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The Deloitte International Wealth Management Centre Ranking 2021

Proving its worth in today's turbulent world

Fourth Edition

Future confident

Scope of the research

International wealth management centres (IWMC) are defined in this report as countries or jurisdictions specialising in and attracting international private clients. A key feature of this definition is the provision of a significant scale of private banking/ wealth management services to clients with foreign domiciles. Consequently, a large proportion of client assets in wealth management centres are privately owned cross-border assets representing the International Market Volume (IMV), which are the focal point of this report.

Highlighted IWMC (in alphabetical order):

Bahrain | Hong Kong | Luxembourg | Panama & the Caribbean | Singapore | Switzerland | UAE | UK | US

Asset classes include bank accounts (checking and saving accounts), debt and equity securities (including shares of funds), derivatives and assets held in fiduciary structures such as companies and trusts. This is not limited to millionaire households but includes all households. Assets held via funds, life insurers and pensions are excluded. Non-banking assets such as business equity, primary residences and art are also excluded.

International Market Volume (IMV) is defined as assets managed or administered in a location separate from the asset owner's domicile. This report focuses on IMV from a booking perspective (where are assets booked?) as opposed to an origination perspective (what is the domicile of the asset owner?)

Acknowledgements
For this report, we completed a series of interviews with industry professionals including several business executives of leading wealth managers. The authors would like to express their sincere thanks to the participants for sharing their knowledge and expertise.

Contents

1. Foreword

In today's world, characterised by high complexity and dynamic change, the COVID-19 crisis has disrupted existing ways of social and economic interaction. In this environment of accelerated change, stability and wealth protection are invaluable assets.

While the full impact on the international wealth management industry is yet to be felt, wealth managers are preparing for the challenges ahead. In particular, technology-driven interactions between clients and their banks are becoming the 'new normal'. The required digital transformation will be costly, and there will be questions about whether investments in digitalisation, differentiated propositions and partnerships are spent in the right way and lead to an improved top- and bottom line performance.

New models of cooperation with clients and local partners, enhanced product offerings and robust but flexible technological platforms are emerging as business priorities in the competition among global private wealth managers located in wealth management centres.

This fourth edition of our ranking report focuses on four main questions:

- **How has the competitiveness of each wealth management centre changed since 2018?**
- **How have the centres performed in terms of volume from international clients?**
- **What are the key characteristics of leading international wealth management centres?**
- **What are the business priorities of international wealth managers and the business capabilities needed to succeed in the future?**

We hope that this report provides you with useful and interesting insights into this industry sector.

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2. Executive summary

2.1 Overall findings

New challenges

The business environment for international wealth management centres (IWMCs) remains challenging. The focus for competitiveness has evolved, with environmental, social and governance (ESG) investments and political stability becoming more important. Between 2017 and 2020, there was an increase in International Market Volume (IMV) in the leading centres. Cost competitiveness is an ongoing challenge.

Switzerland still on top, others closely behind

- Switzerland is still the leading centre in terms of competitiveness, size and performance. The rankings diverge for competitiveness and size. Singapore and Hong Kong are second and third for competitiveness, and the United Kingdom and United States come second in terms of size.

- Underpinned by a strong increase of International Market Volume in 2020, the leading centres have come through the COVID-19 crisis surprisingly well. Due to their digital capabilities, key services could be delivered amid turbulent stock markets and restrictions on travel and mobility.

2.2 Competitiveness

Competitiveness ranking

Shifting competitive factors

There have been shifts in the relative importance of the factors underlying the competitiveness of IWMCs. ESG investments and political stability have become more important, for example, and regulation is now less differentiating.

Tight race

The competitiveness ranking of the three leading centres is unchanged from 2018: Switzerland, followed by Singapore and Hong Kong. Although the ranking positions may be unchanged at the top, the centres have evolved dynamically. Without constant improvement, these three centres would not have remained at the top.

Switzerland leading, Singapore and Hong Kong following closely behind

- Switzerland scores well for competitiveness across the board, with particular strength in 'stability' but a slight weakness in 'business environment' due to limited market size and the lower profitability of Swiss wealth management providers.

- Singapore is a highly competitive, neutral business hub, with a strong innovation track record and only a few relative weaknesses, mostly related to the domestic capital market and taxation.

- Hong Kong also ranks well for competitiveness, with a superior talent pool and broad capital market. However, tax competitiveness for family offices and UHNWI is lagging. Another weak point is political stability.

- The US advances two places and comes in fourth. It benefits from its excellent business environment for wealth management and the size as well as quality of the US wealth management cluster. It scores lower for stability, however.

- The UK has dropped one place from fourth to fifth place. This is largely due to the uncertainty and fallout from the lengthy Brexit process. With Brexit concluded the UK has the chance to put the disruption behind and recover its competitiveness.

2.3 Size

Size ranking

Switzerland remains the largest centre, followed by the UK and the US
With US$ 2.6tn of offshore assets, Switzerland is the largest booking centre. While the International Market Volume (IMV) of most wealth management centres increased between 2017 and 2020, their relative positions are the same as in our 2018 report, except that Luxembourg has moved ahead of Panama & the Caribbean.

COVID-19 has boosted the offshore market
The leading wealth management centers increased their IMV by 10.6% on average[1] in 2020, significantly more than the previous four-year average[1] of 4.8%. Indeed, COVID-19 has led investors to rethink their priorities in terms of booking centres and persuaded some to relocate their assets to international wealth management centres with greater political and financial stability as well as better service and product offerings. In particular, Luxembourg and the US came out as winners from the pandemic with above-average IMV growth rates of 21% and 15% in 2020, respectively.

2.4 IWMC overview

Analysing the specific opportunities and challenges of the main international wealth management centres, we observe that all centres have been affected by erosion of structural fees and margins in the industry as well as increasing costs driven by stricter regulation. In addition to this, there have been significant centre-specific developments such as the impact of Brexit on the UK market.

Despite the COVID-19 pandemic, Asia's wealth is expected to continue growing faster than anywhere else. Increasing wealth in Asian emerging markets is leading to further development of local offshore hubs, and Singapore and Hong Kong are well-positioned as Asian international finance centres.

[1] Weighted by IMV in 2020.

There is a question about the potential impact on the Swiss financial centre after the talks between Switzerland and the EU on modernisation of the now outdated framework agreement have been put on hold. While this leaves the status quo untouched, the Swiss Bankers Association originally emphasised the importance of the framework agreement in order to promote the "passporting of the banks' services" (that currently requires a presence within the EU) and to involve Switzerland in the European legislative process.[2] However, the Swiss Federal Council remains optimistic and sees a possibility that the current agreements will eventually be updated, with regard to participation in the internal market through mutual acceptance of internal market rules and a legal mechanism for settling disputes.

2.5 Strategic priorities and business capabilities

Focus on strategic business priorities
Successful offshore wealth managers are adapting to changing needs and strengthening their client relationships with new, digitally-enabled interaction models. Furthermore, they focus on profitable offshore segments by attracting (U)HNWIs from high growth regions, offering extended investment products and platforms, and entering new markets. Business resilience needs to be ensured when deciding optimal booking centre arrangements.

Development of key business capabilities
The strategic priorities of offshore wealth managers determine the business capabilities that will be required to succeed in the mid- to long term. Key business capabilities are needed to compete effectively in the future environment and to deliver the target business model. This includes, among other things, differentiating client-facing capabilities such as client analytics to drive sales productivity, the ability to serve clients across multiple centres and to manage data across borders. Wealth managers can share technological platforms with other internal business divisions (e.g., corporate and institutional business) or ecosystem partners. A highly qualified talent pool is also critical for success as the quality of the client interaction and servicing remains a key differentiator in offshore wealth management.

[2] The Swiss Bankers Association supports the institutional agreement with the EU. Available here.

3. Competitiveness ranking

The assessment of competitiveness provides information on the characteristics of the leading wealth management centres, such as:

- How competitive are different locations from the perspective of wealth managers and offshore clients?
- Where do wealth managers find the best business location for delivering services and attracting clients, and where do clients find the best locations for their wealth?
- What are the strengths and weaknesses of different centres?

The competitiveness ranking offers a perspective for wealth managers and clients on where to base their business and their wealth. It also gives some indication to different centres about which areas they might want to improve, which strengths they might want to build on, or which areas of innovation they might want to explore.

The study uses a multidimensional approach to measure competitiveness. There are four assessment dimensions: business environment, provider capability, stability, and tax and regulation. For each dimension, there are several assessment criteria. The 'stability' dimension, for example, is divided into three criteria, covering political, financial and monetary aspects.

The assessment criteria are weighted according to their importance for competitiveness. The weights are confirmed through a series of interviews with senior executives from wealth managers located in various jurisdictions around the world. The weights were first compiled in 2013 and were reviewed and revised in 2018 and 2020/21.

The weights for some traditionally important assessment criteria, such as the attractiveness of a centre as a travel destination, are now less, while new indicators such as cyber security have risen in importance. Other indicators such as political stability,

> Luxembourg and other European centres could take on a pioneering role in ESG investments, which would have phenomenal impact on their competitiveness.
>
> **Senior executive at a private bank in Europe**

Figure 1. Weighting of assessment dimensions and assessment criteria, and changes from 2018

Assessment dimensions	Weight		Assessment criteria	Weight	
A – Business environment	10.5%	▼	A1 – Infrastructure	2.5%	▶
			A2 – Attractiveness as a travel destination	1.5%	▼
			A3 – Capital market	4.5%	▶
			A4 – Fintech hub	2%	▶
B – Provider capability	32.5%	▼	B1 – Human capital	12%	▲
			B2 – Provider reputation (for service, digital capabilities & ESG)[3]	15%	▼
			B3 – Financial system efficiency	6%	▼
C – Stability	28.5%	▲	C1 – Monetary stability	8%	▶
			C2 – Financial system stability	6.5%	▶
			C3 – Political stability	14%	▲
D – Tax and regulation	28%	▶	D1 – Tax	9.5%	▲
			D2 – Regulation	9.5%	▼
			D3 – Client capital rights protection	9.0%	▶

[3] Criterium revised since 2018.

which includes the ability of governments to manage the economy effectively during the COVID-19 pandemic, have become more important. The importance of other criteria has also shifted, particularly for tax and regulation, which are still important but in a different way. While taxation of global income and the increasing global reach of some national regulations have reduced the importance of tax at a centre level, specialised regulation and tax treatment for investment vehicles or family offices have become more important.

Provider capability, and thus the quality and depth of wealth management expertise offered in a centre, continues to be the most important assessment dimension. However, it is possible to foresee that service quality and digital maturity will increasingly become a prerequisite rather than a unique (differentiating) selling proposition, i.e., something of a 'must have' for all providers.

The growing importance of ESG investments is seen as a promising opportunity for all centres. Increasingly, investors want investments to fulfil sustainability criteria, not just economic criteria. While there are initiatives[4] to define the criteria for ranking ESG investments more clearly and making sure they meet investors' expectations, more can be done. A senior executive at a private bank in Europe sees a risk for private banks in not meeting client expectations, but likewise a great opportunity to create a superior ESG offering. A centre with such an offering would have a clear competitive advantage.

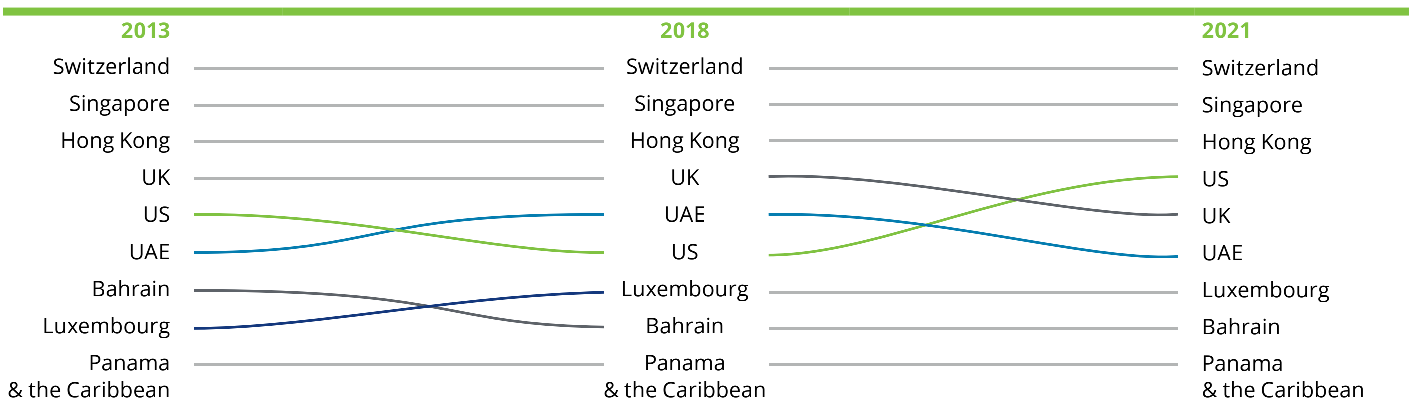
> Singapore has a key advantage as a neutral hub within Asia, a strength it could build on even further.
>
> **Bahren Shaari,**
> **CEO at Bank of Singapore**

Competitiveness ranking 2021: Switzerland maintains lead, UK falls back

Improving competitiveness is a process that takes time, and it is not surprising that the 2021 rankings are similar to those in 2018. Switzerland maintains its lead, followed by Singapore and Hong Kong.

The top three centres rank closely together; with few exceptions they lead the rankings for all the assessment criteria. Then there is a gap to the next-ranked US and UK, followed by another gap to the UAE and Luxembourg, and then a bigger gap to the last two, Bahrain and Panama & the Caribbean, which are at or near the bottom for all the assessment criteria rankings. Our rankings here only include the leading international wealth management centres.

Figure 2. Overall competitiveness ranking



[4] For example, WEF 2020, Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, available here.

The top three centres are strong overall, with few serious weaknesses. However, given the highly competitive international wealth management landscape, further improvement should be a priority.

Switzerland is well placed overall, with a slight weakness in comparison with other centres such as the US and the UK, owing to its smaller domestic market size and lower profitability of wealth management providers. (Profitability is a long-term challenge, for which we present five winning strategies in our Future of Wealth Management paper.) A senior executive of an international private bank in Switzerland we interviewed, sees Switzerland's competitive position strengthened by the pandemic, since clients now value stability, a key Swiss advantage, more highly than ever. A clear opportunity for Switzerland would be to modernise its banking secrecy and financial privacy laws for the 21st century. The increasing obligations for private banks to collect and analyse information about their clients partly contradicts the growing importance of privacy regulations. Maintaining compliance with regulations and making full use of digital innovations, while safeguarding clients' privacy and personal data, will be crucial to the success of the Swiss WM industry going forward. Combined with the traditional stability of the Swiss government and the national economy, this approach may have the potential for Switzerland to develop a truly unique selling proposition, namely the global 'platinum standard' for secrecy and privacy in digital WM.

Singapore follows closely in second place. It is a highly competitive, neutral business hub, with a strong track record for innovation, as shown by its first place in the ranking for Fintechs. Bahren Shaari, CEO at Bank of Singapore, sees Singapore's hub function as one of its key advantages. There are a few comparative weaknesses, relating mostly to the domestic capital market and taxation. Furthermore, taxation could be made even more competitive for the specific needs of wealthy investors, not least in the area of philanthropy.

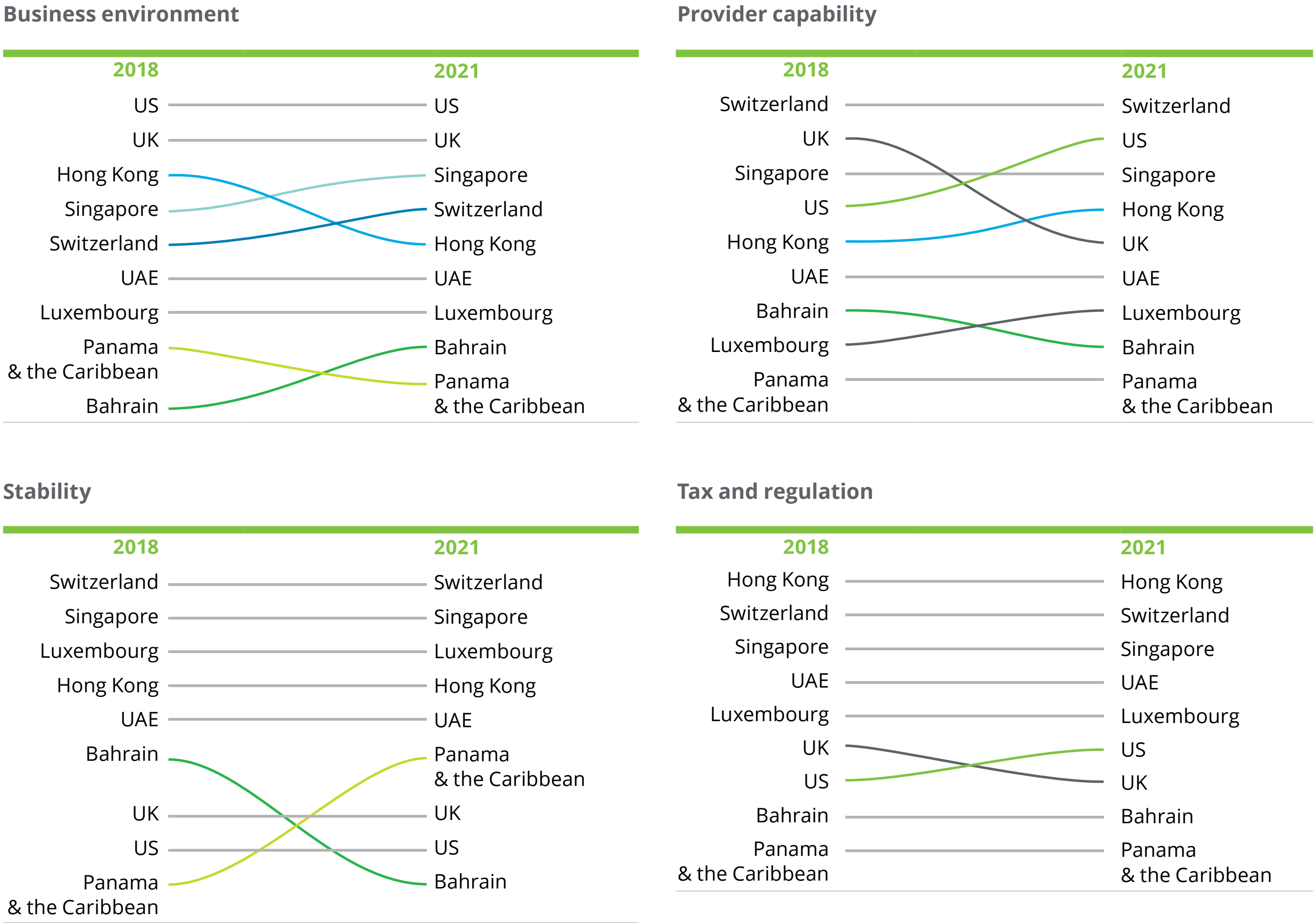
Hong Kong has been ranked consistently in the top three since 2013. A leading wealth management executive sees Hong Kong's strengths in its superior talent pool and broad capital market. It could however benefit from ensuring tax competitiveness for family offices and HNWIs, not least in comparison with regional competitors such as Singapore, which still has the edge in this regard. Due to recent developments another weak point, especially in comparison to Switzerland and Singapore, is political stability. While Hong Kong dropped in the rankings for political stability, its overall ranking for 'stability' is unchanged due to its high rankings for monetary and financial stability.

The UK has dropped from fourth to fifth place in the competitiveness rankings. The decline is due to several factors, which are linked to the lengthy, but now concluded, Brexit process. It is particularly visible in the 'stability' dimension with setbacks caused by currency volatility, rising public debt, and political uncertainty. A lower ranking in the 'stability' dimension was avoided only because Bahrain experienced a worse decline in this regard. Brexit will also have a more subtle impact in other areas, namely talent availability (which is included within the 'provider capability' dimension). However, the UK now has the opportunity to put the disruptive Brexit transition phase behind it and restore its competitiveness.

Hong Kong is very competitive, drawing strength not least from its superior talent pool as well as its capital market.

Senior executive at a wealth manager in Hong Kong

Figure 3. Detailed competitiveness ranking



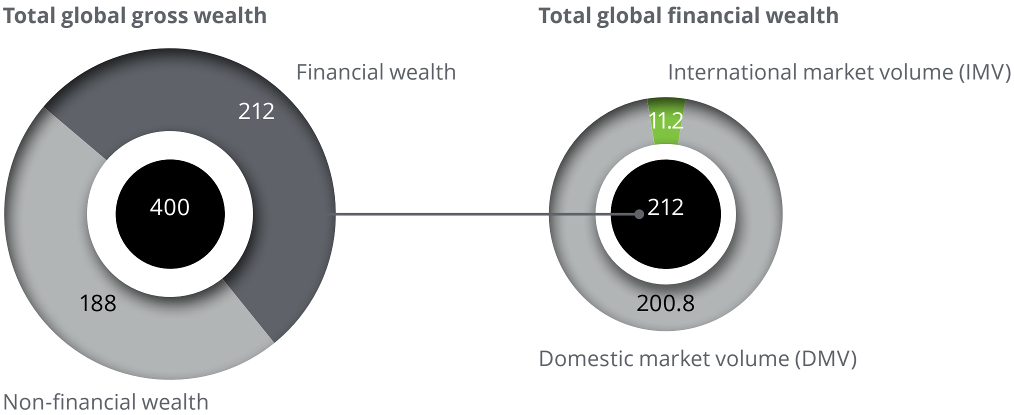
4. Asset size ranking

International Market Volume is growing and offers potential for offshore banking.

Asset size ranking

1.1. Overall development

Figure 4. Global private gross wealth and IMV in 2020 (in US $ trillion)



Source: Deloitte Wealth Management Centre Database

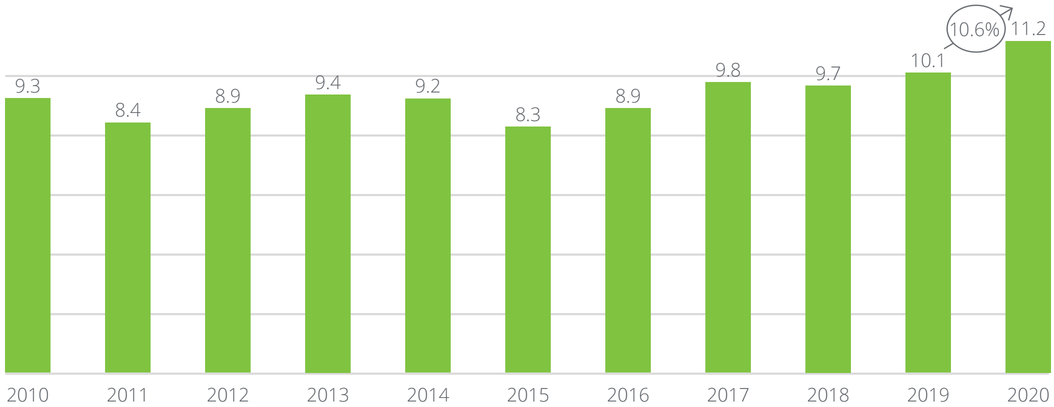
Private gross wealth denotes gross wealth with a private beneficial owner (excluding, by definition, funds from corporations, governments and banks). It can be divided into non-financial wealth, including real estate, art and physical assets, and financial wealth, including deposits, equities, debt securities and other financial instruments. Financial wealth is either booked domestically, i.e. inside the country of residence, or offshore, i.e. outside the country of residence. This report focuses on private financial wealth booked offshore, quantified by International Market Volume (IMV). In some instances, the study compares IMV to the value of domestically booked wealth, quantified as domestic market volume (DMV).

Over the past ten years, global financial wealth has grown steadily from US$100tn to US$212tn, at an average annual growth rate of 7.8%. Most of this growth can be attributed to the accumulation of domestically booked assets. Indeed, DMV has been growing consistently, whereas IMV more or less stagnated over the period from 2010 to 2019, although there was a significant jump in 2020. As a result, the share of wealth booked offshore relative to total financial wealth declined from 9% in 2010 to 5% in 2020, demonstrating the growing importance of domestic wealth management markets.

IMV increased by 10.6% in 2020, largely as a result of COVID-19 and a strong market performance. COVID-19 encouraged investors to relocate their assets to offshore wealth centres that were seen to have better financial stability and access to market liquidity. In a strong market performance in 2020, prices rose for some asset classes, such as equities (for example, the MSCI World index rose by over 10% in 2020). Since (U)HNWIs with offshore investments typically hold large parts of their portfolio in equities, IMV was impacted positively by the strong market performance.

After the pandemic, we expect IMV to return to a flat growth rate, comparable to the period 2011–19, and to stabilise between US$11tn and US$12tn in the near term. Since relocating assets is expensive, we expect that investors who moved their assets offshore to seek better political and financial stability during the pandemic will not repatriate their assets in the near term.

Figure 5. International Market Volume (in US $ trillion)

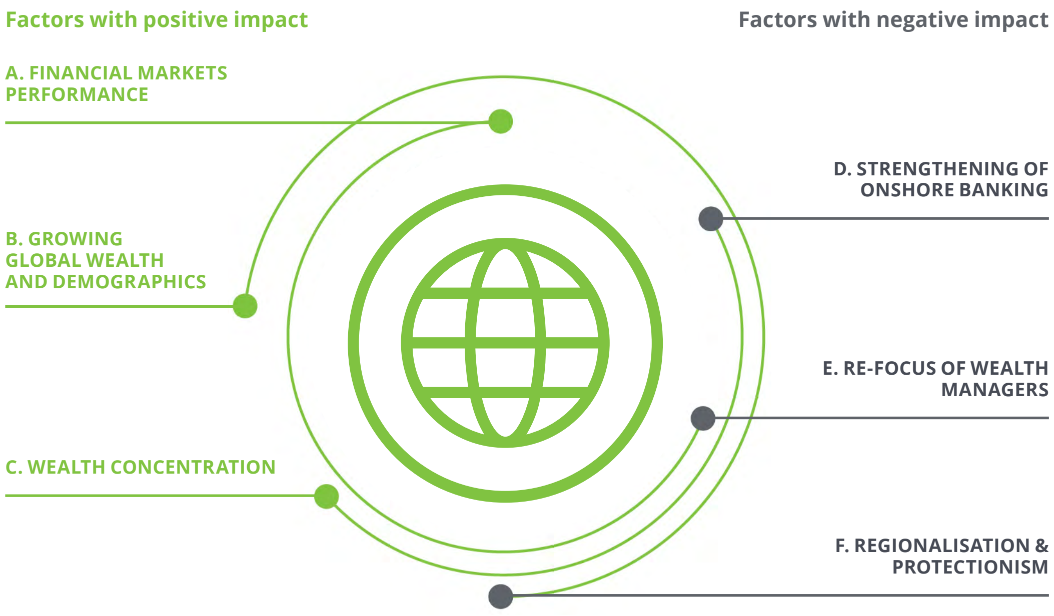


Source: Deloitte Wealth Management Centre Database

1.2. Factors affecting IMV development

The increase in IMV was driven by several factors – the main ones being a positive financial market performance, growing global wealth and demographics and a further concentration of wealth. In contrast, a growing importance of onshore banking, a re-focus of wealth managers and strong regionalisation and protectionism have had a negative impact on IMV growth in recent years. Both positive and negative factors are shown in Figure 6 and explained below.

Figure 6. Factors impacting IMV



Factors positively influencing IMV

In recent years, the **performance of financial markets has improved**. For example, the MSCI World Index rose by 40% between 2017 and 2021. Even during the COVID-19 pandemic, there was a rebound in global markets after an initial market correction in the first quarter of 2020. The strong market performance in 2020 lifted market price levels and in doing so increased domestic and international market volumes of wealth. For example, the S&P 500 index appreciated by over 70% between March 2020 and March 2021. The increase in prices can be explained partly by the expansionary monetary policies of central banks and the fiscal policies of governments. Furthermore, we expect a general trend to hold riskier asset classes, that generate higher long-term returns, and this will further drive growth in financial assets. In some regions (e.g., emerging markets) the development of financial markets continues, indicated by a decline in preference for cash and an increase in financial assets.

Global wealth growth has also been driven by GDP growth of about 3.4% per year over the past five years.[5] Although global GDP fell by 3.3% in 2020[5] due to COVID-19, we expect the positive trend to resume in the years ahead. Another factor is demographics. For example, the rate of asset accumulation varies at different stages of life, and between the ages of thirty and seventy is the period in life when saving rates are highest and individuals accumulate most of their assets. Growth in the number of individuals in this age group is expected to lead to higher rates of savings in emerging regions, especially in Latin America and the Middle East. Wealthy individuals continue to move assets offshore to benefit from access to better-quality wealth management services, and to move assets away from regions with an underdeveloped financial sector, where product availability and quality are limited.

Wealth concentration is contributing positively to IMV. In 2019 the richest 1% of the world's population owned 45% of the global wealth while the poorest 50% collectively accounted for less than 1% of total global wealth.[6] Since wealthy individuals hold a significant share of their assets outside their country of domicile, greater global wealth concentration has a positive effect on IMV. And while global GDP fell by 3.3% in 2020,[5] the world's wealthiest grew their financial asset base in 2020 compared with 2019 due to a surge in asset prices across property and stock markets.[7] The trend towards growing inequality can be observed across regions, ranging from emerging markets (such as Brazil and China) to developed countries (such as in Europe and the US). From the point of view of emerging market investors, the desire to protect wealth in a safe and secure environment remains a strong motivation for using offshore wealth managers.

[5] According to IMF.
[6] According to Credit Suisse.
[7] According to UBS.

Factors negatively affecting IMV

As key international wealth managers extend their presence in their clients' domestic locations, **onshore banking is gaining importance**. This trend is driven by pressure from new and costly regulations (e.g., KYC for non-domiciled clients); tax transparency (e.g., the push by Western countries to tax global income); and increased barriers to market access and consequently rising costs of offshore locations. Other factors are tax transparency requirements and the fact that the spread between on- and offshore tax rates no longer gives an economic advantage to offshore structures following the automatic exchange of information (AEOI and FATCA). However, there are exceptions, such as tax-optimised offshore structures or arrangements where wealthy individuals own property abroad. Looking ahead, further legislative initiatives, such as increasing cooperation between countries, are expected to close loopholes. These moves will likely reduce the appetite of investors to move assets to more tax-efficient jurisdictions. In addition, the global tax deal reached among G7 nations, including a global minimum tax rate of at least 15%, aims to discourage multinationals from shifting profits to low-tax countries. However, the impact on the financial sector is still to be assessed as voices have been raised to exclude financial services firms from the new tax regime.[8] If financial firms or investment vehicles were affected, a question is whether adversely affected countries would take countermeasures to improve their location advantage.[9]

While in the past wealth managers were seeking to maintain an extended regional coverage of clients, they are increasingly **re-focusing** today. Due to high compliance cost, regulatory complexity and rationalisation efforts, they have reduced the number of countries they choose to serve, thereby limiting their offshore presence. This re-focus by wealth managers does not necessarily prevent clients from investing cross-border. In fact, cross-border investment funds (e.g., global funds based in Luxembourg distributed internationally) offer clients plenty of opportunities to invest in cross-border markets without actually holding their assets offshore.

In recent years, concerns were continually expressed regarding the pressures towards **'regionalisation' of economies or protectionism**, such as the tensions in the trade relations between the United States and China as well as the European Union. Potential consequences of this new protectionist or regionalisation trend are fewer open economies and reduced international trade flows, and consequently less cross-border wealth transfer. An example of regionalisation is the ban on US investors investing in certain Chinese companies. Although the investor community is looking optimistically towards a better future with the Biden administration and an environment of multilateral alliances, it is not yet clear whether the United States and the growing economies in Asia will invest in the stabilisation or the facilitation of multilateral trade.

8 UK pushes for financial services to be exempt from G7 global tax plan. Available here
9 Switzerland plans subsidies to offset G7 corporate tax plan. Available here

1.3. Ranking by market volume

In terms of absolute IMV value, Switzerland is still leading with US$2.6tn booked in 2020, corresponding to a market share[10] of 23.7%. Second and third are the United Kingdom with US$2.1tn and the United States with US$2.0tn of IMV.

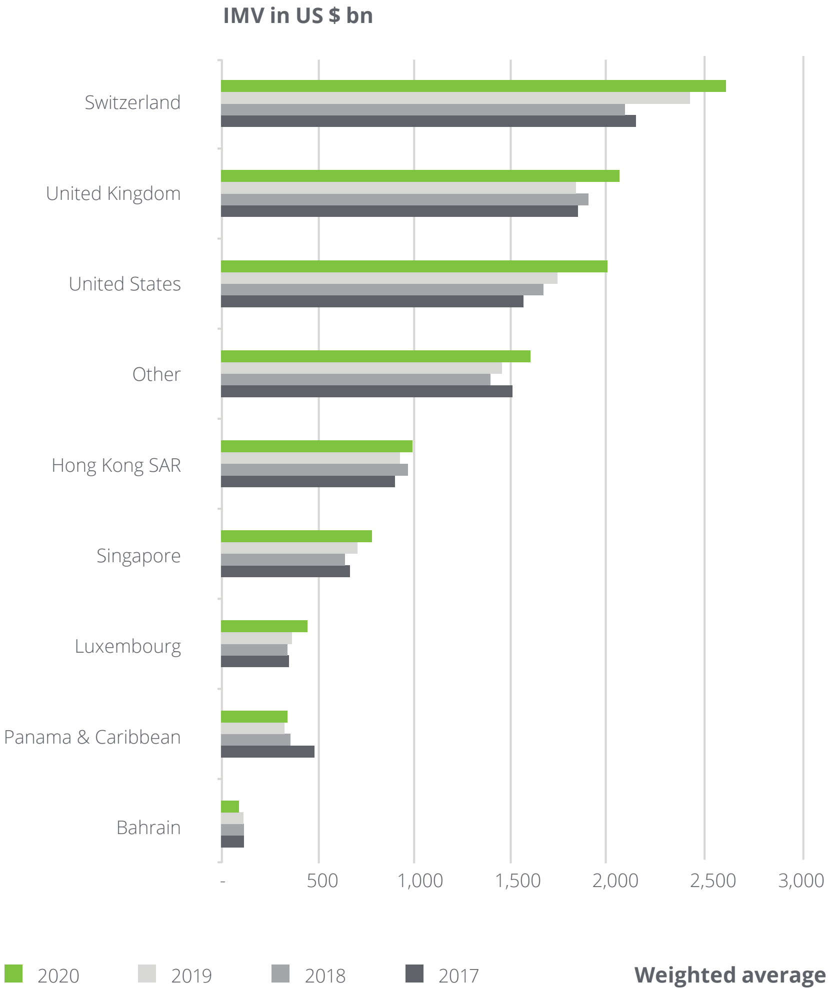
Over the past four years, IMV grew in all wealth management centres, except for Bahrain and Panama & the Caribbean. The clear winners are the United States and Luxembourg, which managed to grow their IMV at a CAGR in excess of 8%. While the IMV in the UK increased substantially in 2020, it had more or less stagnated between 2017 and 2019. This stagnation was driven by strong asset outflows from UK to Luxembourg and other EU locations in the aftermath of the Brexit referendum. Indeed, during the last years, international banks set up a private banking hub mostly in Luxembourg, also to mitigate the risks from a hard Brexit.

The worst performing centres were Bahrain and Panama & the Caribbean, where IMV declined at rates of 4.7% and 9.8% respectively. Panama & the Caribbean has continued to lose relevance in the offshore market – its IMV, which once accounted for over 20% of global IMV, now makes up just 3.2%. After the release of the Panama and Paradise papers in 2016 and 2017, its IMV fell by 17% in 2017 and a further 25% in 2018. However, it recorded a slight increase in IMV in 2020, the first since 2013.

While Hong Kong's IMV grew at a much faster rate than Singapore's from 2010 to 2016, it slowed down to 3.2% in the period 2017 to 2020, almost half the growth rate achieved by Singapore. The significant inflows from wealthy mainland Chinese that Hong Kong enjoyed in the past has slowed down. Ongoing turbulence in 2019 and 2020 might have encouraged Asian investors to favour other booking centres, such as Singapore.

[10] Share of global IMV booked in leading wealth management centres, i.e., Switzerland, United Kingdom, United States, Singapore, Hong Kong, Luxembourg, Bahrain, Panama & Caribbean, Others (Austria, Belgium, Germany, Guernsey, Ireland, Isle of Man, Jersey).

Figure 7. International Market Volume of leading wealth centres (in US$ billion)[11]

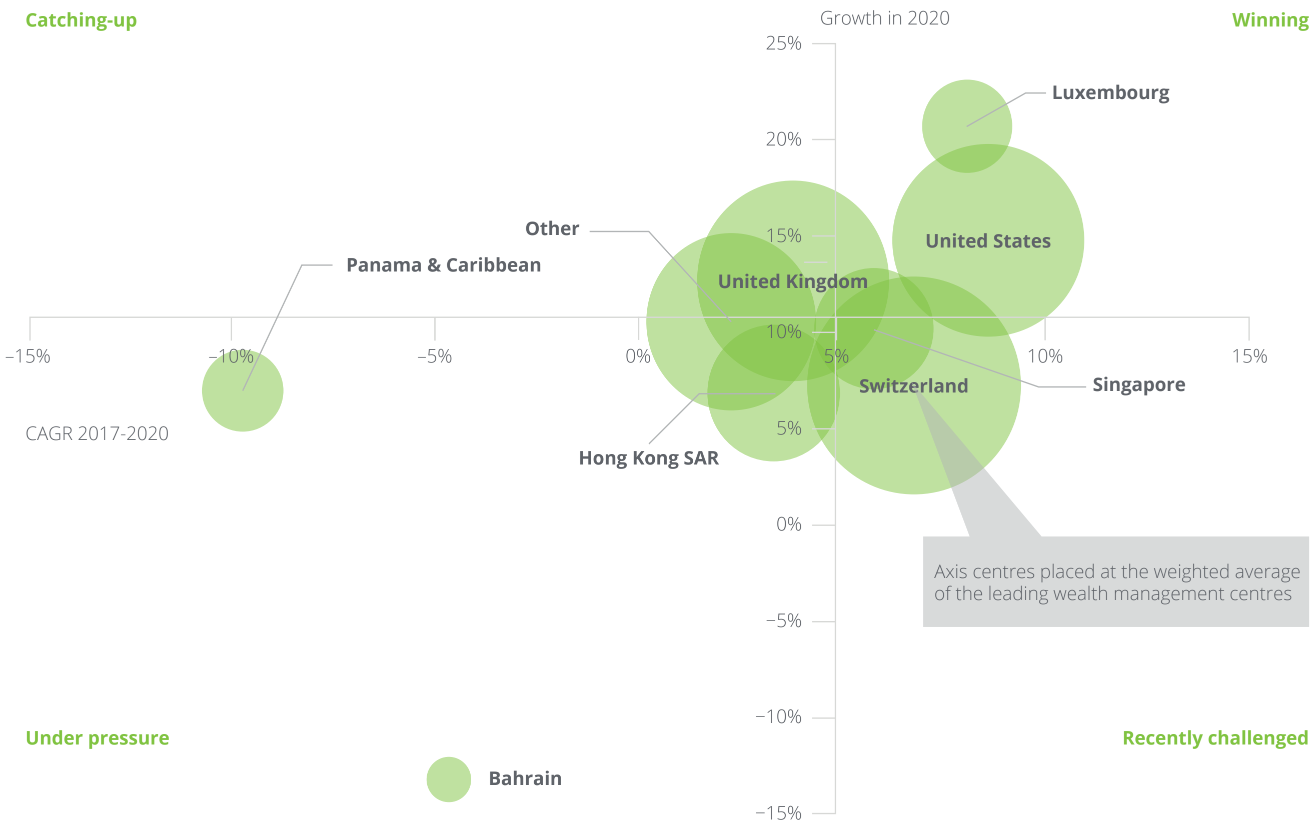


	CAGR 2017–2020	Growth in 2020
Switzerland	6.7%	7.3%
United Kingdom	3.7%	12.7%
United States	8.6%	14.8%
Other	2.2%	10.5%
Hong Kong SAR	3.2%	7.0%
Singapore	5.7%	10.1%
Luxembourg	8.1%	20.7%
Panama & Caribbean	−9.8%	6.9%
Bahrain	−4.7%	−13.2%
Weighted average	4.8%	10.6%

[11] "Other" includes Austria, Belgium, Germany, Guernsey, Ireland, Isle of Man and Jersey.

Figure 8 compares the CAGR of IMV in 2017 up to 2020 (horizontal axis) with its growth in 2020 (vertical axis). Centres that consistently grew faster than the weighted average over the entire period including 2020 are located in the 'winning' quadrant. Catching-up centres are those that returned to above-average growth in 2020, having experienced a below-average annual growth rate in 2017 up to 2020. Centres in the lower left quadrant are under pressure, having experienced a below-average annual growth rate over the whole period including 2020. Centres in the 'recently challenged' quadrant struggled to sustain their above-average annual growth rate in 2020.

Figure 8. Annual International Market Volume growth of leading wealth centres (in %; bubble size = IMV in 2020)



On average[12] the centres grew their IMV by 10.6% in 2020, significantly above the annual average[12] of 4.8% for the previous four years. The growth in 2020 is mainly attributable to two factors. First, investors tend to favour 'safe havens' as booking centres in uncertain or troubled times, such as during the COVID-19 pandemic. This has led to an increase in asset inflow into offshore wealth management centres. Second, strong market performance in 2020 contributed to the appreciation of financial assets, thereby increasing IMV.

Luxembourg and the US are both in the winning quadrant. Both booking centres experienced above-average growth in 2020 and sustained an above-average growth rate over the previous four years. The UK was lagging behind its peers in terms of growth over the previous four years, but is catching up again thanks to its above-average growth in 2020.

[12] Weighted by IMV in 2020.

Switzerland achieved positive IMV growth in 2020, but at a rate below the global weighted average. In fact, Switzerland's offshore asset base, denominated in Swiss francs barely grew in 2020. The increase in its IMV is largely attributable to a 10% appreciation in value of the Swiss franc against the US dollar. Even though Switzerland wasn't able to attract significant amounts of net new assets, its appreciating currency during the COVID-19 pandemic reflects the perceived stability of the Swiss financial and political system.

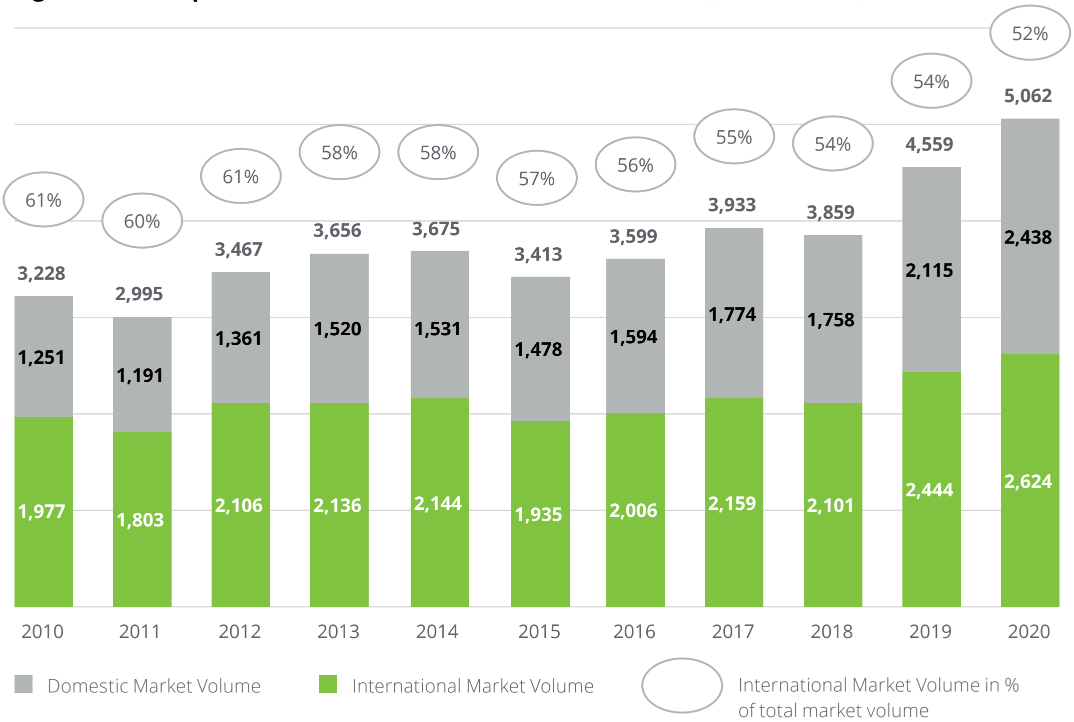
Panama & the Caribbean recorded a net increase in IMV in 2020, but at a rate below the global weighted average. Bahrain and Panama & the Caribbean are the most challenged wealth management centres in this report. And while Hong Kong has enjoyed positive IMV growth from 2017 to 2020, it has been at a below-average rate, putting the booking centre under pressure.

Other centers recorded similarly below average growth rates over both periods, confirming the continued concentration of IMV in the leading centers.

1.4. Focus on Switzerland

Similar to the trend at a global level, Switzerland's proportion of IMV relative to its total market volume has continued to fall. IMV made up 61% in 2010, but just 52% in 2020. This is the result of a continuing slower growth rate for IMV than for DMV. Boosted by an increase in the average wealth per adult in Switzerland, from US$470k in 2010 to US$620k in 2020,[13] DMV grew on average by 6.9% per year during this period, while IMV grew at only half that rate. This underlines the rising importance of the onshore wealth management market.

Figure 9. Development of total market volume in Switzerland (in US$ billion)

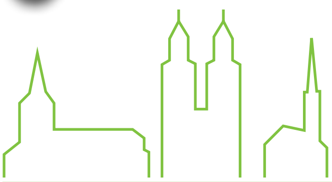


[13] According to Credit Suisse

5. IWMC overview

Switzerland

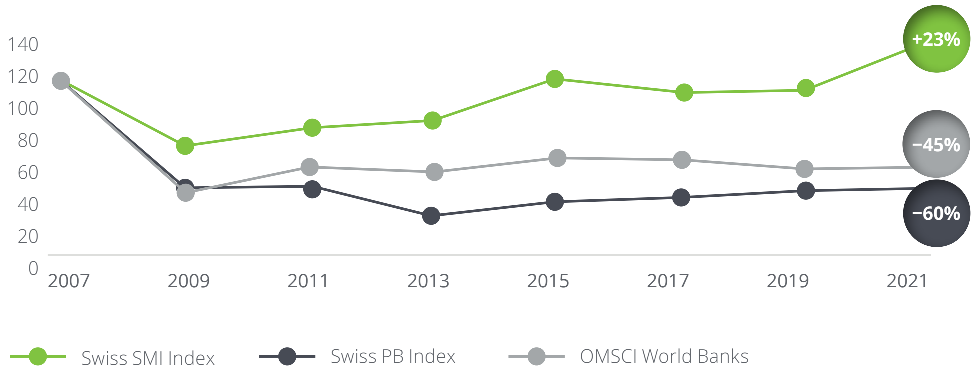
Switzerland IWMC profile



Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
Low	Medium	High	High	Medium	High	High	High
Assets under Management and Administration							
High							

Wealth management in Switzerland has a long and proud tradition of success and stands for trust and discretion, upscale client experience, a stable environment, and deep expertise. However, the recent past has been more challenging. The financial performance of Swiss WMs has been lacklustre overall, and shares of Swiss WMs have significantly under-performed the Swiss stock market index since the beginning of the global financial crisis in 2007.

Figure 10. Price performance of Swiss banks since 2007



Source: Capital IQ
Note: Swiss PB Index includes Credit Suisse, UBS, EFG, Vontobel, LLB, VP Bank and Julius Baer

The root causes for this development are mainly erosion of structural fees and margins in the industry, as well as increasing regulation that has led to higher costs, for example the cost of onboarding international clients. In addition, there is a polarisation of performance between market participants, with small and medium-sized institutions and foreign-owned entities typically performing less well.

Swiss WMs are responding with attempts to cut their cost base, mostly through headcount reductions (a decline of 18% between 2007 and 2019) and increased automation, technology and operating model modernisation.

In addition, leading globally oriented Swiss players have successfully pushed a broader set of services and rigorously executed campaigns to boost mandate penetration and advisory offerings – next to expanding their footprint in other global wealth centers.

United Kingdom

United Kingdom IWMC profile

Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
Medium	Medium	Medium	High	Medium	High	High	Low
Assets under Management and Administration							
High							

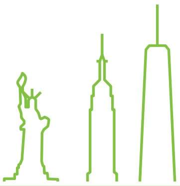
The wealth management landscape in the UK is dominated by the private banking divisions of universal banks, complemented by independent wealth managers and online brokerage platforms offering execution, custody and research services through digital portals. It is characterised by a broad diversity of international clients, high levels of competition and transparency, relatively large number of self-directed investors, and a strong link between retail and private banking services.

Until 2019, uncertainty around Brexit led to short-term disruptions, and the loss of 'EU-passport' rights (which allow cross-border banking and financial services into Europe) will likely have a negative impact in the long term. In some cases, international WMs which had previously centralised their business in London have moved their European WM business to hubs within the EU, such as Frankfurt, Paris, Madrid or Luxembourg, resulting in a loss of assets under management and revenues in the UK.

On the upside, global UK private banks have reduced their costs substantially in recent years through outsourcing and timely investments in technology (enabling process optimisation, automation), improved reporting capabilities to more effectively target reductions in costs-to-serve, standardisation of offerings and streamlining front office-related administrative tasks.

United States

United States IWMC profile



Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
Medium	High	Medium	High	Low	High	High	Low
Assets under Management and Administration							
High							

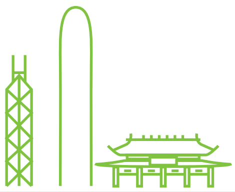
The US is the third-largest wealth management centre in terms of international assets; however, unlike other centres such as Hong Kong and Luxembourg where the main focus is on non-domestic clients, the 'rules of the game' in the US are defined by onshore business.

In the prevalent US wealth management business model, advisors have a prominent role. They shield client relationships and use banks mainly as infrastructure providers, which leads to comparably high cost-income ratios for banks. There is an intense war for talent, with advisors benefitting from significantly larger variable remuneration schemes than in other centres.

The market is also characterised by high levels of transparency, standardised offerings, low switching costs and intense competition, not only within the industry, but also from adjacent industries. In recent years, leading asset management providers have successfully introduced D2C (direct to customer) offerings targeted at price-sensitive WM clients.

Hong Kong

Hong Kong IWMC profile



Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
High	High	Low	Low	Medium	Medium	High	Medium
Assets under Management and Administration							
Medium							

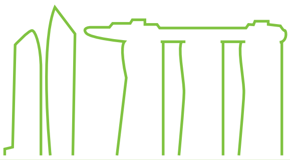
Hong Kong is a highly developed financial market and (together with Singapore) a key Asian wealth management hub. Its strong growth over the past decade has been largely driven by its strategic geographical location for attracting Chinese clients and its prime position for brokering renminbi transactions. Wealth managers actively leverage Hong Kong's role as an offshore hub for domestic Chinese capital markets. The goal is to enable investors to participate in an ever-improving onshore offering, including increasing deal flows from fundraising in primary and secondary listings of Chinese mainland companies.

The centre itself is characterised by one of the highest HNWI concentrations in the world, a business-friendly low-tax environment, and a fragmented supply side of diverse market players with a range of differentiated capabilities. The local market environment is highly competitive: domestic private banks have a strong position in both the HNW and mass affluent space, and regional arms of global WM firms focus on UHNW investors.

In spite of the COVID-19 pandemic, Asia's wealth is expected to continue growing at a faster rate than anywhere else. Rising wealth in Asian emerging markets is leading to further development of local offshore hubs, and Singapore and Hong Kong are well positioned as international finance centres in Asia. For mainland Chinese WM clients, Hong Kong provides access to more sophisticated products and services. However, it is expected that the rising importance of Chinese onshore WM hubs such as Shanghai and Shenzhen will reduce Hong Kong's attractiveness to Chinese clients in the medium term.

Singapore

Singapore IWMC profile



Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
High	High	Low	Low	Medium	Medium	High	High
Assets under Management and Administration							
Medium							

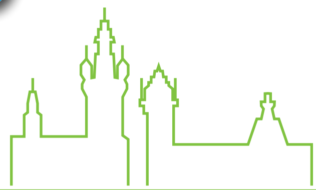
Singapore is actively promoting its asset and wealth management industry with the aim to become 'the Switzerland of Asia'. For many years it has been Asia's most mature wealth management centre, benefitting from international clients who value its stable political and regulatory environment.

This has resulted in a highly competitive WM market with well-established players both in the mass affluent and HNW segments. It is a hub servicing South-East Asian HNWI clients and it can also leverage its status as a major business and lifestyle destination for Chinese clients.

From a regulatory perspective, strict AML/KYC controls and suitability rules have levelled the playing field with other wealth management centres and have increased the burden of onboarding new offshore clients. In addition, a shortage of qualified RMs with appropriate language and advisory skills has led to a talent war between global wealth managers, resulting in higher RM compensation as a proportion of total revenues compared to other WM centres.

Luxembourg

Luxembourg IWMC profile



Relative revenue drivers				Relative cost drivers			
Price sensitivity	Level of competition	Mandate penetration	Asset allocation	Level of regulation	Personnel costs	Occupancy costs	Overall price level
Medium	Low	Medium	Medium	Medium	Medium	Medium	Medium
Assets under Management and Administration							
Low							

Luxembourg is one of Europe's main financial centres with a strategic location and access to the EU market, and a business-friendly and low tax environment; and it is well regulated. Luxembourg's wealth management players have transitioned towards operating in several European countries, leveraging the country's modern private banking infrastructure. In this regard, Luxembourg is typically used as an EU hub and used by foreign banks to manage their operations.

Luxembourg's WM providers, which traditionally also have extensive fund management activities, have been challenged by the emergence of passive investment schemes and restrictions on retrocessions as a result of regulatory-driven transparency. To counter these developments, Luxembourg's leading private banks and wealth management players are giving priority to cost-cutting measures such as outsourcing, automation and IT rationalisation.

6. Strategic priorities and business capabilities to succeed

The need to develop future-proof business capabilities is clearly recognised by offshore wealth managers. There is an imperative to comprehend the future needs of clients and technological opportunities, and to adapt business priorities.

We conducted a series of interviews with business executives of some of the leading wealth managers and industry professionals, to discuss trends in offshore banking and their implications. The aim was to identify strategic priorities and the critical business capabilities required to succeed in the future.

Strategic business priorities

Analysis of the strategic priorities of offshore wealth managers reveals the business capabilities that will be needed in the mid- and long term. Top priorities are adapting to changing client needs, focusing on profitable offshore segments, and ensuring business resilience while maintaining an optimal booking centre set-up.

Figure 11. Strategic business priorities translated into critical business capabilities

Offshore wealth manager's focus areas and priorities			Key business capabilities				
			Client & sales analytics	Partner platform integration	Talent attraction & development	Product develop. & innovation	Process digitalisation
A	Adapt to changing needs and behaviour of offshore clients	Strengthen offshore client relationship with new interaction models					
		Form strategic partnerships in key source wealth-generating countries					
		Offer digital client experience					
B	Focus on profitable offshore segments	Attract (U)HNWIs from high growth source regions					
		Offer extended investment products and platforms					
		Participate in Chinese capital markets					
C	Ensure business resilience, and optimal booking centre set-up	Ensure business resilience					
		Optimise offshore booking centre set-up					

A. Adapt to changing needs and behaviour of offshore clients

Strengthen offshore client relationships with new interaction models
Leading offshore wealth managers drastically adapted to shifting client needs during the COVID-19 pandemic. Some of the industry leaders we interviewed commented that the pace of digitalisation has accelerated and that clients appreciated the resilience of key services in crisis situations, such as accessing trading venues without interruptions and direct access to the wealth managers through multiple channels.

Furthermore, new holistic wealth planning and structuring services will emerge that draw insights from multiple datasets. These services will be delivered in a more personalised, outcome-focused and risk-optimised way. Paul Arni of VP Bank described this development as shift from "assets under management" towards "assets under intelligence". The active management of wealth – with an advisory or discretionary mandate – will be further differentiated from the pure offshore custody of assets as a low-fee business in which only large-scale players can remain profitable. He also noted that the sole booking centre perspective has become less important compared to the breadth and depth of services provided to clients to actively invest their wealth globally.

Form strategic partnerships in key onshore source regions
In key onshore source regions, global offshore wealth managers are pushing into partnerships with local advisors with deep market knowledge and niche offerings, such as tax advisory services for expats and fiduciary services. The goal is to achieve client proximity through the local network of service partners. Leading wealth managers also collaborate with local banks, rather than establishing their own branches, to accelerate their global expansion and to engage in a broader scope of business.[14]

Fast-growing wealth and asset managers may also consider establishing strategic joint ventures with onshore wealth managers or building up own onshore fund management units. The overall aim is to provide investors in onshore source countries (such as China) with access to an expanded off-shore product and service spectrum to enable exposure to multiple asset classes and investment strategies.[15] The rise of investing in global indexes in China – especially thematic and sector exchange traded funds as well as the appetite for active management of global investment portfolios – illustrates this trend.

A range of innovative third-party services and products can be offered from open platforms of wealth managers to prevent loss of market share and clients to competing non-banks and other investment managers – especially if the captive products do not fall within the top quartile performance of the relevant product category.

> The sole booking centre perspective has become less important compared to the breadth and depth of services provided to clients actively invest their wealth globally.
>
> **Paul Arni,**
> **CEO of VP Bank**

[14] For example, Lombard Odier's collaboration with Kasikornbank in Thailand (available here) and with Mizuho Bank in Japan (available here). In addition, EFG International expanded in the Asia Pacific region by having acquired a majority stake in Australian financial services provider Shaw and Partner (available here).

[15] For example, Goldman Sachs Asset Management received an approval to establish a wealth management joint venture with Industrial and Commercial Bank of China (available here).

Offer digital client experience

With client experience being a key differentiator and offshore clients becoming increasingly digitally-savvy, offshore wealth managers must master the digital client experience.

In the (U)HNWI segment, only a small number of offshore wealth managers have developed digital platforms to obtain leverage from external digital advisory products such as online aggregated investment portfolio reporting. For wealthy clients with complex needs in various locations, one individual we interviewed stated: "The more net worth you have, the more you want to interact with a human being". However, based on our interviews with global wealth managers, a view emerged that basic services and products that do not require intense human interaction or specialist expertise should be delivered through digital platforms. In this context, discretionary and high-touch advisory offerings could be mixed with a light advice-oriented model, and even a full-digital advisory model may be appropriate.

While digitalisation has an important role in offshore wealth management, reliance on digitalisation capabilities does not make the booking centre decision obsolete. One interviewee in Asia told us that clients did not become agnostic to booking location because of digital interactions; in fact, the clients consistently asked for a local banker speaking the local language and with cultural affinity. Consequently, global players with multiple booking centres in various jurisdictions have a strong natural advantage in serving these clients, as they benefit from geographic, cultural and linguistic proximity.

B. Focus on profitable offshore segments

Attract (U)HNWIs from high-growth onshore source regions

Key onshore source countries continue to be attractive to global offshore wealth managers. At the same time, the business leaders we interviewed observed that clients with a critical amount of assets are again increasingly moving some of their wealth offshore, as the benefits outweigh the transaction and recurring costs.

In addition to high-growth onshore source regions, wealth managers may benefit from the outflow of assets from markets affected by political or trade tensions. As a result, investors may set up new offshore accounts or shift their existing structures to another offshore jurisdiction.

Wealth managers may also leverage their onshore presence to provide a combined on- and offshore offering, such as corporate or mortgage loans in an offshore location for which collateral is provided by assets from the domestic location, or in which a consolidated view of wealth is booked globally.

Offer extended investment products and platforms

ESG investments are increasingly gaining ground among the financial community. The assessment of investment opportunities in terms of sustainability applies both to single companies of all sizes and to entire ecosystems, and ESG-related investment criteria are gaining importance.

This transition will include long-term policies that allow new ecosystems to evolve. For example, regulators are likely to introduce stricter and standardised rules on ESG transparency in order to hold companies accountable for violations of global and local sustainability norms.

Private and digital assets markets are becoming increasingly important as opportunities for diversification of investments are in high demand. For example, wealth managers can offer their clients a compelling and innovative investment and product portfolio around tokenized private assets and digital currencies.

Participate in Chinese capital markets

There is a strong demand among foreign investors for Chinese assets denominated in both the onshore and offshore-traded RMB.[16] This can be explained partly by China's strong recovery following the COVID-19 pandemic and also by high interest rates on Chinese debt instruments when other central banks have cut rates on government bonds. Other drivers are the inclusion of Chinese financial instruments in global indices (e.g., the MSCI Emerging Markets Index) and the demand to participate in the Chinese equity market.

On the other hand, according to one of our interviewees, Chinese investors seeking a diverse, multi-asset allocation still require international wealth managers and their investment solutions in offshore booking centres, because investment opportunities denominated RMB do not yet provide full diversification.

In general, the business leaders we interviewed in the region observed that the opening of financial markets in China has developed more slowly than expected. For example, the ability to build a balanced investment portfolio in RMB is not expected to be possible for at least another decade. However, offshore wealth managers are currently gaining ground in mainland China (e.g., building up investment teams and creating a track record of local expertise) to prepare for the eventual opening of the markets (characterised by the removal of barriers against foreign companies entering the local wealth and asset management market).

C. Ensure business resilience and optimal booking centre set-up

Ensure business resilience

The disruption caused by the COVID-19 pandemic and the extreme levels of price volatility have highlighted the importance of business and operational resilience. Enabling investors to trade even in stressed market scenarios requires banks and their brokers – among others – to ensure operational resilience of their trading, settlement and clearing procedures and related systems.

Investors also need to establish contingency plans when moving assets from politically turbulent jurisdictions or underbanked countries. Jurisdictions that compete as an alternative may offer incentives to attract investors and investors may be able to obtain leverage from benefits provided by those rising jurisdictions. These may include visa waivers or accelerated administrative proceedings (e.g., 'red carpet services' and 'liaison offices')[17] or tax incentives via dedicated legal structures. For example, Singapore introduced a so-called Variable Capital Company (VCC) that can be set up for a single or multiple funds, similar to corresponding tax-efficient vehicles in other fund domiciles.

Having assets booked outside potentially turbulent jurisdictions while maintaining a local presence with client-facing services may also provide a layer of protection. However, some jurisdictions (e.g., Japan) prevent banks from using foreign entities as a booking centre.

[16] See increase in foreign holdings of onshore assets (in renminbi) illustrated by Standard Chartered.
[17] See incentives put in place by the local legislature in Hong Kong.

Optimise offshore booking centre set-up

Most of the business leaders we interviewed consider that having a substantial on- and offshore offering is necessary to provide a compelling overall proposition. One of the reasons for this is that only global or hybrid players can serve (U)HNW individuals with complex assets in different regions. While global wealth managers continue to build new capabilities in offshore locations, they also plan to enhance the role of new and existing onshore branches for client acquisition and relationship management. In this context, the booking centre decision can be decoupled from relationship manager selection in either the onshore or offshore location.

While some of our interviewees do not think that centralisation into a single booking centre is feasible and will not be widely adopted in the industry in the foreseeable future, others made the observation that booking centre considerations have become less important following AEOI and FATCA, and cost advantages through centralisation will therefore become a key consideration.

In general, offshore wealth managers are continuing to rationalise the number of countries they choose to serve, in order to avoid complexity and costs: they still need multiple booking centres, but only in the most important financial centres.

A related question is whether to maintain mid- and back-office personnel in offshore locations with high costs or to cut costs by centralising or moving some employees to lower-cost locations. Establishing a shared service model by sharing non-client facing staff across different markets is certainly possible but can prove difficult, as cross-border data difficulties need to be resolved especially regarding access to client sensitive data and regulatory differences in terms of compliance procedures.

Key business capabilities

The business leaders we interviewed identified the key business capabilities that will be needed to compete effectively in the future environment and to deliver against the business priorities.

Client and sales analytics

Wealth managers can radically differentiate their client-facing business capabilities by proactively identifying clients' needs and proposing suitable offerings. Statistical data analysis and behaviour pattern assessments could enable this transition. Client data collection and management require strong CRM and data management tools so that enabled front line staff can drive sales efficiency, with central sales and product experts providing support by predicting and monetising client demand.

Banks may also take advantage of regulatory initiatives in some offshore jurisdictions, such as 'sandbox' frameworks that allow banks and Fintechs to test products on a limited scale. These light-touch regulatory environments are offered in traditional offshore centres like Singapore and more recently in Bahrain.[18]

Partner platform integration

Successfully forming partnerships is key to rolling out differentiated offerings and technological solutions at the speed clients now expect. Leading wealth managers must

[18] Bahrain is trying to carve out a niche amid tough competition from regional rivals, available here.

be capable of orchestrating and integrating different best-in-class platforms, not only by sourcing products and services along the value chain, but also dealing with partners on an equal footing and developing win-win business models. This can be achieved by acting as a niche player and joining an ecosystem or even becoming the orchestrator of an ecosystem.

A major requirement for effective collaboration is to be perceived as credible by partners. Credibility is determined by the degree of management experience in partnership deal-making and also by technological enablers such as API-based integration of third-party data and scalable and flexible applications in the cloud.

Wealth managers should be equipped with a variety of offerings and capabilities in order to meet the needs of offshore clients. For example, wealth managers can meet the desire to diversify investments for retirement by advising clients on an optimal asset structuring, for example with tax-efficient cross-border investment funds, along with financial planning and pension services, by orchestrating a variety of experts.

Talent attraction and development

The quality of the client-facing talent base remains a key differentiator in offshore wealth management. Global wealth managers are ramping up the hiring and development of sought after front office and operations personnel to build up the coverage in dedicated financial centres – sometimes by reducing staffing levels in other jurisdictions. The overall objective is to balance staffing – both front, middle and back office roles – across regional hubs, and to alleviate risks given the political turmoil in some regions.[19]

An increased degree of digital services also means that the persona of bankers will need to change towards digital savviness, for example when leveraging data for the advisory process and investment decision-making as well as being able to orchestrate experts and specialists across multiple disciplines (e.g., estate planning, investment and tax management) for the benefit of the client.

When competition for talent is inevitable, a strong, inclusive and sustainable culture may be a key differentiator to attract and retain talent. To achieve this goal, successful wealth managers should become part of a purpose-driven ecosystem that delivers work through alliances, integrating customers, and augmenting talent where necessary.[20]

Furthermore, engaged employees should be developed through training, performance management and compensation practices that incentivise agile, collaborative and inclusive behaviours.

[19] For example, international banks accelerated hiring in Singapore to mitigate risks in Hong Kong (see here).
[20] For example, UBS "reimagine(s) the power of people and investments to create a better world for all of us – a world that's fair and sustainable" in their purpose statement (see here).

Product development and innovation

Compared to players in other industries, wealth managers have been lagging behind when it comes to innovation – even though the entire banking industry is being disrupted by new technology. This is made evident by low R&D investments and the ranking of wealth managers among the most innovative companies. An indication for the latter is given, for example, by the EU Industrial R&D Investment Scoreboard, that lists the EU's 1,000 largest R&D spending companies. It is striking that it includes only 24 banks and none of these are pure wealth managers.

We have heard from our interviews with global executives, that newly developed products and services should be tailored to local needs of clients in each region – rather than distributing standard offerings with limited range of modification options.

Wealth managers also need to be able to roll-out new products and services globally with short time-to-market and most important, high customer focus. In this context, customer experience has become a distinct and important component of the product and service offering.

A CEO of an international private bank we interviewed, emphasised the tension between data privacy laws and digital innovation. He observes that current data privacy rules in the western countries rather hinder the development of new services while emphasising the protection of sensitive data. Other jurisdictions – such as China or India with less strict personal information protection laws – allow a broader set of digital capabilities (e.g., deep exploration of clients' needs and activities through combining various internal and external sources of personal data).

On the other side wealth managers are expected to adhere to the highest global standards of diligence in combatting criminal activities (e.g., terrorist financing or tax fraud) and through this become holders or "controllers" of significant sensitive information about their clients.

Given these limitations and somewhat contradictory expectations, fulfilling the duty to collect and protect information while leveraging innovation to enhance service offerings will be a critical path to the success of leading wealth managers going forward.

> There is a tension between data privacy laws and digital innovation.
>
> **CEO of an international private bank**

Process digitalisation

Investments in digital offerings can enhance the experience for relationship managers and clients, for example with tools that enable wealth managers to collaborate in real-time with clients and create a more personalised experience, such as co-browsing or personal finance management tools.

Relationship managers need to be empowered and equipped with integrated tools to enable a seamless client advisor experience, whilst also serving clients with multiple banking relationships and assets booked in various centres. Paul Arni of VP Bank has emphasized that "digitalisation makes it easier for clients to hold assets across various offshore booking centres in different locations." In the past, only individuals in higher wealth bands demanded and were offered these services. However, with technological advances − such as integrating assets from different custodians into a single portfolio − individuals in lower wealth bands will also get access to services such as scalable value-added platforms with multi-custody capabilities. In this context, effectively applying product configuration engines and financial aggregators would allow wealth managers to cover more clients and assets with the same effort.

Leading wealth managers have also started to deploy ecosystem-enabling technologies leveraging AI and analytics to provide contextual insights on investment ideas and to further personalise the client experience.

Investment budgets are also being allocated to technology initiatives such as real-time portfolio simulations and enhanced e-trading capabilities. The ability to implement technologies with a short time-to-market will be critical. According to Paul Arni, "execution capabilities and the ability to design coherent, value-adding client journeys are key, given the amount of investments that have gone into digital strategy projects compared to the little differentiation provided to clients so far." In this context, successful offshore wealth managers have developed the ability to execute strategies in a more accelerated and efficient way to deliver positive outcomes.

Conclusion and outlook

The success of wealth management centres can be measured both quantitatively and qualitatively. Qualitative factors determine competitiveness, which drives size and profitability, albeit with a time lag. While the challenges facing international wealth management centres have been increasing, the leading centres continue to meet them more successfully, increasing the gap between them and laggards.

Outlook for wealth management centres

- Competition among the world's top wealth management centres is fierce. To be in the top rankings, a centre needs a well-rounded profile. The example of the UK – slipping one place compared to the 2018 rankings – shows that even one event can drive the loss of competitiveness. Moreover, the competition is dynamic, with new areas such as ESG investments and digitalisation growing in importance. Centres therefore need not only to cultivate their existing strengths, but also to develop new capabilities and new offerings.

- Decision makers need to be equipped to deal with future challenges and to operate amid ever-present uncertainties.

- Although IMV is growing at a much slower rate than the general accumulation of financial wealth, offshore banking retains its relevance for investors, especially when they seek economical and financial stability in turbulent times.

- The increase in IMV following the outbreak of COVID-19 represents an opportunity for booking centres. By rethinking their value proposition, they need to retain their newly-attracted assets and develop propositions to pull in flows of international assets.

Outlook for wealth managers

- The top priority for wealth managers is to develop a differentiating client, product and technology strategy that will drive improvements in client experience and business performance.

- Wealth managers should therefore assess their current capabilities and identify gaps and opportunities to exploit them, based on their strategic priorities.

- To attract a sustainable flow of international assets, wealth managers require skilled employees in key locations, and they also need to form partnerships and alliances with other providers of financial services and distribution channels.

- In order to align technology capabilities with business strategy, the business ambition will need to be mapped to the IT components and technology strategies required.

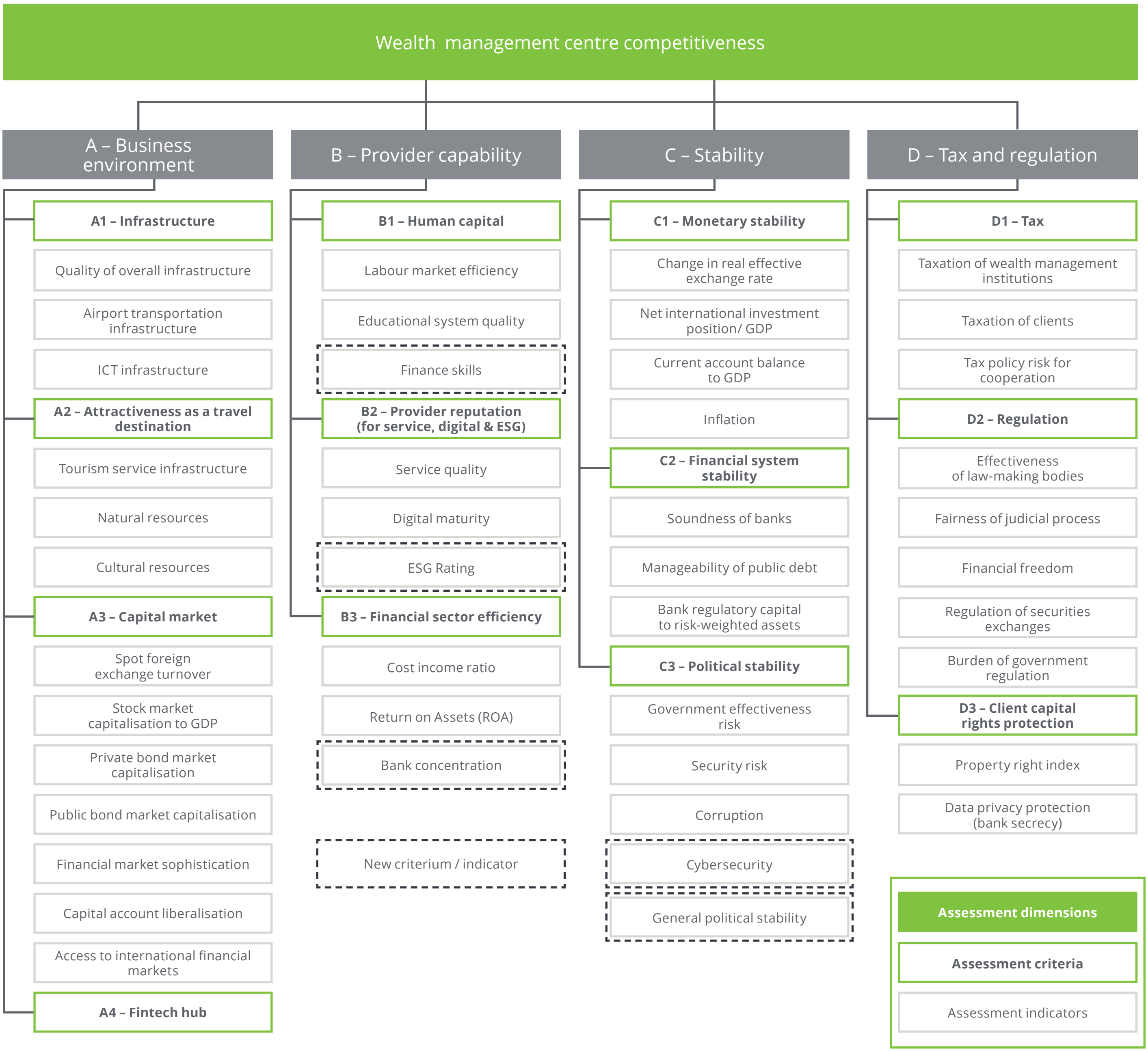
- A strategic roadmap should comprehensively portray how technology and talent needs to evolve in line with business needs.

Appendix

Methodology: Competitiveness ranking

We use a multidimensional approach to measure competitiveness, as shown in Figure 12.

Figure 12. How we measure international wealth management centre competitiveness



Source: Deloitte analysis.

* The value of a wealth management centre is based on a range of quantitative measures for a variety of assessment criteria.

The analysis framework is regularly reviewed and adjusted if necessary. For example, the indicator cybersecurity measures the risk of cyberattacks on companies in a particular location and its preparedness for dealing with them. Cybersecurity has become much more important for the progress of digitalisation, a concern that has been enhanced by experience during the COVID-19 pandemic and associated travel restrictions.

Figure 13. Detailed competitiveness ranking

	Switzerland	United Kingdom	United States	Hong Kong	Panama & the Caribbean	Singapore	Luxembourg	Bahrain	UAE
A1 – Infrastructure	6	4	3	2	9	1	8	7	5
A2 – Attractiveness as a travel destination	2	5	1	5	7	4	7	9	3
A3 – Capital market	3	1	2	4	9	5	6	7	8
A4 – Fintech hub	2	4	3	5	8	1	6	8	7
B1 – Human capital	1	5	3	4	9	2	6	8	7
B2 – Provider reputation (for service, digital capabilities and ESG)	1	4	2	5	7	3	7	7	5
B3 – Financial sector efficiency	9	7	3	2	4	7	6	4	1
C1 – Monetary stability	2	9	6	3	4	1	6	8	4
C2 – Financial system stability	3	7	9	1	4	4	1	8	4
C3 – Political stability	1	4	5	6	8	2	3	9	6
D1 – Tax	3	6	7	2	9	5	8	4	1
D2 – Regulation	2	6	4	1	9	3	4	8	7
D3 – Client capital rights protection	1	8	7	2	5	2	5	9	4

Figure 14. Definition of competitiveness indicators

Indicator		Definition
A1	Overall quality Infrastructure	Quality of general infrastructure, for example transport, telecommunications and energy, which determines the ease and reliability of conducting business
	Digital infrastructure	Communication technology, mobile broadband subscribers, wireless broadband, internet users, internet speed, and high-tech exports
	Airport transport infrastructure	International accessibility (for example, airport density, number of operating airlines and available seat kilometres) which determine the effort and convenience in reaching destinations
A2	Tourist service infrastructure	Availability of tourism infrastructure, such as availability of hotel rooms and car rental companies, which determines the ease for clients of combining business with pleasure
	Natural resources	Degree to which a location features natural resources such as protected areas and known species, indicating quality as a tourist destination
	Cultural resources	Degree to which a location features cultural resources such as international fairs and exhibitions, indicating quality as a tourist destination
A3	Spot foreign exchange turnover	International connectedness in terms of foreign exchange (FX) market and transferred currencies, measured as a percentage share of global spot foreign exchange turnover
	Stock market cap. to GDP ratio	Importance of the capital market as part of the overall economy, calculated as the value of listed shares to GDP
	Private bond market capitalisation	Attractiveness of a location in terms of raising debt capital, measured as the sum of domestic debt securities of corporates in billions of US dollars
	Public bond market capitalisation	Attractiveness of local public institutions in terms of debt capital participation, measured as the sum of domestic debt securities of governments in billions of US dollars
	Financial market development	Maturity of the financial market and the ability to provide a wide range of products and services efficiently in comparison with international standards
	Capital account liberalisation	Market accessibility of an economy based on the Chinn-Ito index, which measures a centre's degree of capital account openness
	Access to int. financial markets	Connectedness of local financial markets indicating international accessibility of funds and ease of conducting international transactions
A4	Fintech hub	The Fintech hub ranking of cities is based on 69 indicators in the PEST framework. Best city of each centre is used here.
B1	Labour market efficiency	Availability, flexibility and cost of local staff in terms of factors such as staff training, ease of hiring foreign labour and employment protection measures
	Quality of education system	Indicators such as citations, publications, degrees and international connectivity which determine the quality of locally available staff
	Financial education	Finance skills as per executive survey

Indicator		Definition
B2	Reputation for service excellence	Executive survey, quality of services provided by local wealth management institutions based on indicators such as number of banks in the global top 25 and number of banks in the top 5 for service awards
	Reputation for innovative technology adoption	Executive survey, innovative or Emerging Technology Adoption (number of banks in the global top 25)
	Reputation for ESG	Executive survey, number of banks per centre in the global top 25 in the category "Global Results ESG/Impact Investing 2021" and ESG ratings of leading banks per wealth management centre
B3	Bank cost-income ratio	A lower cost-income ratio indicates higher profitability in the WM industry/cost efficiency of local institutions in providing products and services in proportion to the revenue generated
	Return on assets (RoA)	Ability of providers to maintain sustainable profitability on the managed and administrated client assets. A higher return on assets represents higher profitability of the WM industry
	Bank concentration	Concentration in the banking sector as a proxy for how competitive the market is
C1	Change in REER	Attractiveness of the local currency in international financial markets, measured as the average percentage change in real effective exchange rates from year to year
	FDI as a % of GDP	Ability of a location to attract foreign capital investments, measured as FDI net inflows as a percentage of GDP
	Current account balance to GDP	Ability to attract foreign investments and assets as an indicator of the difficulty a country might have in mobilising the foreign exchange necessary to service debt (data for 2020)
	Inflation	Stability of currency and purchasing power (indicating the risk of holding local currency) measured as the average inflation rate over the past ten years
C2	Soundness of banks	Assessment of the soundness of banks, ranging from extremely low (banks may require recapitalisation) to extremely high (banks are healthy with sound balance sheets)
	General government gross debt	Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.
	Reg. Cap. risk-weighted assets	Strength of local financial institutions regarding available capital to cover risk positions, measured as share of total regulatory capital after supervisory deductions
C3	Government effectiveness risk	Degree of administrative burden and correctness of official procedures to conduct business, determined by factors such as quality of bureaucracy, cronyism and policy formulation
	Security risk	Perceived risk arising from criminal/terrorist activities, based on indicators such as violent demonstrations, kidnapping, and armed conflicts
	Corruption	Adherence to proper and lawful means in conducting business
	Political stability	Degree of political stability (social unrest, orderly transfers, opposition stance, excessive executive authority, internal tensions)
	Cybersecurity	Cybersecurity preparedness

Indicator		Definition
D1	Taxation of wealth management institutions	Attractiveness for an institution to conduct wealth management business, as determined by corporate taxation and VAT (rank)
	Taxation of private clients	Clarity of international taxation situation, for example the number of double taxation treaties and the amount of withholding taxes levied on private clients
	Tax policy risk (reliability of tax authorities)	Risk of negative dynamics in taxation policy (for example, stability of taxation terms and processes, equal applicability of taxes, legal security in taxation terms)
D2	Effectiveness of lawmaking bodies	Perceived ability of the legislative body to enact effective measures in the interest of society based on the effectiveness of the national parliament as a law-making institution
	Fairness of judicial process	General adherence to due process in assessing legal terms and situations
	Financial freedom	Degree of applicable legal measures in protecting investor rights and interests
	Adoption of the Basel Regulatory Framework	Degree of implementation of the adoption of the Basel Regulatory Framework
	Burden of government regulation	Degree of effort necessary to comply with the government's administrative requirements for the conduct of business
D3	Property rights index	Extent of property and asset rights protection within a country (legal terms, enforcement of rights)
	Data privacy protection (client identity sensitivity)	Degree to which client identities are protected by automatic information exchange, transparent client information, client privacy

Methodology: Asset size ranking

- The research method for comparing the size of the international wealth management centres builds on the 2013, 2015 and 2018 Wealth Management Centre Rankings reports. The core of our method is a proprietary Deloitte wealth management database and analytics engine, using raw data and financial figures from third party data providers such as the Bank for International Settlements (BIS), Crédit Suisse, the Swiss National Bank (SNB), national bank statistics from relevant jurisdictions, and relevant industry reports.

- We assume that investors are rebalancing their offshore portfolios on a yearly basis so that their asset mix (deposits, equities, debt securities and others) corresponds to a typical portfolio held by a (U)HNWI.

- We challenged and validated key datapoints and assumptions through interviews with leading industry experts

- Due to changes in the underlying source data from third party providers and changes in their reporting granularity, reported figures in this report may deviate from figures in our 2013, 2015 and 2018 reports.

Description of revenue / cost drivers

Revenue drivers

Price sensitivity: Price sensitivity is determined by transparency of pricing and discount models, offering breadth and depth, switching costs and client loyalty towards their private bank or relationship managers – relevant due to its impact on price levels

Level of competition: Level of competition is determined by the number and differentiation of competitors, competition from adjacent industries (e.g., retail banking, asset management), significance of new market entrants (e.g., FinTech companies) – relevant due to its impact on price levels

Mandate penetration: Average penetration of discretionary and advisory mandates – relevant due to their relatively high contribution to revenue margin

Asset allocation: Average allocation of client assets (e.g., cash, active and passive direct investments, discretionary investments) – relevant due to their respective contribution to revenue margin

Cost drivers

Level of regulation: Qualitative assessment of scope and complexity of regulatory requirements, assertiveness of local regulators – relevant due to their significance in cost developments over the past recent years

Personnel costs: Average salary of relationship managers, direct assistant staff, overall banking staff – relevant due to their large share of total cost

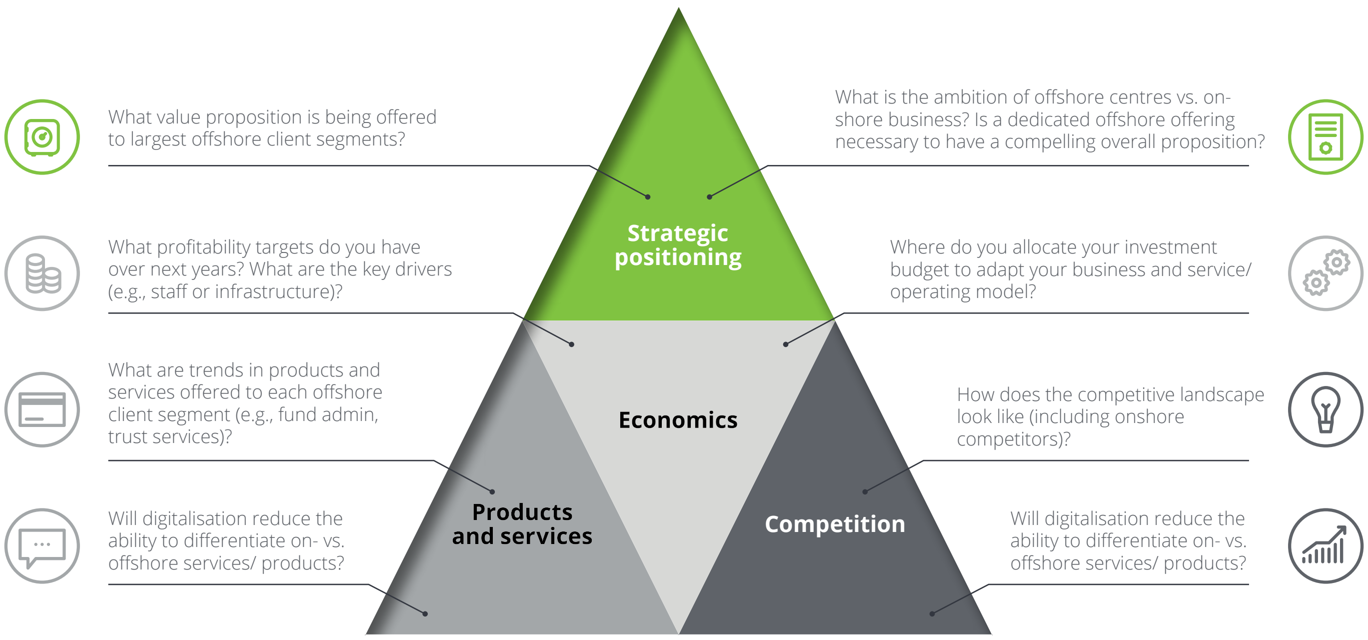
Occupancy costs: Average occupancy and lease cost in prime locations – relevant due to the importance of prime office space in private banking

Price level: Overall purchasing power parity and inflation levels – relevant to account for differences in wealth management centres' overall cost levels

Interview questions

Several key questions were set out to discuss implications of the offshore business model due to developments in source and destination wealth regions.

Figure 15. Questions addressed in interviews with wealth management business leaders



A systematic approach is applied to translate strategic business priorities into business capability themes needed to achieve the goals that have been set.

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