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# The Development of Private Banking & Wealth Management Industry from the Beginning of the 21 Century Till the Covid-19 Pandemic

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## Abstract

The scope of study in this paper is the Private Banking & Wealth Management (PWM) business segment. This work aims to illustrate the key trends in the PWM industry financial performance in the period 2000–2021 by focusing on the opportunities and challenges for its development. The relevance of the topic is justified by the constantly increasing wealth on a global scale and the increasing commitment of financial institutions to provide services to high-net-worth individuals (HNWI). The uniqueness of the paper is based on the fact that the problems discussed have been traditionally underestimated in scientific literature due to the lack of sufficiently organized data and the frequent presence of unclarities in the distinction between Retail Banking and Private Banking. Furthermore, this is one of the few scientific publications that try to evaluate the impact of COVID-19 on the wealth management business.

This article uses the methods of analysis, synthesis, induction, deduction, observation, and analogy. The study is based on a wide variety of information resources, including specialized scientific literature, results from studies made by reputable consultancy companies, and information from the international PWM practice available in the public domain.

The author has concluded that despite the context of the financial, economic, and healthcare crises that have happened over the past two decades, currently, wealth management continues to be among the most profitable businesses for banks. However, despite the good results, certain alarming trends have been demonstrated during the studied period, which raises several questions regarding the long-term financial prosperity of the institutions in this sector. The most prominent of them are the high levels of the Cost/Income ratio, the unfavorable changes in the pricing models, and the increasing levels of client migration.

**Keywords:** private banking, wealth management, COVID-19.

**JEL:** G210

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## Introduction

Private Banking & Wealth Management (PWM) business sphere has always enjoyed a privileged status among bank customers. Its peculiar magnetism stems from the decades of trust-and-respect-based relationships between the private banker and the client, the high quality personalized and continuous consulting combined with a high degree of commitment and care on the part of the financial advisor, etc. In addition, the business of Wealth Management is particularly attractive to banks themselves, not least because compared to other banking segments, this type of business is distinguished by a much greater deal of financial results sustainability. According to theory, this is the result of two main reasons (Maude, 2006). First, these are the traditionally loyal relationships with clients, which create repeated income sources and cash flows similar to annuities. The second reason is the high share of fees in the income mix, which is in contrast to the significantly more volatile income from interests or trade (Abedifar et al., 2018). Furthermore, some studies have concluded that banks that rely on fees as a primary source of income, manage to limit the outflow of clients to a greater extent due to the higher switching costs (Vozková, Teplý, 2018; Yin, Matthews, 2018). This, on the other hand, also creates conditions for more constant financial results.

To confirm or reject the argument about the greater performance sustainability of the PWM sector in turbulent times, this article will chronologically analyze the financial performance of the sector in the period between the beginning of the 21st century and 2020-2021, which is marked by several crises – the dot-com bubble, the global financial crisis, the debt crisis, and the pandemic.

The starting point used in this analysis will be the observation of the amount and distribution of global wealth over the past two decades since the potential for generating favorable financial results in the PWM business sector is a function of these particular parameters. More specifically, the paper discusses the factors that stand at the heart of the increasing financial and non-financial wealth, its expanding geographical scope, and the increasing concentration of wealth at the “highest levels”.

Based on this context, the analysis further continues with an outline of the main positive and negative trends observed from the beginning of the century until 2019, which are related to the profitability of PWM institutions. Special focus is given to indicators, such as Assets under Management (AuM), Net New Money (NNM), Cost/ Income ratio (CIR), Return on Assets (ROA), etc. Based on this, the drivers resulting in increased operational costs and decreased income growth in the PWM sector over the first two decades are compiled.

Then, the focus shifts to the COVID-19 pandemic and its effects on the wealth management sector. This is a two-way analysis. On the one hand, it outlines the positive news for the industry of 2020-2021, including the all-time record high values of AuM, the low outflow of clients, the sustainable levels of the profits generated, the certain decrease in operational costs, the rapid recovery of the financial markets, etc. On the other hand, certain “neuralgic points” have been raised, which have become more clear in the context of the pandemic, e.g. the lagging behind of income growth as compared to the growth of AuM, the increasingly obvious clients’ demonstration of intolerance to risk, the high pressure on the pricing models and the size of the fees and the increasingly polarised financial performance of large and small private banks, etc.

Finally, it becomes clear that institutions in the PWM sector are indeed highly distinguished by their stable and sustainable financial performance. To maintain their good financial performance, however, they need to formulate and implement deliberate, targeted, and long-term strategies to help them keep the advantages of their business model that have been established for centuries, while at the same time addressing all actual and potential challenges threatening their upward sustainable development. In this sense, the results from the study could be useful for managers of private banks and other PWM organizations. Potential future studies could compare the banks' performance before and after the period of COVID-19 to study the evolution of the PWM sector in the context of the changes that took place as a result of the pandemic.

## 1. Global wealth – the foundation of the PWM industry

The first two decades of the 21st century are characterized by a rapid growth of global wealth, which, according to BCG, nearly tripled from 2000 to 2019 – from $82 trn to $226 trn (Fig. 1). Allianz identifies the same trend – in 2019 global financial assets amounted to €182 trn compared to €66 trn in 2000 (Allianz, 2021).[1]

The new century did not start with the expected fireworks, as the dot-com bubble and the tragedy of September 11 disturbed large economies and resulted in serious deterioration of stock market results and global attitudes. For example, the MSCI World Index fell by double digits for three straight years in 2000, 2001, and 2002. However, the strong recovery of the financial markets that followed led to a wealth growth of over 9% in 2003, only to be accelerated even further in the next 2 years. With the world gripped by the global financial crisis, the trend turns. Following investors' panic and governments' and central banks' interventions, the share markets fall in stagnation and asset values plummet. Thus, by the end of 2008, the financial crisis had globally drained $10.2 trn in private wealth. This also doesn't last long and as early as the next year the size of global wealth picks up to its pre-crisis levels. Most of that growth occurred in cash and deposits and life insurance and pensions, which together represented almost 60% of global wealth (BCG, 2020a).

The 21st century's second decade is not spared by economic and political cataclysms, either, just to mention the European debt crisis, the austerity regime, and the breakdown of important foreign trade relationships that followed. Still, GDP in the world's major markets continued to rise, unleashing the longest bull market in history. In parallel, global financial wealth grows too, supported also by the continuously growing disposable incomes and higher rates of saving. Moreover, after 2008 wealth grows by a higher annual rate (6.2%) compared to that of the pre-crisis period (4.5%). The peak of 9.6% was reached in the last year of the examined period (2019),

[1] As early as at this point we should make it clear that the frequent discrepancies in the numerical evaluations of wealth, performed by various consulting and financial companies, result mostly from the different methodologies these evaluations are based on. The following are among their most distinguishing features: the definition and scope of the term 'wealth', the number of countries calculations include, the approaches to various currencies conversion and accounting for inflation, the ways of turning balance sheet values into market values, and others.

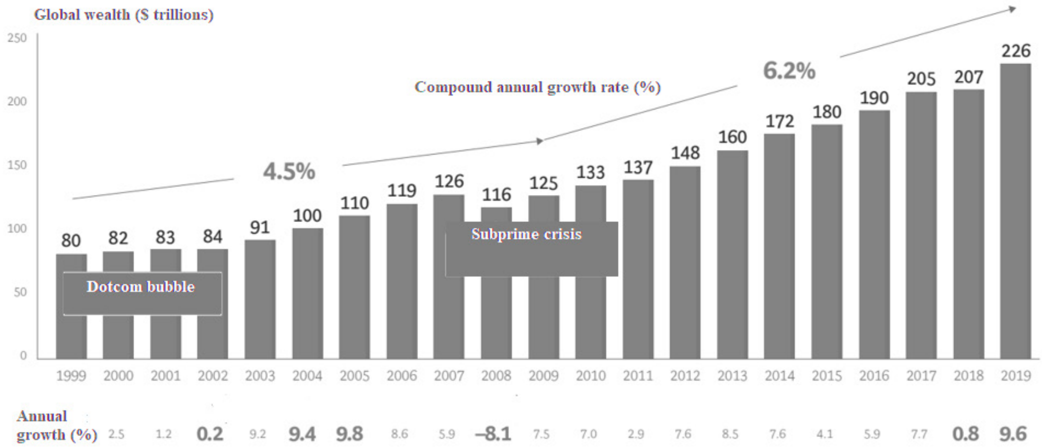


**Figure 1.** Global 20-Year Wealth Development (BCG, 2020a)

which nearly repeats the record of 2005. A decisive contribution to the post-crisis faster expansion of financial wealth is also provided by the change in the household portfolio structure, which results from the impact of the continuous expansionist monetary policy. In particular, compared to 2008, the share of stocks and investment funds rises considerably (by nearly 6%), while that of bank deposits and pension funds shrinks (by around 2% and more than 3%) (Allianz, 2021). Undoubtedly, this trend is good news for wealth managers, as a stock investment generates opportunities for ‘more business’.

Credit Suisse adds additional touches to the picture, owing to the different interpretation of the category of ‘wealth’ (or ‘net worth’) - the value of financial assets plus real assets owned by households, minus their debts (Credit Suisse, 2020). Here the figures are no less impressive - total household wealth rose from USD 117.9 trn in 2000 to 399.2 trn at the end of 2019, averaging 6.6% growth per annum. The same trend is observed in another key indicator – ‘average wealth per adult’, which registers an increase of 4.9% a year, to reach the record high of $77 309 on the verge of the pandemic – a worth that is 2.5 times as high as that of 2000. At first glance, it seems here that the pandemic has damaged the growth prospects for net household wealth, as after 2008 the said indicator’s growth rate slows down to half of what it used to be (4.1% and 8.2% respectively). However, an alternative, more positive assessment emerges after further examination. The early years of the century were marked by widespread depreciation of the US dollar, which flattered the growth of wealth in USD terms, particularly among Eurozone countries. From 2007 onward, the situation reversed and, as the US dollar appreciated, wealth growth contracted for nations not pegged to the US dollar. This distortion is rectified by applying fixed USD exchange rates instead. Using this approach analysts conclude that the average wealth per adult growth rate after 2008 (5.6%) even slightly surpasses that of the pre-crisis period (5.5%). Therefore, while the data suggest that the financial crisis may have dampened wealth growth for a few years, they do not support the idea that it permanently damaged worldwide prospects for wealth growth.

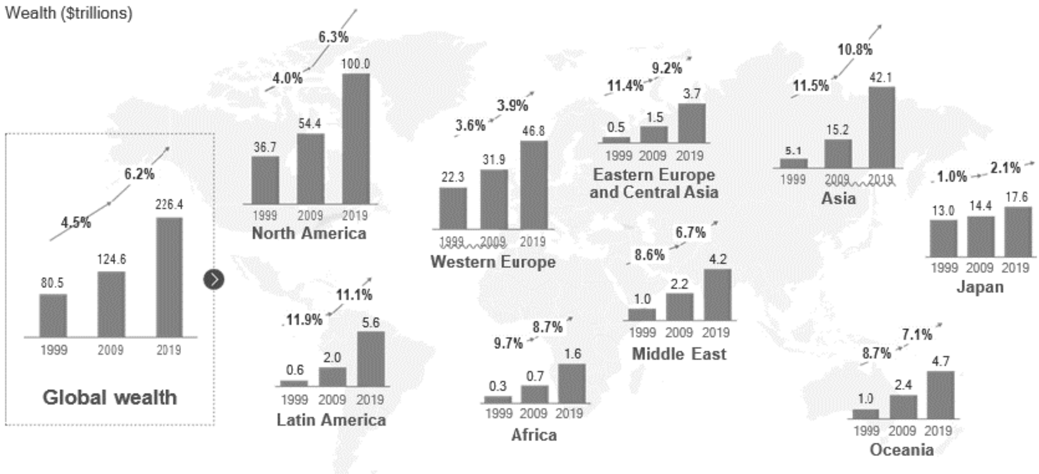


**Figure 2.** 20-Year Wealth Development by Region (BCG, 2020a)

In conclusion, we can certainly claim that global growth for the first two decades of the 21st century has been extremely strong and sustained, and the short periods of fluctuations at the beginning of the century and in 2008 may be interpreted as exceptions that confirm the rule. Undoubtedly, this trend should be considered positive in the business terms of wealth managers all over the world, due to the increasing potential to attract Net New Money (NNM), a leading revenue generator. But to give the full picture, we should also focus on wealth distribution – by regions and groups of individuals.

Regarding the distribution of global financial wealth by region, the greatest interest is evoked by the comparison between the growth of wealth in the developed markets and the developing ones. Here the trend is unambiguous – that of ‘melting‘ the huge difference characteristic of the beginning of the 21st century. During the first twenty years of the Millennium, the world develops along two tracks. Emerging markets enjoyed a rapid expansion, while the economies of Western Europe and Japan achieved much more modest growth (Fig. 2). As a result, the share of wealth held by emerging markets has steadily increased. In 1999 emerging regions accounted for just 9,3% of global wealth. By 2009, that share had jumped to 17,3%; and by the end of 2019, it had grown to 25.3% of global wealth (BCG, 2020a). Taking population growth and inflation into account, Asia is the undisputed growth champion, with per capita financial assets having increased more than fivefold on average since 2000 (Allianz, 2021). Asia’s performance in terms of financial wealth is even more impressive because the continent has been traditionally fond of real assets.[2]

The factors directly affecting the ‘scattering’ of financial assets across more regions are the strong growth of GDP and

[2] Asia (excluding Japan) is presently a hub of the largest wealth in real assets, comprising 64% of the total amount for the region, followed by Western Europe (55%). In comparison, in North America real assets amount to only 28% of wealth (BCG, 2021a).

higher rates of individual savings in emerging economies.[3] Another important driver of the trend observed is the so-called “globalization of wealth”. The volatile economic environment over the first two decades evokes a strong endeavor for greater diversification to minimize risks. As well as investors seeking a larger variety of assets and industries to invest in, this desire is expressed in expanding the geography of investment. In addition, the allure of international travel, the desire of affluent younger generations to live and study abroad, the ever-increasing number of cross-border marriages, and the growing impact of technologies are also a prerequisite for the globalization of high-net-worth families and their investment (Wealth-X, 2021).

Scientific literature has also added some additional factors to the ones mentioned above. These are, for example, the quality of public institutions, the rule of law, and the level of economic freedom in developing countries, which play a crucial role in the creation of wealth and the increase in the number of HNWI (Michael et al., 2015). Other publications mention that the entry and/or expansion of the business of large banks in a certain market, constitutes, in itself, a prerequisite for the increase of wealth of the local population (Roine et al., 2009; Demirgüç-Kunt, Levine, 2009).

In the context of the scale of this trend to expand the geographic scope of wealth, the remarkable result of the USA certainly needs to be noted, where households own almost half of the total private financial assets in the world - a remarkable share that remained stable throughout the second decade. This supremacy is also reflected in the ‘net worth per capita’ indicator – in 2019 the average financial assets in the USA amounted to €242 712, which is approximately 7 times the world average! Moreover, this quotient has been rising since the start of the millennium, therefore the wealth of the US is increasingly decoupling from the rest of the world. The key to the financial assets’ high growth across the Atlantic can again be sought in the portfolio structure. Towards the end of 2019, US savers held 52.9% of their wealth in securities as against 28% in Western Europe and just 17.7% in Japan (Allianz, 2020). It is only logical then that their much higher risk tolerance ‘pays off’ accordingly high, given the financial markets strong performance.

This contrasts with the development in Western Europe: At €99 270, financial wealth per capita is not only not even half as high as in the US, but the gap from the global average has also narrowed, with the corresponding factor falling from 3.5 (2000) to 2.8 (2020) (Allianz, 2021). Some of the factors that dampened growth in this region during the second decade are the debt crisis, economic apathy, weaker Euro, Brexit, migration challenges, the need to catch up on innovations, etc. Against this background, Europe – the birthplace and once the ‘beating heart’ of private banking – is today on the verge of falling out of favor with the institutions engaged in wealth management.

Regarding wealth distribution by segments (Ultra High Net Worth Individuals (UHNWI); High Net Worth Individuals (HNWI), Affluent, Small Investors) there are also interesting data to be observed. According to Credit Suisse at the end of 2019 millionaires by net worth criterion are exactly 1% of the world’s adult

[3] In China, for example, households consistently saved more than 25% of their disposable income, on average, over the past two decades, compared with an average savings rate of less than 10% by households in Europe and the US (BCG, 2020a).

population (51.9m people), while at the same time, they own 43.4% of total wealth (Fig. 3).

Capgemini estimates the total number of HNWI according to the ‘investable assets’ criterion at 19.6m people at the end of 2019, compared to 12m people seven years earlier. Their distribution across the three leading regions is as follows: Asian- Pacific region 33.2%, North America 32.1%, and Europe 26.5%. In comparison, in 2012 the power ratio was: Asia and North America at 30.8% each, and Europe – at 28.3%, which once again shows the Old Continent’s lag behind (Capgemini, 2020).

Distribution according to financial wealth is even more striking. The number of millionaires (in US dollars) globally has nearly tripled in the past 20 years, from 8.9m in 1999 to more than 24m by the end of 2019. Then millionaires hold more than 50% of total financial wealth globally (BCG, 2020a). In other words, the HNWI and UHNWI segments favored by private banks, prosper the most, particularly in the second decade. This is logical. Because their portfolios comprised a much higher proportion of equities than other wealth segments, they were well-positioned to reap the gains from the recent long bull market.

In summary, it becomes clear that despite the progress of developing markets and although the annual growth in the number of millionaires slightly exceeds that of the assets they own, on a global level, the concentration of wealth remains exceptionally high. From the standpoint of wealth managers, this is another good news, as prerequisites are created for rising revenues following the rise of the financial assets their existing clients hold.

## 2. The PWM sector before and after the global financial crisis - assets under management and profitability

As a result of the discussed trends of (nearly) constant wealth growth, expansion of its geography, and the continuous concentration of wealth across its ‘upper floors’, over the last two decades, there have been unprecedented opportunities for business growth and revenue multiplication. Let us see to what extent private banks manage to benefit from them.

In the 2019 report McKinsey concludes that despite the presence of certain negative

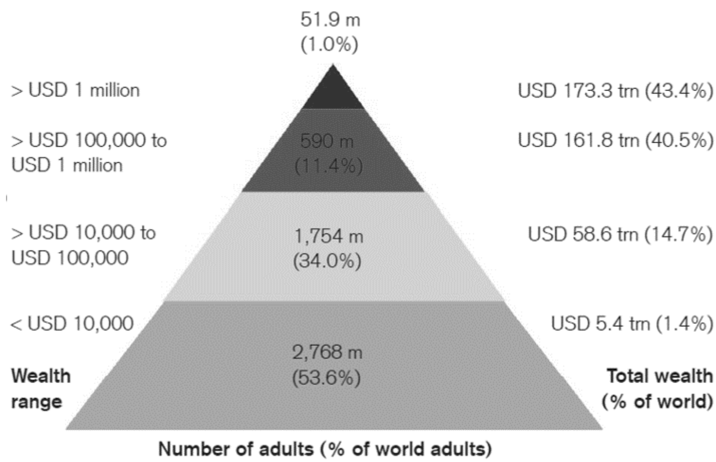


**Figure 3.** The global wealth pyramid end-2019 (Credit Suisse, 2020)

tendencies, globally private banks again maintain their position as the most profitable segment of banking (McKinsey, 2020a). In the same year, the Global Wealth Management division of UBS generates 61% of operating profit and 87.6% of net income from interest for the whole group. At J.P. Morgan, PWM services account for 35% of the bank's market valuation. In addition, for the period 2017-2019, its wealth management department generated an annual average ROE of 27.3%, with a 13.8% average ROE for the entire group (Euromoney, 2021).

Of course, some of the factors for higher profitability realized in this industry are more general and inherent in its business model. One such prerequisite is the fact that the net profit margins achieved by PWM providers are significantly higher than those generated from institutional asset management, for example. On the other hand, the PWM sector is characterized by its lower regulatory and capital requirements because of the significantly lower levels of credit risk and market risk and the limited need for a wide branch network (Maude, 2006).

However, certain specific factors characteristic of the industry over the first two decades of the 21st century also need to be added to these general considerations. One of the leading reasons for that is the impressive rate of industry growth. For example, in 2000 the North American wealth management industry totaled $13 trn in client assets. In the next ten years, client assets grew approximately 45 percent, reaching $19 trn in 2010 (McKinsey, 2020c). In the same year, there were a record number of financial advisors operating in the USA and Canada – around 420 000. As a result, by 2018, client assets rose by 64 percent compared to 2010, reaching about $30.5 trn. The most significant growth drivers for the first decade may be considered democratization and disintermediation of financial market trading, resulting from increased access to technologies. Among the main factors for the rapid growth during the second decade were the convergence of banking and investing and the rise of fee-based managed accounts.[4] Here we must also account for useful client retention, the key to which seems to be ensuring a more holistic service on the part of advisors.[5] It is an interesting detail that rapid growth is achieved by a relatively unchanged number of advisors, which simultaneously leads to a considerable rise in average assets managed by a single consultant and the average profits made (Wismer, 2021).

A PwC study also finds growth in AuM: "The global private banking market extended its solid performance of recent years during 2019, benefitting from favorable trends in financial markets and asset prices" (PwC, 2021). The banks included in the sample recorded average growth in assets under management (AuM) of 8.6 percent a year between 2016 and 2019. To confirm the saying that 'size matters' AuM grows faster with large and medium-size players (on average 9.2% and 9.5% a year respectively) than among the small ones (6.2%).

4 Under this pricing model clients pay according to each dollar invested (% of AuM), unlike classical transaction-based pricing, where payment depends on the transaction executed. In 2019 fee-based revenue contributes 69% of overall gross production for financial advisors, up from 38% in 2008. One of the key characteristics of the model in question is that growth of revenues is more closely linked to that of the AuM (Wismer, 2021).

5 In recent years, many of them have prioritized relationship quality over quantity, choosing to serve fewer affluent clients more comprehensively (Wismer, 2021).

The survey quoted, however, also shows certain ‘red alerts’. On the one hand, most banks encounter difficulties in generating organic growth. It turns out the sector’s good results largely stem from two other reasons – the natural process of assets gaining in price (also triggered by the relatively high inflation) and the accelerated processes of mergers and acquisitions. For example, three of the five best-performing banks according to the criterion “growth of AuM” have achieved these results following the acquisitions that were carried out. Another thing that becomes clear is that if banks perform better financially, this can be attributed to the favorable return at financial markets, rather than the start of new business relationships. In other words, growth through net inflows continues to be elusive for most private banks, despite the growing wealth worldwide. In the long run, this may turn out to be a serious problem, as the bull market is unlikely to last forever, i.e. PWM companies cannot rely solely on market profits to push up AuM.[6]

On the other hand, average values conceal the huge gap between the strongest companies’ performance and that of the weakest ones included in the study. While the best-performing five participants increase their AuM by a whopping 16.2%, in the least successful five banks, these even shrink by 1.2%. In this sense, positive trends concerning global wealth and financial markets’ performance are far from a guarantee that all institutions in the sector will grow.

Regardless of the deformities occurring after calculating average data, this most frequently used statistical approach for research purposes highlights several problems that are common to most industry players. Problems abound, although the leading position in realized profits has been retained. Since the global financial crisis, PWM institutions experience severe pressure regarding their efficiency, and this is illustrated by the much too high averages in the Cost/Income (C/I, CIR) ratio. We will elaborate on this indicator, considering the wide consensus in the scientific literature that it is operational performance that is the leading determinant of the profitability of banks (Vennet, 2002; Burgstaller, Cocca, 2010).

According to BCG “In 2019, the industry’s average CIR of 73% was 13 percentage points higher in total than it was before the financial crisis, despite 11 years of an almost uninterrupted bull market” (BCG, 2020a).[7] The highest rise is in North America – from 62% to 81% (BCG, 2020b). However, analysts seem to share the view that in this region the rise is not as worrying for two reasons. To begin with, the growing rates of AuM are the world’s highest, and should the price to pay be a growing C/I ratio, so be it. Secondly, the cost structure here is different from that of other regions because of the higher share of variable costs (˜40%). This in turn is a prerequisite for US wealth managers’ greater resilience to market volatility and quicker adaptability to upcoming changes (OW, DB, 2019).

6 The latter became visible in 2018, a year characterized by a certain, though short-term, decline in financial markets, which, however, negatively affects revenue margins for many wealth managers. This illustrates the strong vulnerability of operating models to even moderate levels of market stress (OW, DB, 2019).

7 Here, after all, it should also be taken into consideration the abrupt worsening of the C/I indicator among the world’s leading wealth managers during the crisis (by 12% for the period 2007-2009 only), with the negative impacts burdening certain market participants for many years afterwards (OW, DB, 2019).

As for the results of European private banks, “2019’s C/I ratios reached 71 percent - 1 percentage point higher than in 2018, and their highest level since 2012. Twenty-two percent of booking centers became economically unviable during 2019, reporting C/I ratios greater than 100 percent” (McKinsey, 2020a). Data on the region also shows unambiguously that critical mass is still of key importance for financial results. Smaller banks turned in C/I ratios averaging 99 percent, more than twice that of their larger peers. An even higher level of this indicator was identified in 2019 in Switzerland’s private banking sector – 79.9%, against 76.6% in 2010 (KPMG, USG, 2021).[8]

Based on this negative trend there are two factors acting simultaneously:

- Rise of operating costs. Among global private banks, these go up by an average of 4% a year over the period 2015 - 2018. Thus, two-thirds of the rise in operating revenues is absorbed by the costs (Ackermann, 2018). This problem is much more exacerbated in Europe. Taking a longer view, aggregate absolute costs grew 1.9 times revenues between 2007 and 2019 and 2.3 times revenues from 2015 to 2019 (McKinsey, 2020a).
- Decline in revenue growth. According to BCG, the industry’s revenue margin (its ratio to AuM) has been steadily falling since 2013 (BCG, 2019). PwC’s analysts confirm the picture and calculate that the revenue margin of Asset&Wealth–managers falls by 10.4% between 2012 and 2017 and at an even faster rate of 12% between 2015 and 2019. (PwC, 2018; PwC, 2021). The sharpest decline in revenues is registered in North America. On the other hand, however, the region’s financial institutions are in a much better position to handle a downward trend of this kind, as before its onset they enjoyed considerably higher margins. The situation is more complicated in Europe, given a decade-long trend for compressing revenue growth. If in 2007 their total margin amounts to 96 bps of AuM, in 2019 this share reaches a 12-year bottom of only 73 bps (McKinsey, 2020a). The indicator is also falling in Switzerland – from 108 bps in 2010 to 89 bps at the end of the decade (KPMG, USG, 2021).

An in-depth examination may reveal that the rise in operating costs and the problems with the revenue bis are determined by multiple factors (Table 1).

Where should we look for the reasons for the continuously rising costs of the last years?

First, we shouldn’t forget the fact that operative costs in the sector are traditionally higher than those in any other part of banking, as obtaining consultants of high expertise and the strict personalization of services does not come cheap. Beyond this principal consideration, evolving client needs, wants and apprehensions, combined with the ‘quest’ for digitalization require ever-increasing investments in several areas – cybersecurity, AI, marketing, etc. In addition, costs usually closely follow the client base expansion. Consequently, given the rates of attracting new clients in the last decade, cost rise seems only logical.

Second, following the global financial crisis, ensuring compliance puts a great strain on the cost base. During the second decade,

[8] These conclusions are hardly surprising considering the findings of scientific literature that market share is the most important competitiveness indicator for private banks, whereas competitiveness, on the other hand, is the top driver of financial performance (Gunardi et al., 2020).

**Table 1.** Factors leading to rising operating costs and decreasing revenue growth in the PWM sector over the last decade

| Cost-related factors | Revenue-related factors |
|---|---|
| Evolving client needs | Shifting the segment towards the ultra-rich |
| Business digitalization | Fewer discretionary mandates |
| Expanding client base | A larger share of asset-based fees |
| Ensuring regulatory compliance | Low-interest rates |
| Inefficient investment | The appearance of wholly digital competitors |
| Legacy IT systems and manual processes | Regulatory limitations |
| Frequent cyberattacks | Relationship managers' behavior |
| A rise in personnel costs | Unsatisfied client migration |

Compiled by the author of the study

PWM providers have faced an unprecedented surge in both global and local regulatory interventions aiming to raise transparency, protect clients, prevent fraud, and comply with tax regulations. Besides, regulations vary widely in different countries and regions, and regulatory changes are carried out at different speeds, which calls for the provision of specialists with high expertise in each particular market. Regulatory compliance costs also rise because some private banks have clients they have been servicing since the 1970s or 1980s and the huge documentation maintained over the years certainly does not meet today's requirements, which results in 'endless re-documentation' (Euromoney, 2019). Despite significant investment in regulatory compliance systems, private banks obviously cannot cope with these challenges. Rather than design an integrated operating model to address these issues, most fell back on ad hoc responses that generated isolated processes, teams, and tools. The result has been a massive spike in costs and a huge administrative burden that has slowed response times, contributed to mounting client frustration, and heightened the risk of error (BCG, 2020a). Furthermore, all this combined generates additional costs in the long run.

Third, most private banks continue to be dependent on legacy IT systems and platforms, as well as on complicated manual processes. Apart from contributing to keeping operating costs at a "consistently high" level, these problems make banks seriously vulnerable to cyber attacks, which often result in even bigger damages.

Fourth, given the growing requirements for financial consultants' qualifications and skills, as well as the looming danger of them migrating to new competitors, personnel costs also grow exponentially. A proof of the above is the fact that in Swiss private banks personnel costs already account for about 70% of the total cost base (KPMG, USG, 2021). Of course, the increase in salaries in itself should not be interpreted as something negative, even if we just consider that academic research has proven that the most profitable and effective PWM institutions are distinguished by the higher salaries of their employees (Burgstaller, Cocca, 2010).

Another circumstance that also contributes to rising costs is that "leading wealth managers, on the whole, do not rely on job cuts to boost their bottom line" (BCG, 2019). For example, the number of employees of Swiss private banks has fallen by 18% between 2007 and 2019 (Deloitte, 2021), which is considerably less than redundancies in the rest of the banking sector.

Which are the underlying factors for the decline in revenue growth?

To begin with, the industry witnesses a shift in AuM towards the segment of ultra-high-net-worth individuals, which is traditionally characterized by lower return. Thus, for example, research finds out that ROA goes down from 1.12% in the affluent segment to 0.33% with UHNWI (BCG, 2019).

Next, owing to the growing desire of customers to make the decisions about their investment themselves, there can be observed compression in discretionary mandate revenue.[9]

Third, asset-based fees, which are more vulnerable to market declines, make up a higher percentage of wealth manager incomes than they did in the past (45% in 2018 compared with 30% in 2013) (BCG, 2020a).

Fourth, although lending is not a core activity for wealth managers, low-interest levels also affect the revenue base directly as well as indirectly. This is particularly valid in Europe, where cash still constitutes a large part of rich persons' total portfolio.

Fifth, the rapid development of the low-cost-digital business models 'cannibalizes' part of the revenues in two basic aspects - part of clients migrating to these low-cost digital service providers and a growing push for offering lower and more transparent fees.

Sixth, some regulatory changes (like MiFID II) also bring about the decline in financial results, by limiting and sometimes even eliminating particular revenue streams (for example, certain commissions). On the other hand, regulations aiming to minimize tax fraud heavily stifle revenue from off-shore transactions.

Seventh, the decisions of relationship managers seriously affect pricing in wealth management, and hence the revenue base. "History suggests that bear markets can be a particularly challenging time for some advisors concerning pricing. During and following the 2008 financial crisis, 17 percent of advisors increased their level of discounting, and while their price levels increased after the recovery, they stabilized at a rate halfway between pre-crisis levels and the bottom of their pricing" (Wismer, 2021). At the end of the second decade the consultants' wish to 'please' clients makes them offer the lowest price possible, too.

Eighth, growing operating costs crack budgets, which forces some banks to compensate with higher fees for certain services, mostly aimed at customers who are not ultra-rich. This in turn puts these customers off and they too migrate, thus taking away potential revenues.

As a result of the simultaneous pressure on the cost- and revenue bases of PWM institutions, in the end, the net financial result is also suffering. "Despite a significantly larger asset and client base, the industry's profit pool remains about the same as it was more than a decade ago, having reached just $135 bn in 2019 compared with $130 bn in 2007"

[9] With „Discretionary mandate" the authorized institution manages assets for the client, at its discretion in accordance with an investment goal set in advance. Under contemporary conditions, however, this approach is increasingly overtaken by the advisory mandate, where the client makes their own decision whether to follow the bank's recommendation or not (Ankenbrand et al., 2021).

(BCG, 2020a). In Europe the trend towards profit compression escalates at the end of the second decade, with 2019 being the second consecutive year of stagnating profit - €13.3 bn compared to €13.5 bn in 2018 and €14,7 bn in 2017. At the same time, the aggregate profit margin fell to a 12-year low of 21 bps of AuM—down from 35 bps in 2007 (McKinsey, 2020a).

All regions see a drop in key profitability indicators. Globally ROA slips by about 15 bps between 2007 and 2019, owing to the preemptive growth of AuM compared to profit (BCG, 2020b). As for ROE, in Switzerland, for example, a lasting downward trend can be seen during the second decade. Thus in 2019, the indicator's average value is already 4.2% - ever farther from the peak levels of over 5% in 2010 and 2014 (KPMG, USG, 2021).

Given all that has been said so far, a conclusion can be made that although PWM continues to be the most profitable banking segment, during the second decade of the 21 century lasting trends are undermining the industry's profitability and efficiency. These trends, combined with the sector's strong dependence on financial markets performance pose several justified questions regarding its ability to maintain profits in the long run. Besides, in many cases, the differences in results between particular institutions are so striking, that they can question the survival of the less strong among them in an increasingly tough economic environment. Therefore, it is particularly important to trace the impact of the Covid-19 pandemic on the financial performance of the PWM industry.

## 3. Effects of the COVID-19 pandemic on financial performance: The good news for the industry

With the advent of 2020 and the announcement of the Covid-19 pandemic there also appear the first almost apocalyptic forecasts about the development of the PWM sector. They are founded on the anticipations of decline or at least stagnation in the size of global wealth. In a joint study by Oliver Wyman and Morgan Stanley, three future scenarios are drawn, and according to the most probable one, similar to the crisis of 2008, Covid-19 will lead to a lost year in the growth of HNWI's wealth. From this standpoint, analysts forecast that over the period 2019-2024 in developed markets client assets managed by wealth managers will grow twice as slowly compared to the average 7-percent annual rise during the five years before the pandemic (OW, MS, 2020). BCG experts also develop three scenarios – Quick Rebound, Slow Recovery, and Lasting Damage, but no matter which one of them becomes a reality, expectations are that Covid-19 will almost inevitably result in wealth diminishing in the short run and PWM providers being subjected to greater pressure. An additional argument is that many wealth managers are entering the crisis in a weaker financial position than they were before the last financial crisis: "9% began 2020 in the red, compared with just 5% in 2007" (BCG, 2020a).

Indeed, the beginning of 2020 is hard for the industry. The novel Covid-19 virus plunged the global economy into its deepest recession since World War II. Financial markets responded predictably and share prices dived in February and March. No region was immune. By the second half of March, the S&P 500 had fallen by 34%, the FTSE100 by 35%, the DAX by 39%, and the

Nikkei by 31% (Credit Suisse, 2021). However, a year and a half later, the prevailing expert opinions seem to be that "Wealth managers are emerging from the depths of Covid-19 with their businesses secure and their prospects much brighter than expected" (FT, 2021). To a large extent, financial results do allow for optimism.

On a global scale, the volume of the business (defined as AuM plus liabilities) grows by 11%. This in turn enables PWM institutions to maintain a profit margin of 21 bps – only one bps less than in 2019 (BCG, 2021b). A remarkable staying power of the sector is observed in North America, which domineers in terms of the revenues achieved. WMs in the region generated $150 bn in revenues in 2020, nearly two-thirds (64%) of the global total ($235 bn) (BCG, 2021a). At the same time, AuM reach an all-time high of $38 trn (McKinsey, 2022). Thus, average assets entrusted to a financial consultant grow to a record $130m - 9% more than in 2019. Average revenues generated by a single consultant also marked record levels (Fig. 4).

As for the results in Western Europe, where profits in a year increase by 2%, while AuM (though at slower rates) also continue to grow (McKinsey, 2021b). Data on European private banks are particularly impressive, having in mind that they encountered Covid -19 from a difficult starting point in stagnating profit. Switzerland, the symbol of private banking, also passed the crisis year of 2020 unscathed, strengthening even further its position as a leading world center of cross-border wealth management, which concentrates nearly a quarter of the industry (UBP, 2021). Here are just a few examples to support this thesis. In 2020 UBS registered extremely good results, reporting pre-tax profit of $4.1 bn – 20.4% more than also a very strong 2019

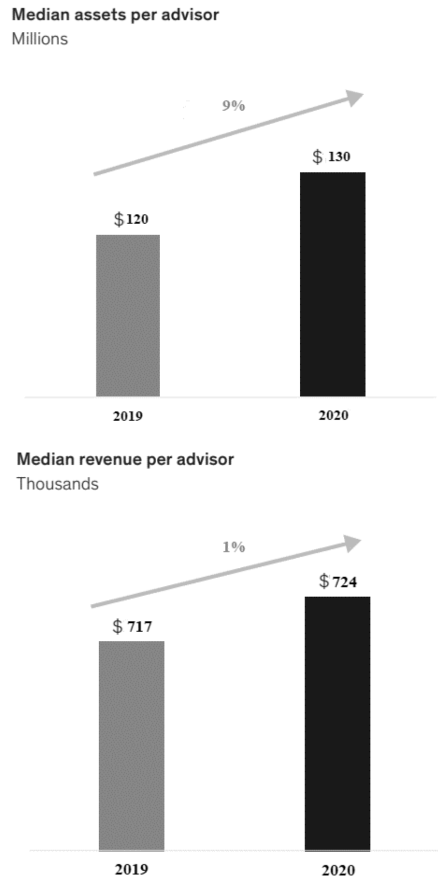


**Figure 4.** Median assets per advisor and Median revenue per advisor in North America (Based on McKinsey, 2020b; McKinsey, 2021a)

(PBI, 2021). This trend accelerates in 2021 and towards the end of the second quarter the bank registers, in every single region it operates in, its highest profit levels for over 5 years (Reuters, 2021).

There is good news not only for the global leader in wealth management but for the whole sector of private banking in Switzerland as well. NNM goes up by CHF 94.5 bn or 3.3% – the highest rise after 2010. We have to point out, however, that 95% of it is owing to the large banks in the country (without UBS and Credit Suisse, which are excluded from the analysis). Their sustainability in times of crisis is proven by their excellent performance according to several other indicators. So for instance their AuM rise by 8.8%. CIR also improves by 1.1% to reach 74.2% (KPMG, USG, 2021).

Among the reasons for the excellent result of the Alpine country are the relatively smaller losses its economy sustained during the pandemic, as well as its leading position in the world according to the wealth-per-adult criterion (Credit Suisse, 2021). And there is more. Switzerland's competitive position is even improving, as in times of crisis clients seem to appreciate stability more than ever. Neither should we underestimate the strength of the long-lasting (often centuries-long) market experience that most Swiss banks have. In this connection, the financial institution Lombard Odier, founded in 1796, points out: "It is a bit difficult for a firm that's 225 years old to say the pandemic is a seismic moment in private banking. We always say we have seen more than 40 crises, and they all bring their challenges and situations" (Euromoney, 2021).

Switzerland undoubtedly possesses unique characteristics which support the country's private banks' performance even in hard times. However, the unexpectedly strong results of the PWM industry worldwide in 2020 – 2021 deserve a closer look into the general factors which determine them. Here we shall focus on three basic ones: the growing size and concentration of the world's financial wealth even in pandemic conditions, high client retention quota, and limited operating costs.

Despite the gravely negative prognoses from the onset of the pandemic, even the pandemic itself has failed to break the sustainability of the trend of growing global wealth. It becomes clear that against the background of a 3.3% decline in global GDP, instead of shrinking, in 2020 the world's financial assets climb by 8.3%, reaching a record high of $250 trn (BCG, 2021a). Similar evaluations come from Credit Suisse analysts: "Total world wealth grew by 7.4%, while average wealth-per-adult went up by 6%, reaching the record high of $79 952".[10] Compared to the overall trend since 2000, wealth growth in 2020 is slightly below average. But is not dissimilar to the growth achieved in 2001, 2009, 2011, and 2018. It also becomes clear that in terms of wealth creation, the countries that were hit hardest by Covid-19 did not perform worse compared to previous years and in some cases even the opposite is true (Credit Suisse, 2021). The Capgemini report, focused on the financial state of HNWI, confirms positive assessments, referring to a 7.6% annual growth of their wealth (Capgemini, 2021).

Analysis of all these figures leads us to two important conclusions supporting the thesis of the excellent prospects for the PWM industry. On the one hand, wealth creation in 2020 seems largely immune to the challenges facing the world. "The discrepancy between wealth and economic growth has rarely been as pronounced as in 2020: Global financial assets grew by a staggering 11.6pp more than economic output" (Allianz, 2021). On the other hand – nothing the figures show suggests that the economic shocks of 2020

[10] However, the report emphasizes that the devaluation of the US dollar distorts the results to a degree. Should they be corrected taking into account the exchange rate, total wealth would grow by only 4.1%, and average wealth per adult – by 2.7%. Besides, the results would have been much more modest, if there had not been a significant increase in asset price for the particular year.

bear any resemblance to the situation of 2008. An explanation can be sought for the different characteristics of the pandemic crisis, which in its nature is neither a financial nor an economic one.

Another circumstance that distinguishes 2020 from the other years of the second decade is the slower growth of total wealth in developing markets than that of developed ones.[11] The same holds particularly about the wealth of HNWI. Despite Asia's demographic and economic impetus, in 2020 North America resumes its leadership regarding the number of millionaires, registering a rise of 10.7%. At the same time, their wealth increases at an even higher rate – 11.9%. In comparison, the Asian – Pacific region has a growth of 5.8% and 8.4% respectively, and Europe – 2.8% and 4.5%. The well-being of the population across the Atlantic is mostly a result of equity investment, as North American wealthy individuals' stocks amount to 38% of all investments compared to 24% in Europe and 22% in Asia. A particularly important wealth driver in the USA are the "roaring stocks" of high-tech companies, on which Covid-19 has a positive impact. In Europe, the smothered growth of wealth can be attributed to the pandemic's heavier impact on key European markets and the continent's larger exposure to industries such as fashion, tourism, and retail, which were seriously hit by the crisis (Capgemini, 2021). We should add to that the region's failure to encourage high-end innovations.

Wealth concentration is a trend that also accelerates during the pandemic. The list of UHNWI private banks that find so attractive has added another 6000 names (BCG, 2021a). A considerable growth of 6.3% can also be observed in the number of HNWI, who already amount to over 20m people. The assets they own rise at an even higher rate (7.6%), reaching nearly $80 trn. Another point to make is that annual growth for both indicators is higher than their average annual growth for the period 2013-2019 (Fig. 5). Given these facts, it is expected that over the next five years, too, the wealth of "high-rise" clients of private banking will grow even faster compared to that of the "normally wealthy" and affluent clients, thus strengthening the trend for concentration (OW, MS, 2021).

All data so far point to one thing – a sustainable rise in the world's financial wealth, which not a single analyst succeeded in predicting at the beginning of the pandemic. At present there is already a logical explanation that brings together several key factors.

First, anxious to avoid the approaching economic Armageddon, governments and central banks take preventive actions in two main directions: organizing large-scale income transfer programs for people and businesses heavily hit by the pandemic; lowering interest rates, and promising they will stay low for a time (Credit Suisse, 2021). Owing to these measures households' disposable incomes do not suffer a serious decline.

Second, because of the limited possibilities for consumption and the households' rising willingness to save finances and deposits jumped by 10.6% the previous year, marking the greatest annual increase for two decades (BCG, 2021a). Allianz estimates an even higher rise – 11.9%. A major factor is believed

[11] According to Credit Suisse in 2020 the developing countries' share in total wealth even slightly declined. As well as to continuous and severe lockdowns in Asia, this is also due to the inability of most emerging economies to offer the habitual generous packages of support which rich states take for granted and which 'mask' real results in wealth growth by means of raising asset prices (Credit Suisse, 2021).

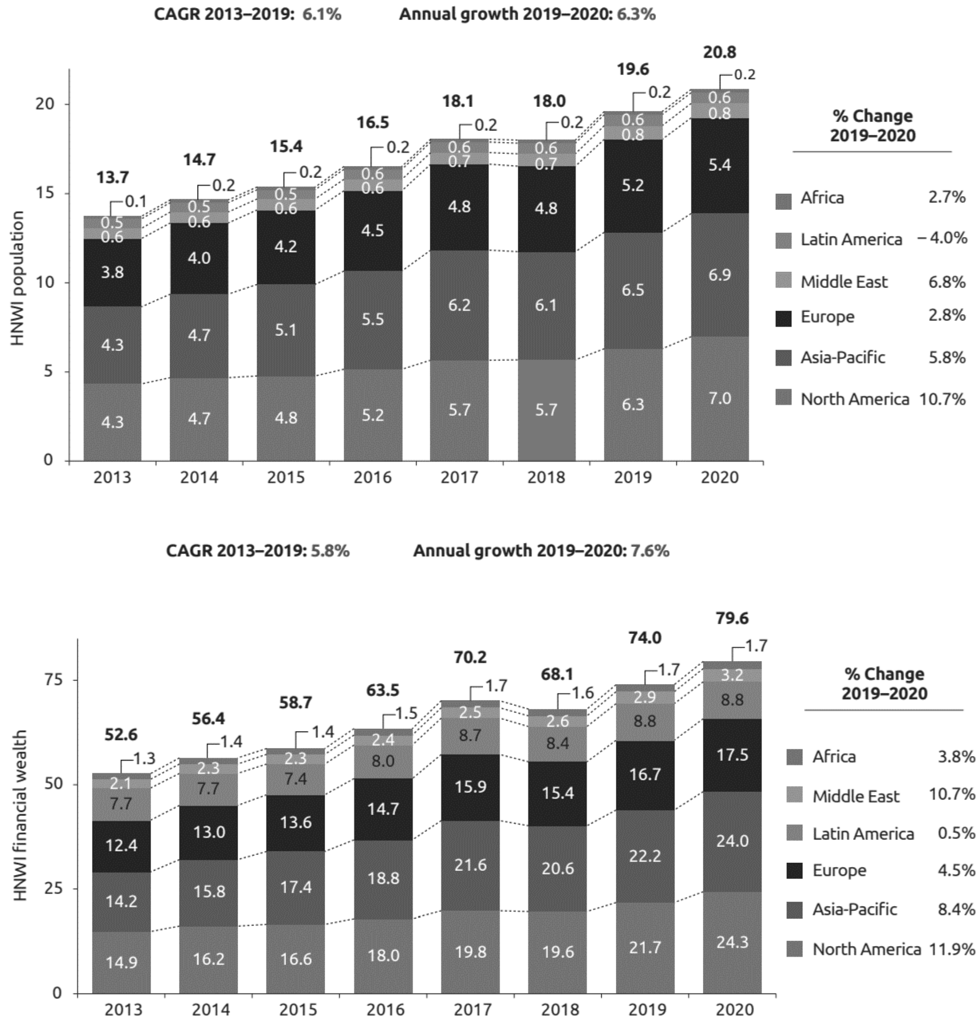


**Figure 5.** Number of HNWIs by region (millions) and HNWI financial wealth by region (USD trillions) (Capgemini, 2021)

to be the pandemic-born global phenomenon of 'forced saving' (Allianz, 2021).

Third, reassured by the state's actions, investors quickly restore their confidence in the good prospects, all this resulting in the financial markets downtrend turning around as early as mid-June. Later development is more than unpredictable. Stock prices keep marching upward reaching new peaks nearly every day.[12] In other words, there is another contrast to be seen here – while the world economy suffers from the multiple Covid-19

[12] In 2020 global stock markets rise by the solid 15.9%. Unimaginable at the beginning of the pandemic (Allianz, 2021)! The S&P 500 index appreciated by over 70% between March 2020 and March 2021 (Deloitte, 2021).

waves, markets develop along a trajectory of their own.[13] Another issue is that according to some academic research, a new bubble is likely to have formed in the stock market (especially in the US)., given the tangible excess of current market ratios over their historical averages and even more – over fundamental ratios. “The main factor for this situation is the unusually low cost of equity, mainly due to the Fed’s policy of low-interest rates and quantitative easing, which has lasted for a decade, but has been exacerbated by the Covid crisis” (Nenkov, 2021).

Fourth, overstocked with liquidity and enthusiastic about the strong results in the stock market, investors direct increasingly larger parts of their wealth to stock and investment funds at the cost of low-yield debt securities, thus accelerating pre-crisis trends (BCG, 2021a).

Fifth, in their striving for an even greater return, many (especially UHNWI) aim at alternative investment in private capital, private debt, real estate, and others (BCG, 2021a).

Sixth, owing to the easy access to digital investment platforms, fresh funds from government incentive programs, and inevitably limited expenses on travel and entertainment, retail investors’ liquidity grew, resulting in their substantial contribution to the overall market activity in 2020. From this perspective, McKinsey defines the revival of the ‘committed investor’ or ‘active trader’ segment as one of the industry’s main pandemic disturbances (McKinsey, 2022).

Growing wealth is a major, but not the only factor for the surprisingly good performance of PWM institutions during the pandemic. Here we also have to account for the low levels of client migration. It turns out that in turbulent times, the trust built over time acquires even greater importance and clients rarely dare to change the financial centre that services them. For example, in 2020 in North America, client retention reached a record high of 94.6% (McKinsey, 2021a). Four reasons stand behind this. First, rich individuals desire to be “led through the storm” by a familiar face. Second, the pre-pandemic trend of reducing the number of customers served by a single consultant leads to deepening the relationships, and consequently to higher client satisfaction. Third, during the pandemic, private banks were forced to undertake a series of steps for digital transformation of their business, which, on the other hand, allowed them to offer their clients much more personalized investment information in a relatively inexpensive way. This proved to be of crucial importance considering the findings mentioned in research journals that during COVID-19 it was innovations and personalization that became the most important factors for the successful performance of a given PWM provider (Lin et al., 2021).

[13] In fact certain indications for ‘severing’ the link between financial markets’ growth and that of local economies exist even before the pandemic. In the tumultuous Covid-19 times, however, this trend is accelerating (Capgemini, 2021). As well as the obvious cause (measures taken by governments and central banks), another key factor should be mentioned here. Under conditions of pandemic- fueled global digitalization, shares of major hi-tech companies domineer the markets and are going on at incredible rates. By mid-2020 the five biggest S&P 500 companies - Apple, Amazon, Microsoft, Alphabet and Facebook – account for about 23% of the index – the highest concentration for at least 30 years. In this sense, it is logical that these companies influence market activity much more than the markedly poorer performers: energy industries and utilities, which at present account for less than 3% of S&P 500 (Mint, 2020).

Because of the good progress markets made during the second half of the year, serious portfolio declines are rather an exception, i.e. there is a lack of strong financial stimulation for migration. Fourth, simultaneously, there are changes in the attitudes toward future migration to another financial service provider within the next three years. While in 2016 40% of clients planned to transfer part of their money to a competitor institution, only 28% are willing to do so in 2021 (EY, 2021). Similar attitudes are easy to explain, given the fact that Covid-19 has brought along the third consecutive global economic turmoil for the 21st century. The lessons we learned from the dot-com bubble of 2002 and the global financial crisis of 2007-2008 resulted in the tendency for HNWI to move to direct self-investment under bull market conditions, while under circumstances of instability and uncertainty to get back to seeking professional consulting (Capgemini, 2021).[14]

Curbing operating costs during the Corona crisis also contributes to good results. Globally in 2020, wealth managers succeed in achieving a fall in cost margin of 4 bps, mainly owing to the back-office economies made (BCG, 2021b). Although North America and the Asian-Pacific region act more aggressively in this direction, Europe, too, has witnessed the largest annual drop in operating costs for the last decade (McKinsey, 2021b). In Switzerland for instance, regarding the largest expense item – personnel costs - 70% of banks report a decrease in margins in 2020 (KPMG, USG, 2021). These results can be explained with three main reasons – cutting or postponing non-priority costs (in marketing, for example), economies on the business model, which have been adjusted to the situation (less travel and remote work), and effects of the growing digital investment (achieved scalability).

## 4. Some open questions

Of course, not all news from the pandemic year 2020 are so positive for the PWM industry. Certain financial results arouse justified concerns and further sharpen the attention to alarming trends which had been observed before Covid-19. For example, often lower operating costs cannot compensate for the continuous shrinking of the client base. In smaller private banks, in particular, costs ‘cannibalize’ revenue, which is a huge strain on net profits.

A series of McKinsey reports on the PWM sector in North America point out that despite sustainable client retention and increased AuM in 2020, the road ahead seems insecure for several major reasons (McKinsey, 2021a; Wismer, 2021; McKinsey, 2022).

First, the total growth of AuM increasingly depends mostly on the situations developing in the dynamic financial markets, as attracting new clients seems to be in stagnation. This is proved by the fact that in 2020 a consultant starts an average of 7.4 new client relationships, the lowest point since 2016. To a large degree the inertness in attracting new clients is understandable in times of social distancing, as, no matter how well digital channels function, they are not at all a good choice for the first stages in the complex service offered to a very rich client. But even so, the circumstance that 3/4 of the average assets per consultant is due to the market performance is seriously disturbing, given the existing dynamic and price volatility.

[14] An explanation for this behavior can be found in the numerous theories of social fear, which, although not an economic category, has several financial implications (Naydenova, 2021).

Second, the revenue growth lagging behind that of AuM is more pronounced during the pandemic. In this connection, there are two negative records in 2020 – the slowest biannual revenue growth over the last decade and negative operating leverage.[15]

Third, the aging client base limits the opportunities for profits, because elderly people are more conservative in their investments, are not open to fee-based products (which are a key driver of growth), and, as a rule, are more likely to withdraw from their accounts than feed them.

Fourth, pressure on pricing models and the size of fees is increasing, under the impact of cheap hybrid competitive offers, which gather up extra speed during the pandemic. Because of this push, private banks cannot sufficiently avail of certain positive trends reported in 2020. So, for example, after a long period of decline, it was exactly during the pandemic that a revival of stock trade was registered. This heightened activity, however, is counterbalanced by the continuing drop in fee amounts and trading brokerage commissions. Along with this, compared to the recent past, an increasingly larger share of PWM providers' revenues comes from the fees on assets under management. "Therefore, as markets retreat, so will the income of advisors" (Wismer, 2021).

Some of the results achieved in 2020 by Swiss private banks also question the sector's abilities to generate high profitability in the foreseeable future. Thus, for example, the average marge of operating income falls by 8 bps to 81 bps - the historically lowest. The growth of AuM is also slowed down considerably. In 2020 it is only 3%, against 14% a year ago. Special attention should be paid to another trend, accelerated by the pandemic. Swiss banks` performance is increasingly polarized. While large and medium-sized institutions attract record amounts of net new money, small players may even end up with a negative NNM. Also, large banks manage to maintain a stable CIR level, while in the small ones, within only a year, this level goes up by 7% (KPMG, USG, 2021). These data question small banks' survival over the next years, especially in the case of financial markets' poor performance.

Apprehensions regarding the future profitability of PWM institutions are expressed in many more publications. A report by Oliver Wyman and Morgan Stanley forecasts profit margins falling at the industry level, since Covid-19 accelerates the drop of net interest spreads, while structural factors compressing incomes from fees and commissions (F&C), as well as from trading brokerage are still active (OW, MS, 2020).

Serious resistance to fee income may also be expected by certain investors' willingness to raise their cash positions in an attempt to protect themselves against future market instability. The grounds for such an expectation are given in a survey of 2021, which finds out a clear trend for avoiding uncertainty. In particular, globally only a third of clients prefer high-risk investment, while nearly half of them believe that because of Covid-19 in the future, they will probably be even more risk-intolerant (EY, 2021).

As well as profitability, maintaining low levels of client migration, in the long run, is also in question. There is no lack of arguments in this direction. During turbulent times, the professionalism and the capabilities of the financial consultant become increasingly

[15] This problem is not isolated in the US only. In Europe, the decline is 3 bps – the largest since 2016 (McKinsey, 2021b).

important. In this context, after the global financial crisis, Chang and Tsai concluded that client trust, risk control, and quality of service became the three most important criteria for the performance evaluation of financial consultants (Chang, Tsai, 2016). These conclusions are also confirmed by other studies, which suggest that the high quality of services is the crucial factor that can keep clients in times of crisis (Ang, 2010; Ting, 2017).

Furthermore, after crises, affluent customers are more likely to change their servicing financial center. Thus, for example in 2009 – the first year after the global financial crisis - 10% of North American clients leave their financial consultant, which is the highest level of migration for the entire second decade (Wismer, 2021).[16] Client retention is expected to be put under pressure also because of the rich persons' growing interest in consolidating all their financial relationships and activities to a single PWM provider. A survey carried out at the peak of the pandemic points out that nearly half of investors worldwide declare such a wish (EY, 2021).

However, the most important reason for the potential withdrawal of clients is something else. The PWM industry is facing the historically most significant transfer of wealth between generations – from baby boomers to generations X, Y, and Z. Speculations regarding the exact amounts and the time-scale this is going to occur vary considerably. While according to some analysts, $59 trn will be transferred by 2061, others forecast that within only a quarter of a century $68 trn will change hands. Still, others expect over $18 trn to be transferred by as early as 2030 (Haggerty, 2021). Regardless of the exact sum, it will undoubtedly be a colossal one, particularly in the US, whereby in 2020 around 70% of rich households' financial assets are controlled by Baby Boomers (McKinsey, 2020d).

The expected transfer of wealth is met with mixed feelings among various wealth managers. While 28% of them place the expected transfer of wealth to feature among their three major concerns, another 23% view it as "an exciting opportunity" (Knight Frank, 2021). Without a shadow of a doubt, however, all of them will clash with the new heir profile – predominantly Millennials and females, of whom all surveys claim that they are more likely to transfer their wealth to another provider.[17]

Despite all these challenges, we should not omit the fact that the possibilities in front of PWM institutions will also continue to multiply, given the expectations everywhere that wealth will keep growing. Although it predicts a certain slackening, BCG's forecast is optimistic: "The next five years may be stronger still. We see signs of an emerging economic recovery that could significantly expand prosperity and wealth between now and 2025" (BCG, 2021a). In particular, expectations are based on the strong performance of capital markets, the rise of entrepreneurship, and the acceleration

[16] Yet it should be taken into consideration that such a direct parallel between the two crises may be quite incorrect, as during the pandemic the financial sector is not subjected to reputational problems as was the case in 2007-2008.

[17] Certain research findings sound more than alarming for PWM institutions. In a recent survey in USA, for example, it has been established that "a staggering 70 percent of widows in the United States change financial advisors, and evidence points to even higher rates of divorced women who make a change" (Duquesnay, 2019). As for Millennials, 80% of them or more will seek a new financial advisor once they have inherited their parents' fortune (Osterland, 2019).

of the intergenerational wealth transfer, as well as the nearly 1.15m persons who will most probably join the HNWI- and UHNWI- segment in each of the five years of the forecast period (BCG, 2021b). Even higher expectations are shared by the analysts of Credit Suisse: “Since the year 2000, global wealth in US dollars has increased at an average annual rate of 6.5%. Our projections envisage wealth growing at a slightly faster pace, averaging 6.9% per annum over the next five years. Wealth per adult is expected to reach USD 104,710, which would be a watershed” (Credit Suisse, 2021).

Regarding the potential distribution of new wealth by regions, analysts are less unanimous. According to BCG “Over the next five years, North America ($25 trn) and Asia (ex Japan, $22 trn) will be the leading financial wealth generators in absolute terms, followed by Western Europe ($10 trn)”. Experts also foretell a change of leadership in crossborder wealth, namely that as early as 2023 Hong Kong will get ahead of Switzerland as the world’s biggest PWM reservation center (BCG, 2021a). Credit Suisse also predicts higher rates of wealth growth in the developing countries with China and India in the leading positions - over 9% on average annually and 5.8% in the developed ones (Credit Suisse, 2021). Allianz, however, seems to have the opposite expectations, since owing to the fewer vaccinations Covid-19 will continue to hold back economic development in the coming years. Added to this is fast-rising public debt, which restricts the scope for action, especially if interest rates rise again in the next few years (Allianz, 2021). Such expectations align with the understanding that the level and volatility of sovereign risk are higher in emerging markets than in developed countries. This means that an overall change in risk perception by investors in global financial markets would have a stronger impact on emerging markets` economic outlook (Todorov, 2010).

Regardless of the rates it is going to occur, the change in wealth geography will undoubtedly continue. This process will also bring along additional challenges to the participants in the PWM sector, including investment and resource distribution by regions. Although prognoses speak of the greatest growth in revenue made in Asia, because of the expected more powerful penetration of PWM institutions in this continent, the market there remains very tough for foreign wealth managers. In China, for example, it is still dominated by local players who control distribution and their history and scale gives them huge advantages over international banks. Along with this, despite easing regulatory requirements, foreign PWM companies still face considerable market entry barriers, including multiple licenses that can only be obtained through complicated and often non-transparent administrative processes (OW, DB, 2019). Private banks’ expanding presence in Asia, dictated by the rapid wealth growth, is a double-edged sword also because, in these parts of the world, client loyalty is much lower. Clients, there are much more likely to jump from supplier to supplier not in search of a higher quality service, but a lower price, which is going to force banks into focusing on the amount of AuM, and not on their quality, and this is often the wrong strategy, leading to a decline in revenue in the long run (Euromoney, 2022).

## Conclusion

It is a well-established thesis among experts that PWM is a business sphere that, compared to the rest of the banking segments, is 'genetically predisposed' to better growth prospects and more stable financial results. An overview of its performance from the beginning of this century till 2020-2021 largely supports this opinion. The main factor about this is that despite the initial negative forecasts, neither the global financial crisis nor the pandemic hinders the natural sustainable growth of global wealth – a trend that is expected to continue over the next years as well. No matter how promising this prospect is, wealth managers should view it entirely through the prism of their financial results. The fact is the crisis and cataclysms which occurred over the period have not managed to compromise the position of wealth management as the most profitable business of banking institutions. At the same time, however, the high dynamic and uncertainty, combined with the industry's heavy dependence on financial markets development, pose several open questions regarding the industry's long-term financial prosperity.

The increase of AuM in itself cannot guarantee either revenue growth and improved cost efficiency, the achievement of sustainable organic growth, or client retention in the long run. And there is more. Over the last decade many of the key financial ratios, particularly regarding smaller market participants, have been following a lasting downward trend, which is a clear symptom that their profitability is under pressure. Therefore, to avoid future profit erosion, the executives of PWM institutions have to develop the right strategy to reduce the C/I ratio, increase net new money, minimize the negative effects of the changes in pricing models, and maintain low levels of client migration. In the post-pandemic and increasingly competitive landscape, this will likely become a key factor not so much for growth but for the business's survival.

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