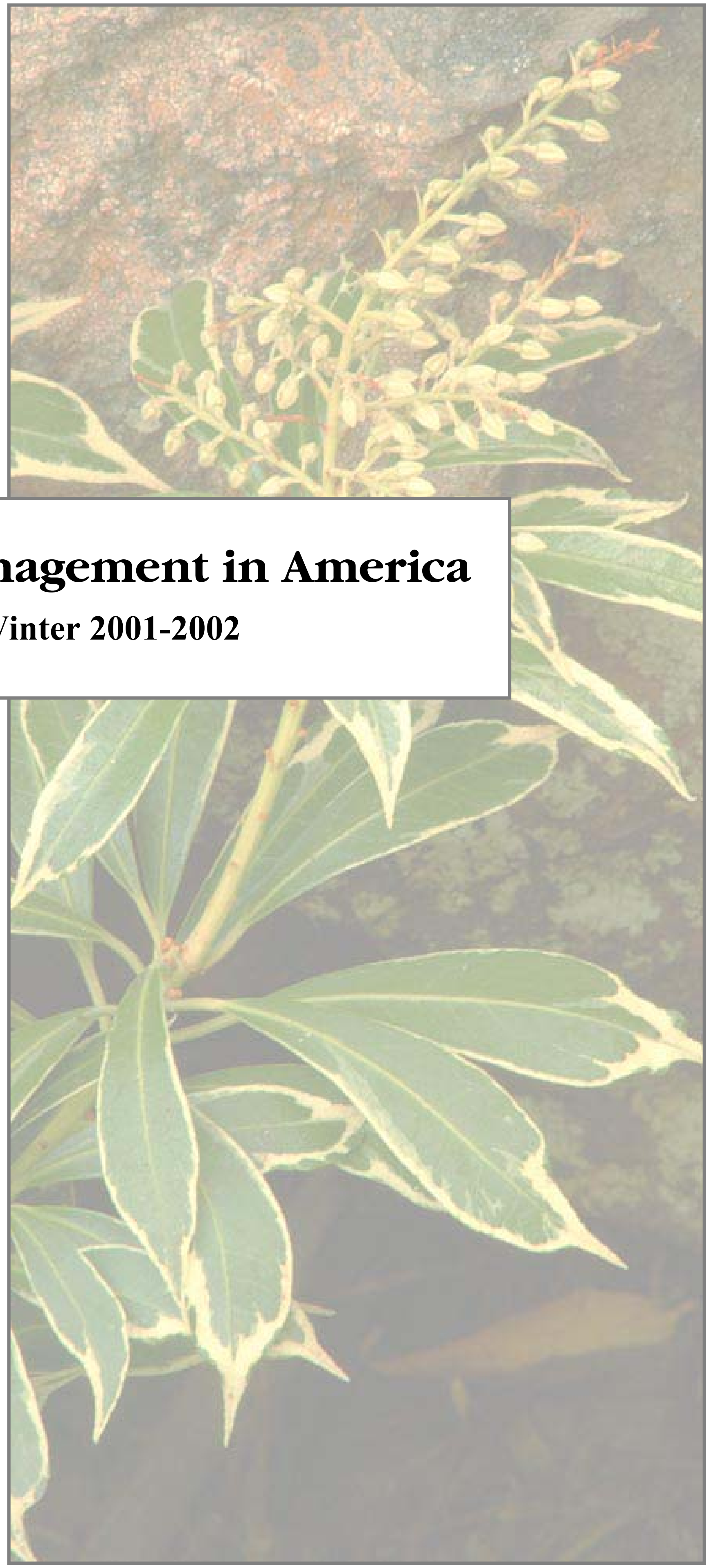


Wealth Management in America

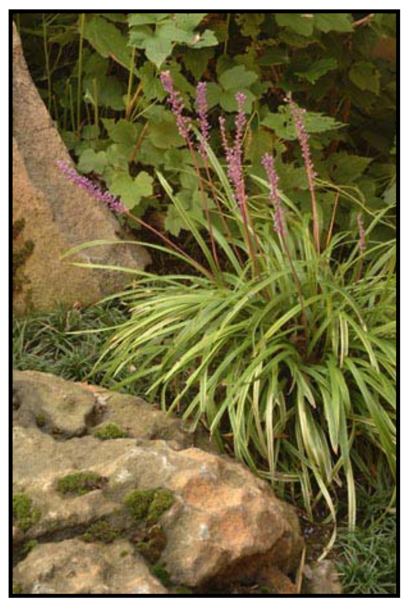
Winter 2001-2002

PATPATIA & ASSOCIATES, INC.

Throughout the 1990s, the U.S. financial services marketplace experienced tremendous growth as the Baby Boom generation entered its prime earning years and recognized the imperative to save for their impending retirement. They were empowered to participate directly in this process through the rise of 401(k)s and IRAs, as well as new investor-friendly options such as the Schwab Mutual Fund MarketPlace and the introduction of Internet trading and its promotion by the mass media. These factors collectively generated a large influx on new, inexperienced investors.

With the economy's decline over the course of the past year, these new market participants are now faced with an unfamiliar level of financial insecurity. The risks of investing, previously hidden by a favorable stock market, are now apparent to these investors, and they are seeking greater levels of guidance to help them address the new environment. In this context, consumers are increasingly seeking purveyors capable of meeting their new expectations.

Purveyors must adapt to the changed marketplace and retool to focus on wealth management – the relationship-based, value-driven delivery of services – particularly within the high net worth marketplace that offers so much opportunity for financial providers. Rather than taking a product orientation, successful wealth management platforms will need to be designed to support the delivery of advice and planning services on a comprehensive range of brokerage, asset management, private banking, and asset structuring (insurance, trust, etc.) solutions in a best of breed format.



With the size of the high net worth market shrinking for the first time in recent years, competition for its assets will become increasingly fierce, and purveyors will need to focus even more on quality customer service. Advisors in the field must have the education and training to take on the role of a comprehensive wealth manager. Additionally, as even the best trained producers can only have detailed knowledge of a select number of topics, experts on topics such as estate planning, restricted securities, and alternative investments, accessible by the field in a streamlined and transparent fashion, is required. Furthermore, multi-channel delivery of advisory services is key to sustaining a convenient, value-added relationship.

It is clear that a number of factors must be balanced to effectively execute upon the wealth management approach. Patpatia & Associates is adept at working with a variety of firms, from banks and brokers to insurers and money managers, to custom tailor and successfully implement customer-centric strategies for the high net worth marketplace. We work to integrate a deep market understanding gained through industry benchmarking and strategic market research with an assessment of distribution element. We approach this through the practical design of service platforms and technology solutions, helping firms to proactively address these industry changes and take a leading market position.

The Rise of Financial Services Consumerism

Throughout the 1990's, growth of the U.S financial services marketplace was driven by the maturation of the consumer as a buyer of financial products and services. The Baby Boom generation entered their prime wealth accumulation years and recognized the urgent need to save for retirement. At the same time, the financial markets experienced unprecedented sustained gains. The confluence of these factors resulted in a "wealth effect" spurring tremendous growth in individuals' financial assets.

The retail nature of the financial services marketplace was further fostered by the embracing of defined contribution plans and IRAs, exposing a much wider audience to the world of investing and leading new people into the financial marketplace. The near constant rise of the equity markets and its adoption as a topic of water cooler conversation emboldened individuals to take an active role in the management of their finances. With Internet day trading glamorized by an aggressive media, even novice investors questioned the value of professional advice.

As a broad mix of individuals, many skeptical of the necessity of expert investment counsel, joined the investment marketplace in increasing numbers, issues of cost, convenience and access became preeminent. A new class of alternative competitors including online purveyors arose to address these concerns. Traditional financial purveyors such as banks, brokers and insurance companies faced a market that questioned the validity of their core offerings and the value proposition of their distribution methodologies.

Traditional purveyors responded to these dynamics in the marketplace through consolidation and cross-selling to increase their efficiency and share of the customers' wallet. For some in the industry, the holy grail became the "financial services supermarket." Intended to counteract declining margins by capturing revenue from as many clients and through as many products as possible, these firms would act as a single-source solution through a wide proprietary offering. This approach not only further fed the "bigger is better" consolidation of the banking and brokerage industries, but helped lead to the eventual elimination of venerable "Glass-Steagall" itself.

Patpatia & Associates believes that some of the strategies deployed have not been as fruitful as firms would have liked, particularly for the higher end of the marketplace. Additionally, recent events and changes in the market dynamic will require a new focus on the delivery of advice and counsel as the foundation of the customer relationship.

A Return to Value

As the New Millennium has turned, demand in the marketplace has begun to migrate away from product sales toward relationship-based advice. This evolution, which has yet to fully play out, will dramatically modify the way successful financial services purveyors approach the business. These market changes can be clearly traced to the decline of the dot.com economy at the end of 2000. The monopoly ruling against Microsoft and a general questioning of the overall viability of the technology economy triggered the gradual collapse of the market bubble. Consumers' insecurity about their financial future has recently been further exacerbated by the business impacts of the September 11th attacks and their aftermath, including business interruption, broad layoffs and bio-terrorism.

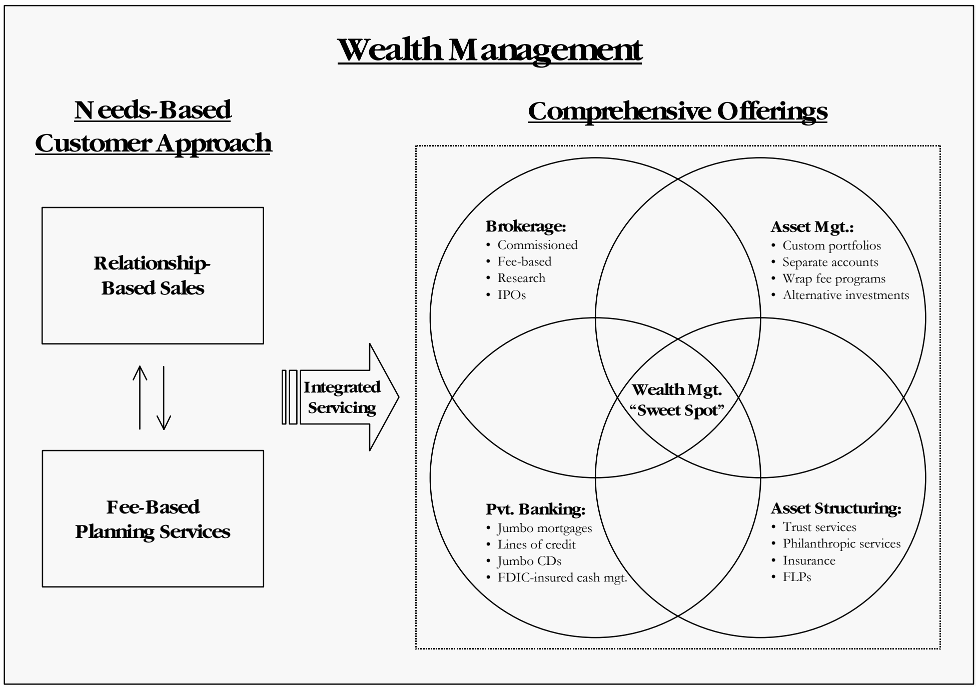
With the collapse of the dot.com's spreading to the overall economy, the general public has begun to recognize that the days of investing without apparent risk and consequences have ended. Moreover, many are just now realizing that the "discount" purveyors that they have been using have no accountablility related to their clients' self-directed investments. This has challenged investors' perceptions of their financial security and their ability to navigate alone in the suddenly murky financial waters. With successful day traders a thing of the past and other investors' paper gains trimmed or eliminated by the NASDAQ's decline, customers are less inclined to risk making decisions without guidance.

In this context, momentum is shifting back toward the value side of the equation. The "good deals" of the past decade – such as self-directed Internet trading – turned out for many to be "too expensive" in the long run, particularly for the affluent and high net worth markets who have had the capacity to shoulder reasonable advisory costs. Consumers, while still seeking to make final financial decisions, now want guidance to ensure that their decisions are likely to achieve their goals. They want advice on their complete financial picture, although they do not want provider recommendations clouded by proprietary product concerns. Furthermore, they are seeking lasting relationships with advisors who are able to gain a thorough understanding of their needs and provide ongoing advice as financial conditions continue to change. They are still seeking superior investment returns, but only those achievable within reasonable risk constraints.

In helping our clients respond to this shift, we have focused on developing and enhancing advisory platforms (e.g. advanced planning departments, trust organizations) and complementary technology infrastructures (e.g. broker desktop enhancements, CRM implementation) to support producers in delivering enhanced, relationship-based advisory services for the affluent and high net worth markets.

Evolving Customer Needs – A Focus on the High Net Worth Marketplace

The impact of these market changes upon the high net worth marketplace will be profound. These customers' "new" demands will be founded upon advice and counsel. They will also accept once again the role of traditional banking and insurance products in their portfolios and will seek out advisors comfortable and competent in dealing with these issues. In short, they will need Wealth Management.



Strictly speaking, consumers' needs have not, and will not, suddenly change – only investors' perceptions of those needs are evolving. Planning for retirement, business continuance, generational wealth transfer – these and other financial goals will continue to be their focus. It is how they will approach lifecycle events that will change, dedicating renewed scrutiny towards planning for tangible goals. Solutions will span each of the four core elements of wealth management: brokerage, asset management, private banking and asset structuring.

Customers will turn to comprehensive advisors, not necessarily to comprehensive providers. "Best of breed" solutions will continue to increase in importance as consumers seek out trusted brands. "Producer of few, access to all" providers will fit ideally in this environment. They will target the sweet spot of the market and maintain client trust by bringing in, through properly structured strategic alliances and referral arrangements, other product experts. This will allow them to cement the customer relationship and its associated revenue potential.

Patpatia & Associates believes that in this evolving marketplace, purveyors lacking a customer-centric focus on value-added relationships will struggle, and even those firms with strong brands will be marginalized without a strong wealth management orientation.

The Wealth Management Marketplace

Going forward, the greatest opportunity in the financial services clearly lies with the wealth management market. High net worth investors' larger portfolios offer favorable revenue dynamics from a relatively small number of clients, collectively accounting for approximately $60 billion in financial services revenues from just 2.8 MM households, and wealth management profit margins to this market often approach 50%. Additionally, these clients are in a position to better value a more sophisticated service set (i.e. advanced planning, jumbo credit) as they have sufficient assets to put their investments to work on a wider variety of objectives, often simultaneously.

The overall wealth management market may be broadly delineated into two principal divisions: the ultra-wealthy segment consisting of only about 100,000 households with very significant asset levels ($10 MM+) and the more expansive high net worth marketplace (2.7 MM households with $1-10 MM in investable assets). Both segments have similar needs; the primary differentiator is the ultra-wealthy market's capacity to support the costs of its preferred high-touch service model. The high net worth segment, while still seeking treatment similar to their more wealthy brethren, lack the assets to make such a degree of hand-holding affordable.

High Net Worth $1-10 MM	**Ultra-Wealthy $10 MM+**
▪ 2.7 MM households ▪ $6.4 trillion in investable assets ▪ $2.4 MM/ household	▪ 100,000 households ▪ $3.6 trillion in investable assets ▪ $36 MM/ household
➢ *Seek comprehensive services spanning a full range of wealth management needs* ➢ *Desire personalized service and access to expert professionals (e.g. estate planners, portfolio managers)* ➢ *Willing to pay for service, but lack assets to tap institutional resources* ➢ *Accessible through traditional private client distribution* ➢ *Historically targeted by variety of purveyors, incl. banks, brokers, insurers and money managers*	➢ *Asset size drives quasi-institutional business relationship* ➢ *Require high touch, true "family office" servicing* ➢ *Relatively closed network; highly referral and brand driven* ➢ *Institutional buying power limits revenue rates* ➢ *Small number of established purveyors (J.P. Morgan, Goldman Sachs)* ➢ *Limited success by new market entrants*

Sources: US Census, Federal Reserve Board: Survey of Consumer Finances, Bernstein Research, Goldman Sachs Research, Patpatia & Associates Proprietary Research.

During the 1990's, many purveyors attempted to penetrate the ultra-wealthy segment. Even under those favorable market conditions, they found it very difficult to challenge the established players. The ultra-wealthy were the least impacted by the recent market downturn because of their highly diversified, professionally managed portfolios. However, with only 100,000 ultra-wealthy households in America being chased by an increasing number of firms, achieving sufficient penetration is likely to be even more challenging in the future. Indeed, it is anticipated that a number of firms may abandon the market, returning to a focus on a broader high net worth clientele.

There remain, however, significant unmet gaps in the true high net worth market. Despite the even larger number of firms targeting high net worth individuals, our work for a variety of clients has demonstrated that much of this segment is underserved (as opposed to unserved). Purveyors that lack a comprehensive, relationship-based approach often service high net worth consumers. These firms frequently allow their own business and product focuses (e.g. brokerage or insurance) to dictate their proposed solutions. In the end, these strategies do not fully address their clients' concerns, nor do they offer clients' the perception that they are receiving service on par with their ultra-wealthy counterparts.

Patpatia & Associates believes that going forward the principal opportunity for wealth management will center on the high net worth market segment, which historically has generated greater financial services revenues than other segments. We have worked with purveyors to develop a true customer-centric focus by expanding wealth management platform capabilities and facilitating the reorganization and training of distribution forces to speed the adoption of advisory services, so they may better service their own clientele and gain marketshare from their competitors.

Developing a Wealth Management Platform

Perhaps the most critical factor to success is providing producers with a platform of advisory and planning support to position them as "Wealth Advisors" in the marketplace. Even the best financial advisors can only truly master a few of the many topics that they will frequently encounter with their clients – e.g. estate planning, concentrated securities, portfolio design. Effectively delivering to advisors the support of "subject" experts allows them to plug-in expertise that they may be lacking, creating a more user-defined customer experience.

Advanced Planning Team

- Assistance with complex planning issues including investments, taxes, trusts and estates, insurance, retirement, business succession, education, etc.

Investment Consulting Group

- Asset allocation and design of custom completion portfolios
- External money manager due diligence

Discretionary Portfolio Group

- Private Client model portfolio construction and individual securities recommendations for producer-managed accounts

Portfolio Management/ Research

- Separate account and mutual fund management
- U.S. and int'l; equity and fixed income

Alternative Investments Group

- Hedge fund, private equity and venture capital investment products
- Fund of funds vehicles

Trust/ Banking Platform

- Depository, credit and fiduciary services to implement planning solutions
- Federal charter – nationwide distribution

Restricted/ Concentrated Stock

- Liquidity and hedging strategies for concentrated portfolios or restricted securities including completion management and exchange funds

Non-Financial Asset Group

- Investment strategies and management of real estate; oil/ mineral interests; closely held businesses; LPs; and unique assets (i.e. jewelry; art)

Philanthropic Planning & Mgt.

- Structure philanthropic giving and administer CRTs and gift funds
- Foundation/ endowment administration

In establishing these capabilities, it is not necessary to build all of the resources internally. What is most important is for advisors to have sufficient knowledge and access to advanced support to advise on a full range of services. As long as providers can access quality third-party support in a competent and consistent fashion to address gaps in proprietary offerings, expanding product manufacturing capabilities is of minimal import. It is even frequently counter-productive to the field's credibility to overburden advisors with proprietary considerations.

Platform creation must be done with an eye on ensuring that this process is "seamless" to the client. This does not mean that experts need to be kept behind the scenes; in fact, it is to a firm's advantage to demonstrate the full scope of the company's resources. What it does mean is that the client must be smoothly handed-off between parties, through extensive field/ home office communication and effective CRM technology. This ensures that advice is consistent and the client feels that the entire organization knows and understands his or her needs. Additionally, providers must focus on educating and training their producers on the benefits and roles of these capabilities as well as how to effectively use them to aggregate client assets. If producers fail to adopt the platform, the most sophisticated set of advisory resources will fail to capture and retain clients.

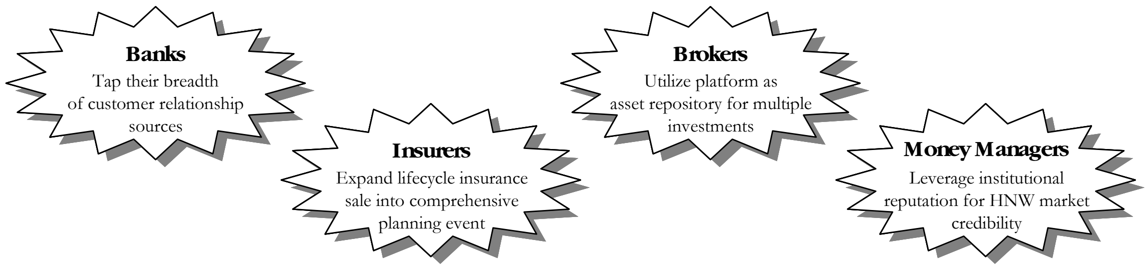
In our experience, when establishing strategic alliances and partnerships to assemble the appropriate advice and planning platform, it is absolutely critical to carefully evaluate and structure solutions for the longer-term. We work to ensure that such activities match firms' strategic, as well as financial, objectives.

The Service Dynamic – A Customer-Centric Approach

Purveyors must alter the way they do business to prosper in the new marketplace. Minimizing cost will no longer be the single solution to increasing profitability. Rather, aggregating and retaining assets through responsive customer service will be key to success. As the financial assets of the retail and mass affluent marketplaces have been curtailed by recent market events, it is anticipated that there will be even more purveyors seeking to enhance their penetration of the high net worth market. There will be fierce competition for business. With more firms chasing after fewer dollars, customer expectations will rise.

Firms will not have to do everything themselves – clients will be willing (and even prefer) to seek out specialty purveyors eager for their business. The products and advisory services that purveyors do choose to provide, however, must be done well. Investors, though loyal to a good value proposition, will not hesitate to shift companies if they perceive either inattention to their needs or a lack of competence.

In this environment, both boutique firms and national players will prosper, and different types of purveyors will approach the marketplace from different perspectives:



As in the 1990's, convenience will remain a part of the value dynamic, and technology will serve as an enhancer, but only an enhancer, to in-person servicing. Clients will seek out purveyors with multi-channel servicing, offering any-time access through the Internet and call centers. Increased customer expectations will, however, require improved functionality beyond access to account information and transactions. Just as clients will seek expert advice and counsel through in-person meetings, they will expect the same capabilities delivered by technology-enhanced touchpoints.

At the same time, the days of pure Internet wealth management plays are over. Customers will principally value face-to-face interaction with an individual wealth advisor dedicated to, and knowledgeable of, their own situation. To this end, local physical presence will be important to investors seeking deepened relationships with their financial services companies. As an example, Charles Schwab, which has traditionally sought to limit the functionality of its local branch structure and drive customers to call center and Internet resources where possible to maximize efficiencies, is launching Personal Wealth Management offices to locally support the advisory needs of its high net worth clients.

In this context, the national sales forces of brokerage firms or insurance companies, if delivering an appropriate set of advisory services in which they are sufficiently trained and knowledgeable, may effectively serve as the primary point of contact. However, in assembling the wealth management platform of a major national life insurer, we found that it was necessary to actively support field activities with visits from regional or home office experts at critical junctures in the sales and service relationship.

Patpatia & Associates believes that the multi-channel delivery (i.e. face-to-face, call center, Internet/ self-service, alliances) of customer-centric advice focusing on service and convenience will be at the core of thriving wealth management approaches.

At Patpatia & Associates, we focus on answering a number of questions to ensure that your Wealth Management initiatives meet market needs and your strategic objectives, while ensuring effective execution:

- Industry Benchmarking:
  - What lessons may be learned from leading wealth managers – product and service set, platform design, channel management, producer technology?
  - What successful tactics may be adapted to suit your environment?
  - How should you prioritize enhancements to your current capabilities?
- Distribution Channel Organization:
  - What is the character of your current distribution channel(s)? How does your existing distribution approach the wealth management business?
  - What opportunities exist for the expansion of your access to the high net worth/ wealth management markets, including the exploration of alternative distribution sources through both person and technology channels?
  - How can you recruit and train effective wealth managers?
  - How can you compensate your producers to foster the adoption of relationship-based and team-oriented advisory activities?
- Platform Development:
  - How should you package your offering to meet needs of different clients?
  - What gaps do you have in your ability to deliver a comprehensive range of products and services to your clientele?
  - How can your wealth management support organization be structured to ensure effective integration with the field?
  - How can mergers, acquisitions and/ or strategic alliances help to supplement your capabilities? What pitfalls might inhibit their success?
- Technology Deployment:
  - What enhancements are required to your current advisor desktop – advisory support, portfolio management, contact management, CRM/ datamining?
  - How can you use account consolidation and other client-focused innovations to improve customer service and your value-added to clients?
  - What is the role of the Internet in your organization and how can you better use its capacity to enhance your customer relationships?

In working on these strategic issues with our clients, we have found that problems typically arise due to a failure to address the above issues in a disciplined fashion. Firms that proactively face these questions will place themselves ahead of the market.

The preceding was prepared by Patpatia & Associates, Inc., a strategic and execution management consulting firm specializing in servicing the financial services industry. We assist in the development and repositioning of investment services businesses in both the domestic and international markets. Our clients include brokerage firms, insurance companies, banks and investment management companies, and represent some of the largest players in the industry.

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