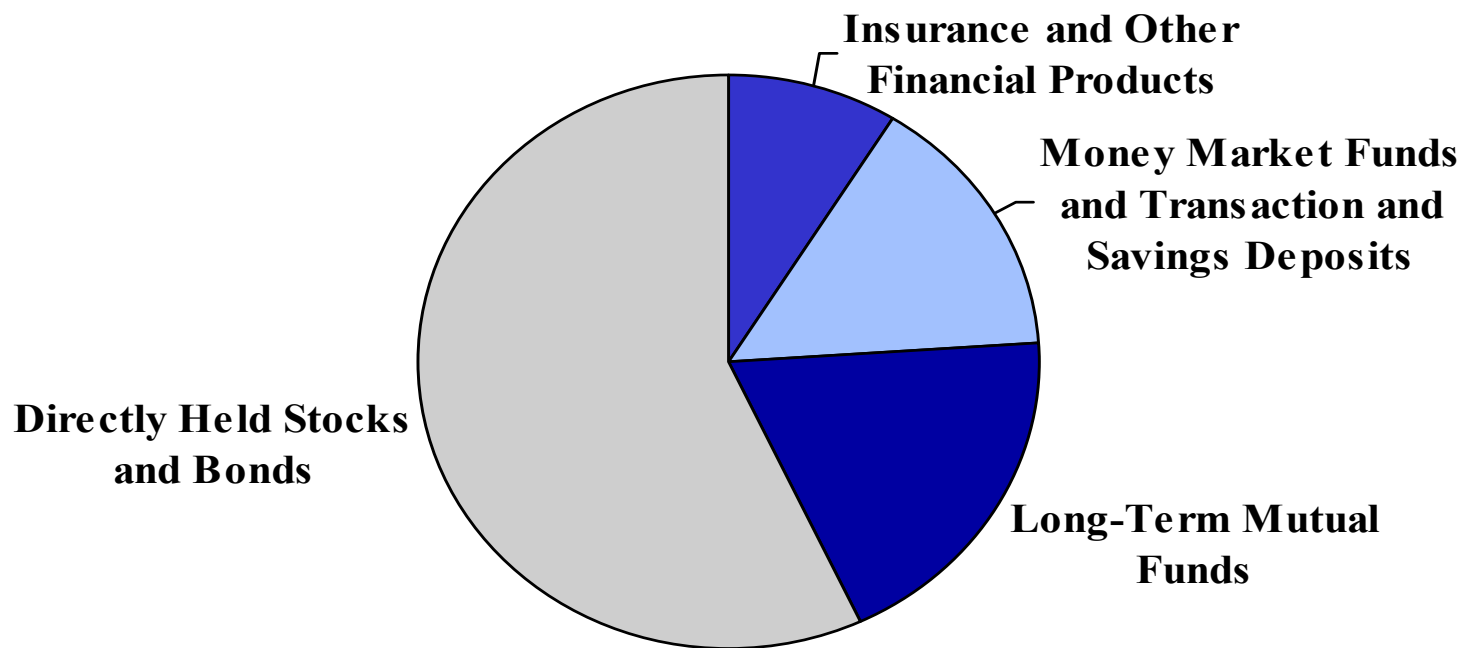
Regional Distribution of **Core Affluent Financial Wealth** and Liquid Assets (Exceeding €500,000), 2001



*Core Affluent: 20 million households holding over €40 trillion in financial assets.

Source: UBS AG

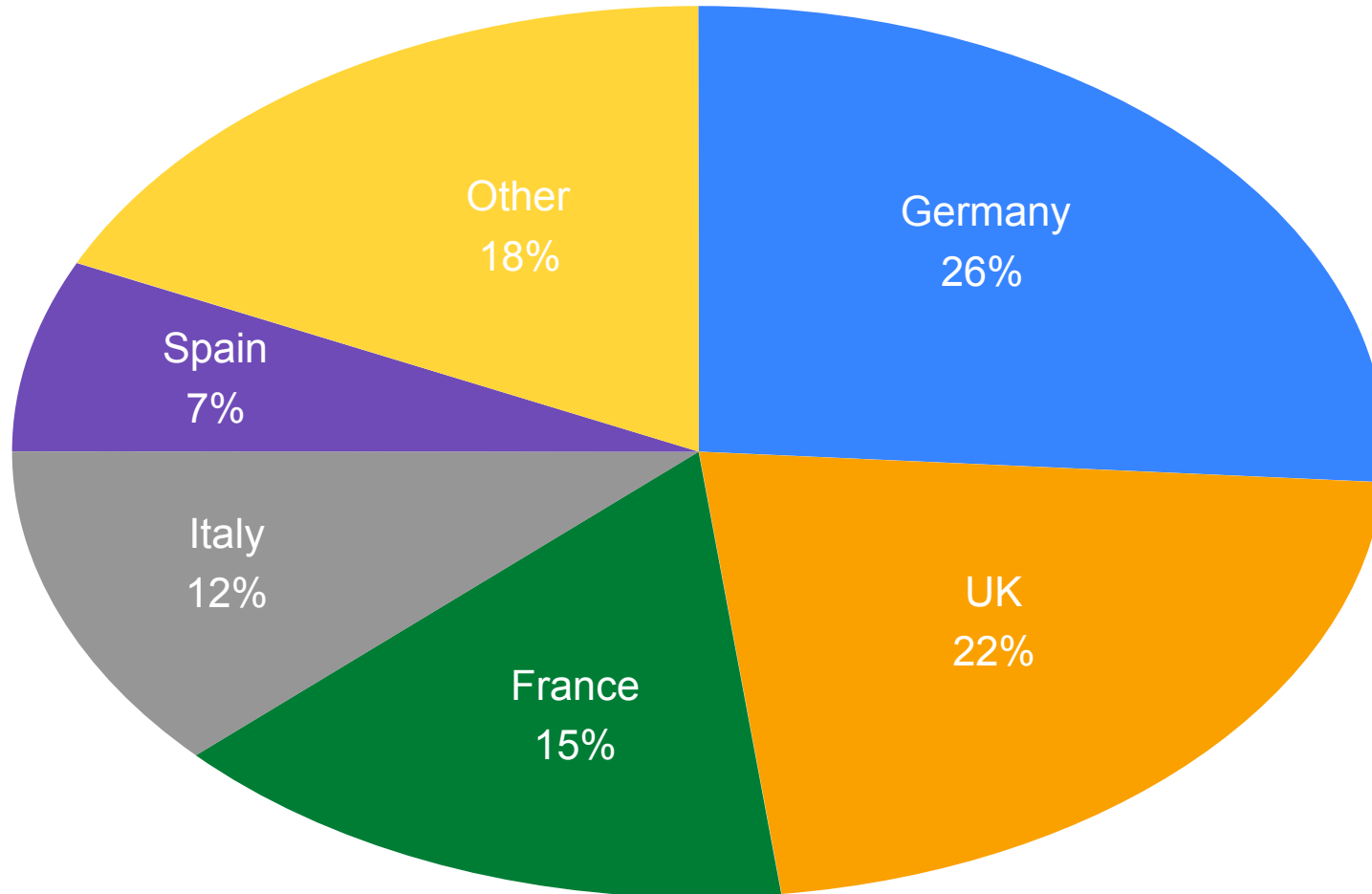
Average Household Nonretirement Financial Assets Among the Wealthiest 5 Percent of U.S. Households, 2001



Average Holding = \$1.06 millions

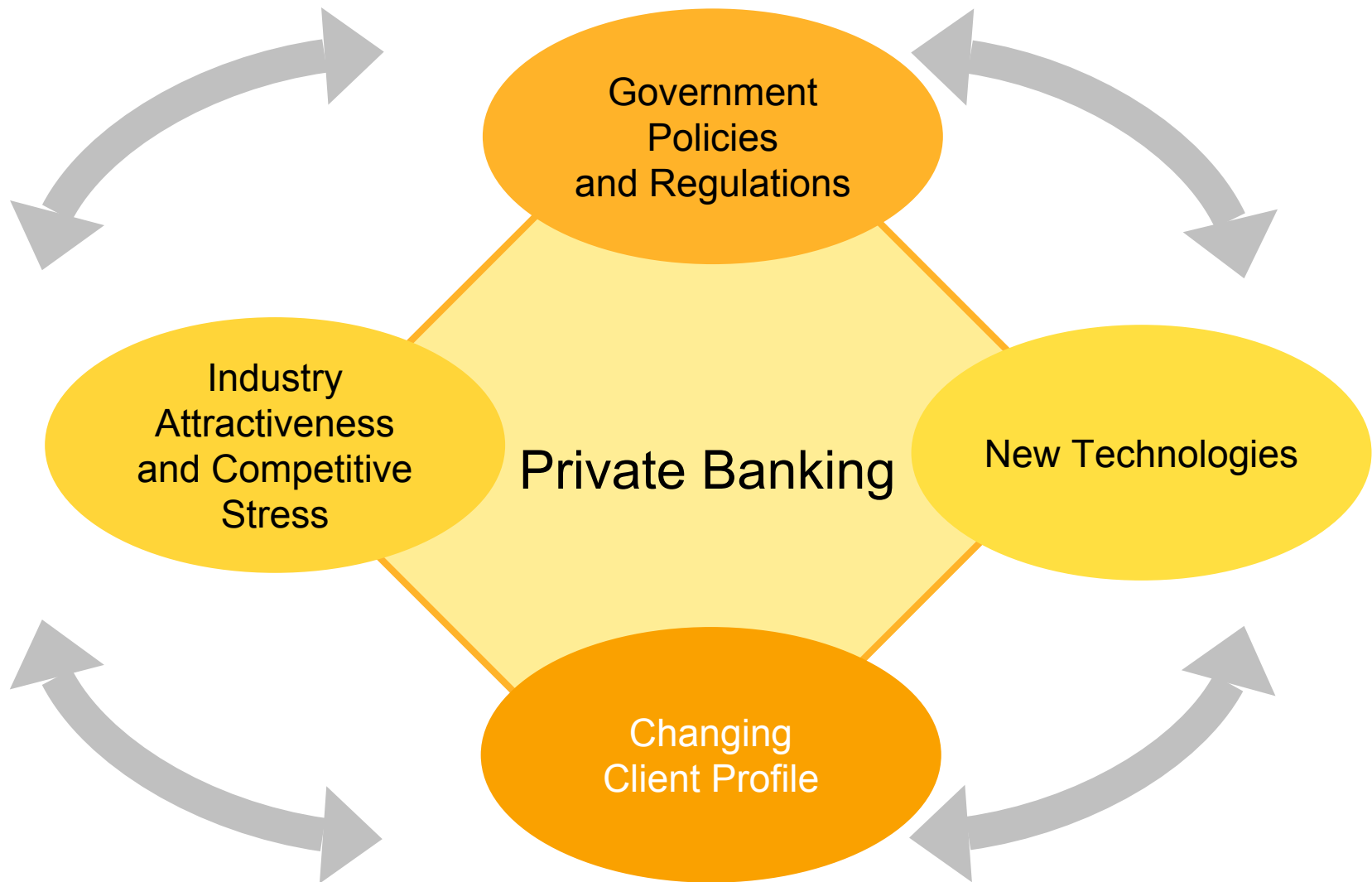
Source: Federal Reserve Board

Concentration in the European HNW Market, 2002

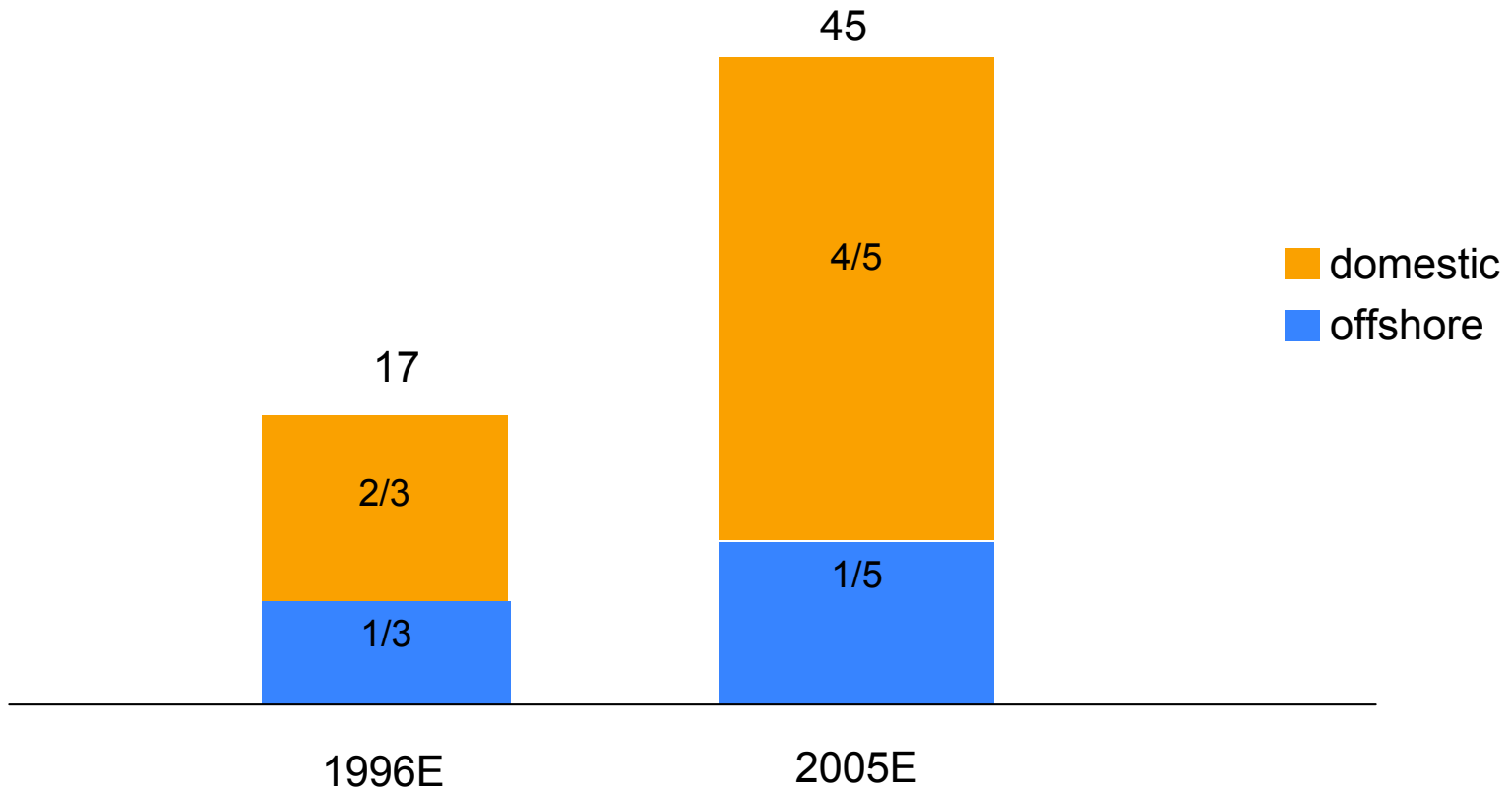


Source: Datamonitor "European Savings and Investments 2000"; UBS analysis

Challenges of the Private Banking Market



Offshore vs. Onshore HNW Net Worth Worldwide (\$ trillion)



Source: McKinsey

Offshore Private Clients

Offshore Private Banking

Estimated AUM (March 2001): \$7.2 trillion

Drivers:

- Tax avoidance/evasion
- Macro-risk and capital flight
- Micro-risk and legal claims on assets
- Personal and family confidentiality
- Business confidentiality
- Multi-residence or travel-related client profiles
- Insider dealing
- Official corruption
- Criminal activity (organized crime, trafficking in drugs and arms, or other illegal activities requiring money laundering)

Tradeoffs:

Disclosure risk

- Total returns
- Portfolio risk

Parallel Economies in Europe, 2001

Country	Untaxed Earnings (\$ bil)	Share of GDP (%)
Italy	250	23
Germany	268	15
France	125	11
Spain	78	14

Data: European Commission, Interpol, Informal Economy Research Center

Illegal Financial Holdings Abroad by Residents

- Italy \$320.0 billion
- Germany \$250.8 billion
- France \$104.9 billion
- Spain \$105.2 billion
- Euro-zone \$759.0 billion

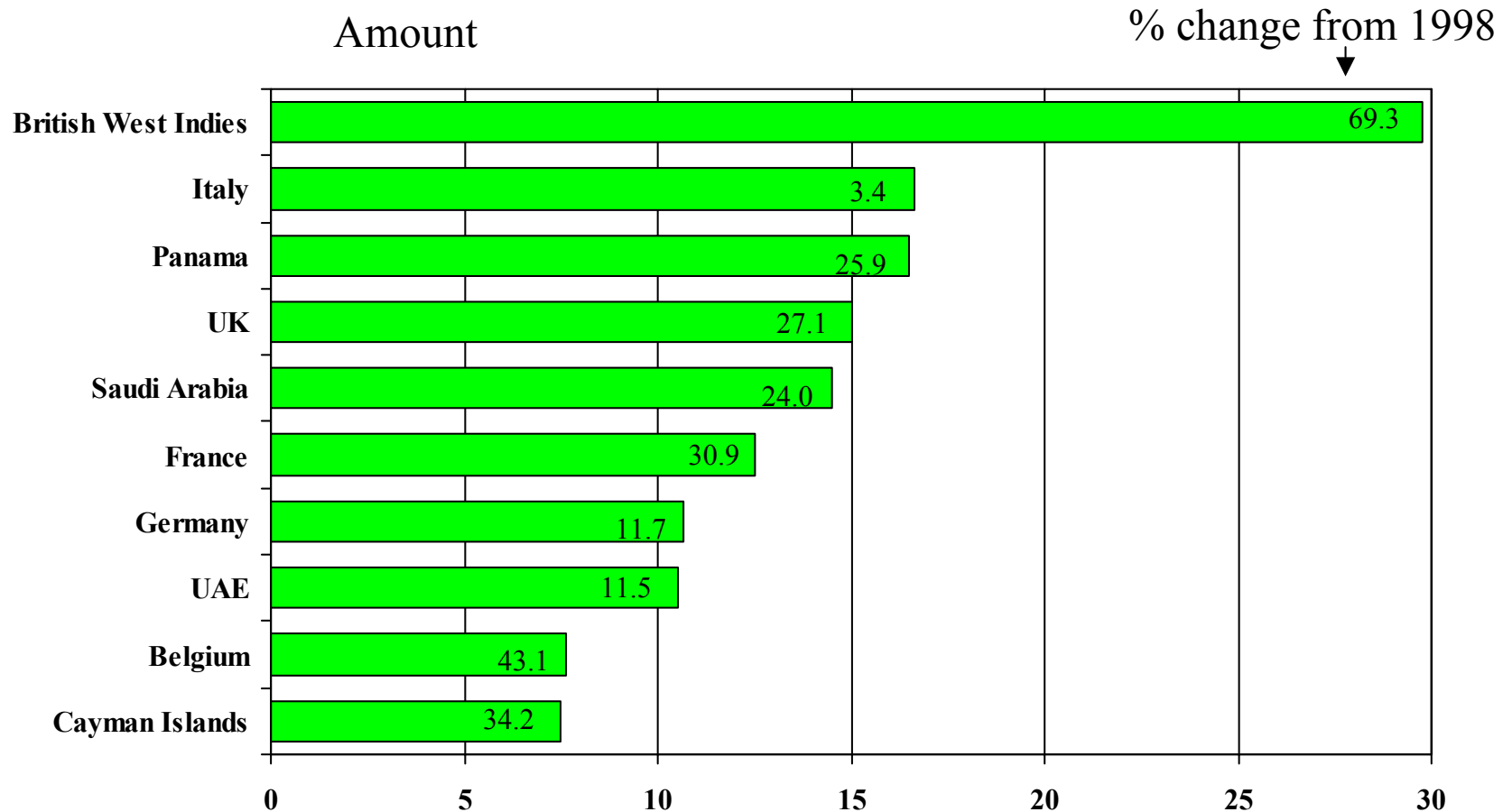
Source: National Central Banks, BIS, Informal Economy Research Center, Business Week

Competitive Drivers in Offshore Private Banking

- Statutory confidentiality
- History and tradition
- Regulatory forbearance
- Institutional discretion and competence
- Regulatory forbearance
- Political & economic stability
- Currency convertibility and stability
- Tax environment for non-residents
- Vulnerability to foreign pressure for disclosure
 - Countries
 - Institutions

Sources of Funds Placed in Swiss Fiduciary Accounts*

(end 1999 in CHF bn)



*Placed with Swiss banks and transferred to non-Swiss holdings to escape 35% withholding tax – Swiss bank is owner of record of foreign accounts

Source: Swiss National Bank

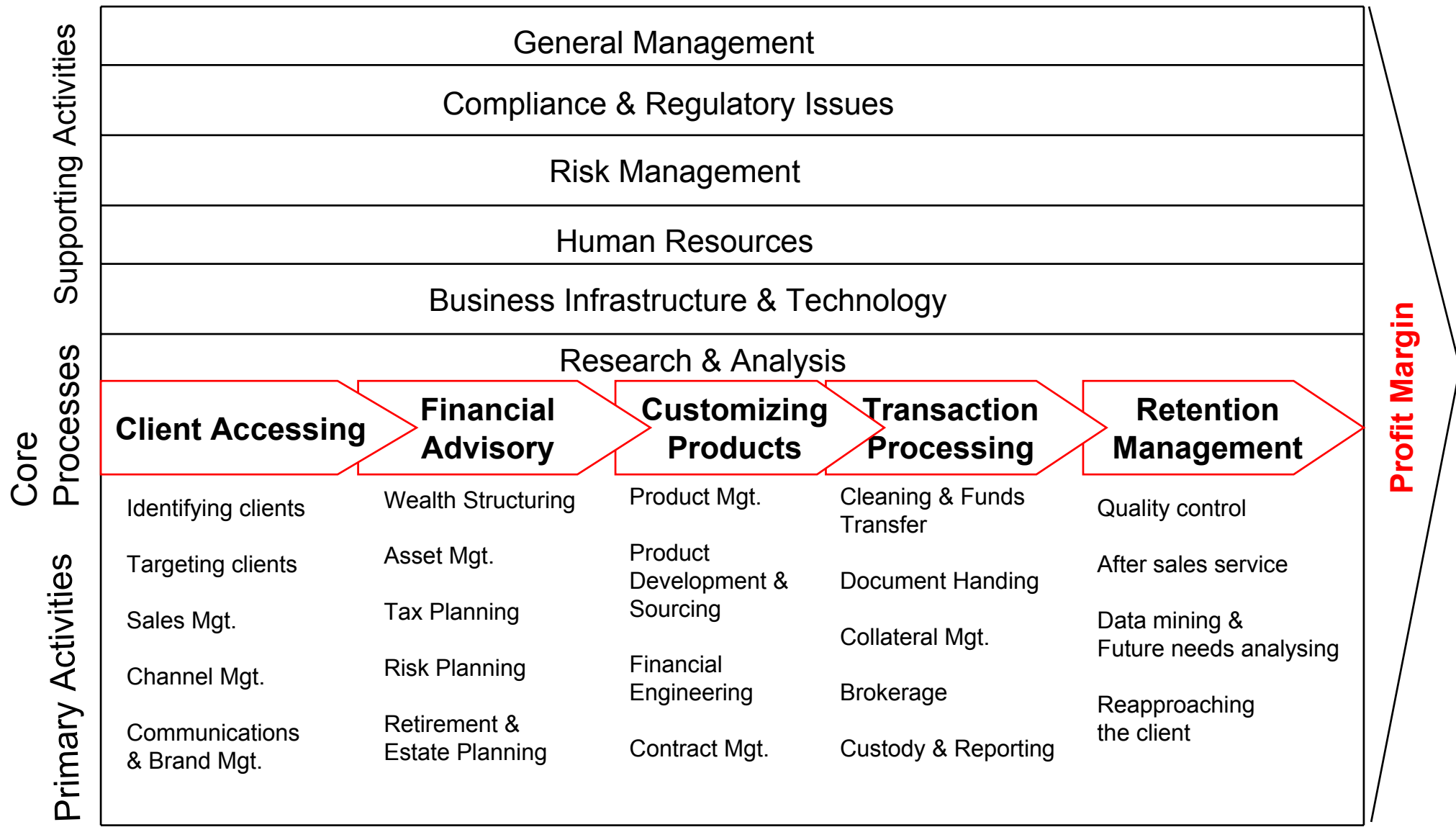
The Future of Offshore Private Banking

What are the sources of future offshore private banking stagnation and decline?

What is the probable pace of change?

- Tax coordination, cooperation and alignment
- Tighter notification and reporting requirements imposed on banks dealing with suspect or underregulated banks and countries (e.g. impact of FATF)
- International agreement to expand account investigation related to money laundering, including focus on accountants and lawyers
- Use of “cordons sanitaires” in the case of non-cooperating institutions and countries

Onshore Private Banking



Profit Margin

The value chain in private banking

Private Banking: Key Target Market Segments

“Traditional” high net worth individuals and families

- Comprehensive advice on portfolio structures, proper inheritance planning and long-term investment strategies.
- Possible interest in global investing and trading opportunities.

Entrepreneurs / Middlestand

- The driver of wealth creation in most countries.
- Integrated advice on matters of business finance and personal finance.

Professionals and executives

- Self-employed professionals, partners in professional firms, financiers, and traders, highly-paid executives including those with stock options and share plans
- Usually have complex and tax-driven compensation and asset-holding patterns, including multi-country requirements
- Traditional focus – personal assets.

Key Target Market Segments, Cont'd....

- Executives:

New Focus – employment-related income generation and wealth accumulation, viewed as an “employment relationship asset.”

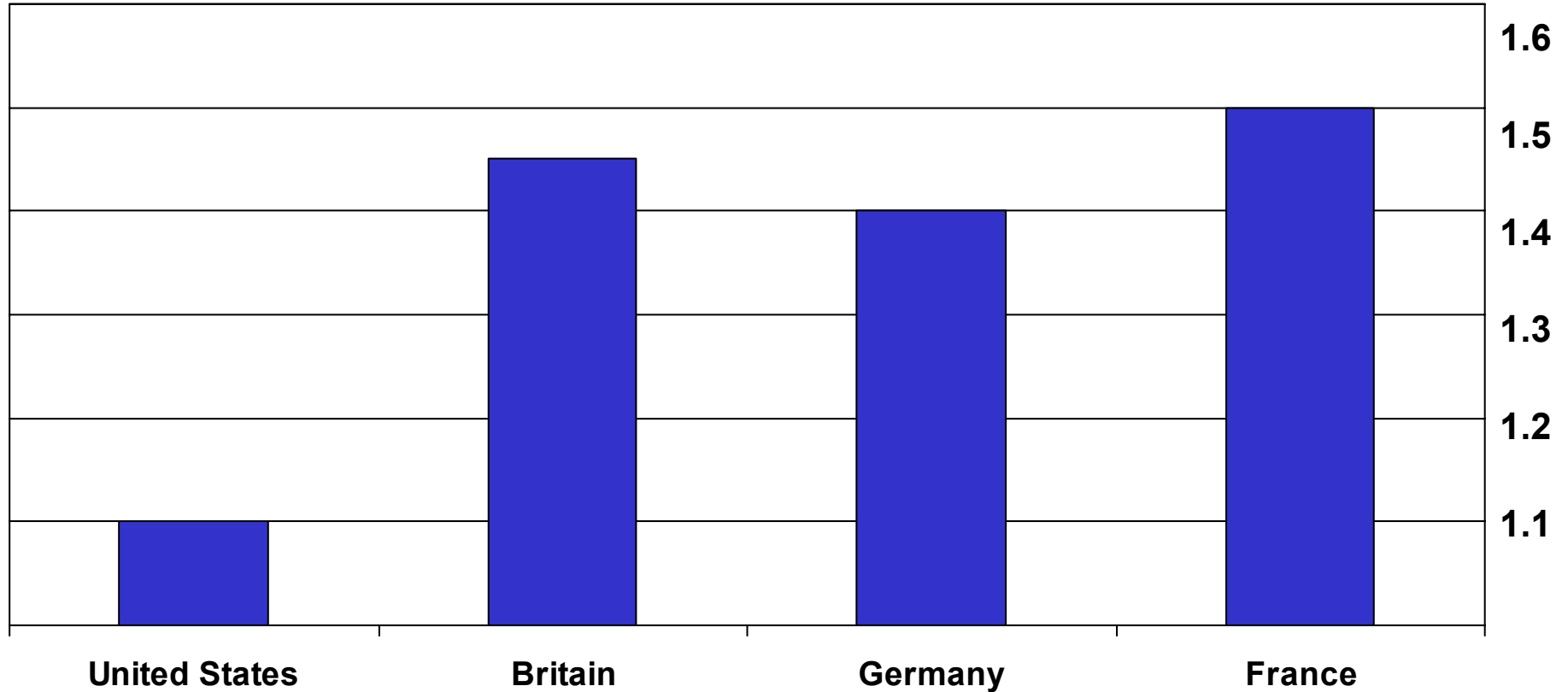
- Entertainers and artists
- Sports professionals
- Intermediaries and external asset managers -- a substantial and growing acquisition channel for clients that cannot be attracted directly (private banks, IFAs, accounting and legal firms, etc.)

The Private Banking Value-Chain Approximate Fee Income Ranges

Custody	20-25 bp
Broker-dealer fees	40-45 bp
Trust	25-40 bp
Total value-added	80-125 bp
Cost-to-income ratios	45-60%
Revenue mix	Usually well diversified
Analyst valuation	15-25 x earnings ¹

¹Depending on analyst perceptions of sustainability and quality of Earnings and growth potential

Annual Fees for Managing a Typical “Newly Affluent” Account* (%)



*\$500,000 account split between direct securities (33%), managed funds (47%) and Cash equivalents (20%) with ten trades per year.

Source: The Boston Consulting Group

360 ° Private Banking Services

- Client solicitation and retention: High levels of intimacy and trust as deterrent to opportunism and maximum share-capture of value-chain
- Asset allocation
 - Discretionary asset management
 - Passive asset management
 - Active asset management
- Brokerage, including internet access options
- Real estate
- Art banking (authenticity, pricing, financing)
- IPOs
- Private equity
- M&A

360 ° Private Banking Services, cont'd....

- Structured products, hedge funds, and funds of funds
- Research
- Credit
- Personal services
- Tax efficiency
- Inter-generational transfers

Alternative Private Banking Approaches

Clients segmented based on product requirements, with maximum delivery of in-house services

Brings to bear multiple capabilities

- Facilitates accretion within private banking value-chain
- Sharpens application of specific expertise
- Helps leverage global capabilities
- Improves operating economics

Clients regarded as a single continuous “project” using targeted teams that may emphasize products or services, whether in-house or external

- Facilitates client intimacy
- Maximizes objectivity
- Broadens the product range

Event Windows

New Private Banking Opportunities Or Client-Erosion Vulnerability

Affluent individuals or families:

- Major inheritance
- Asset-holding structures given family and life-style preferences
- Standard private banking value-chain

Entrepreneurs:

- Flotation of sale of business
- Subsequent wealth management strategy
- Investment banking advice and IPO origination
- Tax, ownership, management and control issues
- Dealing with non-compete constraints

Event Windows, cont'd....

Executives:

- Compensation plan implementation or large-scale vesting
- ESOP life-cycle management
- Integration with other wealth

Athletes, entertainers:

Major career breakthrough

- Contract renewal with higher compensation
- Location shift
- Advice on contract structure, endorsements, sponsorships, etc
- Proper lifetime investment strategy given short career
- Royalty securitization

Event Windows, cont'd....

Implementation of Event-Window Approach:

- Identification of a compelling value-proposition for each client segment – drawing on expertise of each private banking function.
- Assessment of local market potential of each client segment
- Definition of event-windows for each client segment
- Identification of generic private banking service-profile for each client segment, including life-cycle dimensions

Summary

Global Asset Management Trends

Prime savers to prime dissavers, leading to moderating growth and more intense competition among asset managers

Defined benefit to defined contribution pension arrangements will shift balance toward retail distribution

Growing retail orientation increases relative importance of mass-distribution and branding

Increased sophistication of pension funds and retail clients increases emphasis on service as well as performance

Industry fundamentals generate greater drive for scale & scope

Global developments with common fundamentals encourage global rollouts

Pan-European and Japan stories lead to breakdown of traditional distribution oligopolies and dynamics not unlike the U.S.

Capital-Market Effects of the Growth of Institutionally Managed Asset Pools

- Accelerated financial disintermediation and growth in the role of capital markets at the expense of banks
- Disproportionate impact on capital market liquidity in the presence of persistent new funds inflows and institutional “noise traders.”
- Reduced transaction costs, greater cross-border integration and improved financial market transparency – benefiting both issuers and investors
- Accelerated financial innovation – European markets previously too small, too fragmented and illiquid, too tightly regulated or too uncompetitive to make them attractive to end-users.
- Incremental demand for assets denominated in euros will lower average interest rates and the cost of capital to corporations even in the face of growing demand for financing in euros
- Greater performance orientation of asset managers and corporations accompanying a basic investor the shift from national to sectoral asset allocation