



# PRIVATE WEALTH PATHWAY

CFA<sup>®</sup> Program Curriculum  
**2027 • LEVEL III PRIVATE WEALTH PATHWAY**

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# How to Use the CFA Program Curriculum

The CFA® Program exams measure your mastery of the core knowledge, skills, and abilities required to succeed as an investment professional. These core competencies are the basis for the Candidate Body of Knowledge (CBOK™). The CBOK consists of four components:

A broad outline that lists the major CFA Program topic areas ([www.cfainstitute.org/programs/cfa/curriculum/cbok/cbok](http://www.cfainstitute.org/programs/cfa/curriculum/cbok/cbok))

Topic area weights that indicate the relative exam weightings of the top-level topic areas ([www.cfainstitute.org/en/programs/cfa/curriculum](http://www.cfainstitute.org/en/programs/cfa/curriculum))

Learning outcome statements (LOS) that tell you the specific knowledge, skills, and abilities you should gain from each curriculum topic area. You will find these statements at the start of each learning module and lesson. We encourage you to review the information about the LOS on our website ([www.cfainstitute.org/programs/cfa/curriculum/study-sessions](http://www.cfainstitute.org/programs/cfa/curriculum/study-sessions)), including the descriptions of LOS “command words” on the candidate resources page at [www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.ashx](http://www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.ashx).

The CFA Program curriculum that candidates receive access to upon exam registration.

Therefore, the key to your success on the CFA exams is studying and understanding the CBOK. You can learn more about the CBOK on our website: [www.cfainstitute.org/programs/cfa/curriculum/cbok](http://www.cfainstitute.org/programs/cfa/curriculum/cbok).

The curriculum, including the practice questions, is the basis for all exam questions. The curriculum is selected/developed specifically to provide candidates with the knowledge, skills, and abilities reflected in the CBOK.

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## DESIGNING YOUR PERSONAL STUDY PROGRAM

An orderly, systematic approach to exam preparation is critical. You should dedicate a consistent block of time every week to reading and studying. Review the LOS both before and after you study curriculum content to ensure you can demonstrate

the knowledge, skills, and abilities described by the LOS and the assigned learning module. Use the LOS as a self-check to track your progress and highlight areas of weakness for later review.

Successful candidates report an average of more than 300 hours preparing for each exam. Your preparation time will vary based on your prior education and experience, and you will likely spend more time on some topics than on others.

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## **ERRATA**

The curriculum development process is rigorous and involves multiple rounds of reviews by content experts. Despite our efforts to produce a curriculum that is free of errors, we must make corrections in some instances. Curriculum errata are periodically updated and posted by exam level and test date on the Curriculum Errata webpage ([www.cfainstitute.org/en/programs/submit-errata](http://www.cfainstitute.org/en/programs/submit-errata)). If you believe you have found an error in the curriculum, you can submit your concerns through our curriculum errata reporting process found at the bottom of the Curriculum Errata webpage.

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## **OTHER FEEDBACK**

Please send any comments or suggestions to [info@cfainstitute.org](mailto:info@cfainstitute.org), and we will review your feedback thoughtfully.

# Private Wealth Pathway



## LEARNING MODULE

## 1

## The Private Wealth Management Industry

## LEARNING OUTCOMES

<i>Mastery</i>	<i>The candidate should be able to:</i>
<input type="checkbox"/>	discuss the typical business models of private wealth management service providers and their segment-based strategies
<input type="checkbox"/>	discuss typical fee, revenue, and compensation structures prevalent in the private wealth management industry
<input type="checkbox"/>	discuss how various advisers, consultants, and professionals support private wealth managers and their clients
<input type="checkbox"/>	describe and evaluate regulatory and compliance considerations influencing the private wealth management industry

## INTRODUCTION

## 1

Wealth management is also an increasingly important segment of the global financial marketplace. This reading provides an overview of the wealth management industry, including a discussion of the common categories of clients served, the various types of advisers practicing wealth management, and the various business models found across the industry. This reading concludes with a discussion of the CFA Asset Manager Code and complex regulatory and compliance considerations wealth managers must navigate on behalf of their clients.

## LEARNING MODULE OVERVIEW



- Private wealth is the term applied to the industry and practice of managing the wealth, financial and otherwise, of wealthy clients who need financial advice. This is a team effort, involving professionals with different areas of expertise.
- The comprehensive needs of wealthy clients extend beyond investment advice into tax, law, philanthropy, property, country of residence, and generational planning. These complex client needs require experts beyond basic investment managers — lawyers, tax specialists,

accountants, investment bankers, custodians, insurance specialists, and even health, education, administrative support specialists are frequently called upon and require management.

- However, these services can be costly. Clients and advisers should understand the nature of the services and costs. A shared understanding of typical fee, revenue, and compensation structures used in the industry, and those applied to a particular client.
- In all relevant jurisdictions, private wealth management must adhere to local regulations and compliance. Clients increasingly demand high ethical standards, encapsulated in the CFA Asset Manager Code.

## 2

### INDUSTRY SEGMENTS, BUSINESS MODELS, STRATEGIES



discuss the typical business models of private wealth management service providers and their segment-based strategies

This introductory reading focuses on the business models and strategies employed by wealth management firms and describes their clients and the other industry players who support them.

#### A Brief History of Private Wealth Management

Private wealth management has adapted over time to meet the complex needs of wealthy individuals and families, evolving from ancient civilizations through global economic and regulatory changes.

After World War II, private banks went global, setting up operations in major financial hubs. This growth was driven by increased international trade and the rise of **offshore financial centers (OFCs)** that offered legal asset protection and tax planning.

The late 20th century saw economic growth from globalization and emerging markets, which led to industry expansion. During this time, the quality of services and ethical standards in wealth management also improved.

Regulatory reforms like the Sarbanes-Oxley Act and Markets in Financial Instruments Directive (MiFID) increased transparency standards, with similar changes happening globally, such as Hong Kong's Banking (Capital) Rules revision in 2007. In particular, the 2008 Global Financial Crisis became a catalyst for many significant reforms that impacted wealth management including the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) in the United States, the Markets in Financial Instruments Directive II (MiFID II) in the European Union, and similar global efforts coordinated by the Financial Stability Board promoting expanded supervision, oversight and transparency for bank and non-bank entities. These reforms are covered more fully in the section "Competitive and Strategic Drivers."

#### THE SO-CALLED END OF SWISS BANKING SECRECY

If you see a Swiss banker jump out of a window, jump after him. There's bound to be money in it.

*Voltaire (1694–1778)*

Switzerland's private banking sector has been a cornerstone of the global financial system since the mid-18th century, with institutions like Wegelin & Co. founded in 1741, Lombard Odier in 1796, and Pictet in 1805. While banking secrecy was once a long-standing tradition, codified by the 1934 Swiss Banking Act, it exists today under highly restrictive legal frameworks. The sector underwent significant changes, especially after the 2008 financial crisis. In 2014, Switzerland became a signatory to the Organization for Economic Co-operation and Development (OECD) Common Reporting Standard (CRS), aligning itself with global transparency norms. This adaptation has implications for both clients and financial institutions, as it necessitates more rigorous reporting and compliance measures, thereby affecting the attractiveness of Swiss banks for certain types of asset protection that require confidentiality.

Today, transparency is the industry standard, driven by global regulatory bodies like the Financial Action Task Force (FATF). The industry continues to evolve, offering abundant, legitimate opportunities for wealth management professionals.

## The Wealth Management Industry Today

The wealth management industry is shaped by history, demographics, geography, culture, and capital market trends. A country's social infrastructure, including health care, unemployment, and retirement benefits, also influences the evolution of services in the wealth management industry.

### KEY SERVICES IN PRIVATE WEALTH

- *Private Wealth*: Refers to assets owned by wealthy individuals or families, often managed by financial professionals. It includes various forms of capital such as real estate, equities, and bonds.
- *Wealth Management*: A comprehensive service that combines financial and investment advice, accounting and tax services, and legal or estate planning. Often used interchangeably with “private wealth management.”
- *Private Banking*: A personalized financial and banking service that is traditionally offered to high-net-worth individuals. It includes a range of services such as investment management, tax planning, and estate planning, in addition to banking.
- *Asset Management*: More focused than wealth management and sometimes also referred to as portfolio management, this involves managing a client's investments and providing specialized investment strategies. Usually a firm but can also refer to a specific role within a larger financial institution.
- *Wealth Manager/Adviser*: An individual who offers a combination of financial planning, investment portfolio management, and other aggregated financial services to clients. This role may also be referred to as a private banker, client adviser, or wealth adviser.

Governments provide defined benefit (DB) and defined contribution (DC) retirement schemes along with individual savings plans. In countries where capital markets are large and diverse, the volume of transactional activity supports a wide range and

depth of financial services and products. As a result, the wealth management industry is typically fragmented and non-uniform, notwithstanding certain dominant players with Swiss heritage or who are well established among the locals.

In the United States, the private wealth marketplace is fragmented. A multitude of institutions, varying in type and size, offer services to citizens who find government-sponsored DB retirement programs and post-retirement health care insurance insufficient. Service providers, including wealth managers, offer a wide range of investment products, personal saving plans, insurance products, and support for employer-sponsored DC plans.

Conversely, in many continental European countries, such as France, Italy, and Spain, wealth management services lean toward an oligopoly, dominated by a few large universal and local banks. These countries place more emphasis on defined benefit retirement plans, which often provide better post-retirement income replacement coverage than DC plans. The public health care systems are generally free or low-cost, hence there is less need to save for medical care in retirement. Elsewhere, including in the United Kingdom and in many Asian countries, a diverse array of banks and financial advisers offer wealth-management-related services.

#### **Offshore versus onshore**

“Onshore” and “offshore” services refer where financial services are offered relative to the client’s home country. Wealthy clients may choose to use one or both of these options, depending on their unique needs. *Onshore* services are provided *within* the client’s primary country of residence which is typically where they are considered to be resident for tax purposes. *Offshore* services, on the other hand, are offered outside of the client’s primary country of residence (or prevailing regulatory authority).

For some private wealth clients, offshore services may be attractive due to factors such as political stability, legal advantages, tax incentives, and access investment products not available locally. These jurisdictions often provide stronger rule of law and are sometimes preferred due to distrust in local authorities, possibly stemming from corruption or threats. For instance, Singapore has emerged as a leading offshore wealth management hub in Asia, driven by its political stability and financial robustness. Concurrently, political and economic concerns in the region have heightened interest in such services.

The terms offshore center and **cross-border financial center** are sometimes used interchangeably and in many ways they are. Cross-border financial centers, such as the United States, United Kingdom, and Switzerland, serve both domestic and international investors, whereas offshore centers, such as the Isle of Man predominantly cater to foreign investors.

#### **KNOWLEDGE CHECK**



1. Which of the following factors would not reliably attract global clients offshore?
  - A. Recourse to the courts and a lack of confidence in one’s local authorities
  - B. Political stability and improved legal and tax regimes
  - C. Lower transaction fees

#### **Solution:**

C is correct. Lower transaction fees may seem attractive, but they are not among the primary factors that attract clients to offshore wealth management services, which may even incur higher transaction fees.

### Exhibit 1: Global Cross-Border Financial Centers

	Cross-border financial center wealth 2021 (USD trillions)	Dependency on cross-border wealth (%)	Top source region of cross-border wealth
Switzerland	2.5	60	Western Europe
Hong Kong SAR	2.3	51	Asia
Singapore	1.5	73	Asia
US	1.1	1.5	Latin America
Channel Islands and Isle of Man	0.6	>90	Western Europe
UAE	0.6	62	Middle East
UK mainland	0.5	13	Western Europe
Luxembourg	0.4	82	Western Europe
Monaco	0.3	>90	Western Europe
Liechtenstein	0.2	>90	Western Europe

*Note:* Wealth in local currency is converted into US dollars using the 2021 year-end exchange rate across all time periods.

*Source:* Zakrzewski et al. (2023)

Exhibit 1 illustrates major cross-border financial centers and their relative importance. Jurisdictions offer distinct advantages tailored to client needs. Switzerland excels in traditional private banking, while Monaco and Dubai attract residents with tax-free environments. Portugal's **golden visas**, which are residency permits granted in exchange for investment, offer initial 10-year tax exemptions.

Specialized centers include Luxembourg, known for its fund and insurance industries, and the US state of Delaware, a hub for company formation. The Isle of Man specializes in trusts, and the Cayman Islands serve hedge funds. Geographically advantageous locations like Uruguay attract Argentine clients, Andorra appeals to mainland Europeans, and Gibraltar, though no longer in the European Union (EU), remains conveniently located next to Spain. Exhibit 2 shows some of the most common offshore centers, their areas of specialization and their level of compliance with international transparency requirements.

### Exhibit 2: Selected Offshore Centers and the Main Clients Served

Jurisdiction	Summary	OECD Transparency Classification
Hong Kong SAR	One of the world's leading financial hubs with a highly developed financial sector.	Largely Compliant
Singapore	Significant Asian financial center with substantial assets under management.	Compliant
Cayman Islands	Known for its hedge funds and other investment structures, holds significant financial assets.	Largely Compliant
Guernsey	Important center for trusts and funds in Europe.	Compliant

Jurisdiction	Summary	OECD Transparency Classification
Jersey	Significant player in trusts and funds in Europe.	Compliant
Isle of Man	Robust financial sector but smaller in terms of assets under management.	Compliant
Bermuda	Known for insurance and reinsurance companies, holds substantial financial assets.	Largely Compliant
UAE/Dubai	Major financial hub in the Middle East, known for its free zones.	Partially Compliant (2019)
Bahrain	Major financial center in the Middle East, particularly in Islamic finance.	Partially Compliant
Panama	Known for its banking sector and the Panama Papers, has a significant amount of financial assets.	Non-Compliant
Lebanon	Historically a significant OFC in the Middle East, but recent financial instability.	Non-Compliant
Mauritius	Emerging financial center, particularly for investments into Africa.	Largely Compliant
Philippines	Not traditionally considered an OFC but has a growing financial sector.	Largely Compliant
Gibraltar	Smaller European OFC but still noteworthy for its financial activities.	Largely Compliant
Bahamas	Known for its trusts and private banking.	Partially Compliant

*Source for compliance status:* OECD (2023); compliance status correct as of October 2023. OECD rankings for tax information sharing and transparency categorize countries as “Compliant,” “Largely Compliant,” “Partially Compliant,” or “Non-Compliant,” indicating their adherence to international tax transparency standards. A “Compliant” rating signifies full adherence, “Largely Compliant” denotes minor shortcomings, “Partially Compliant” points to significant gaps, and “Non-Compliant” suggests a failure to meet most requirements.

### KNOWLEDGE CHECK



- Which of the following jurisdictions is known for its significant role in Islamic finance and is also a major financial hub in the Middle East?
  - Singapore
  - Bahrain
  - Cayman Islands

**Solution:**

The correct answer is B, Bahrain. Bahrain is known as a major financial hub in the Middle East and is significant in the field of Islamic finance. In contrast, Singapore (A) is a financial hub but not specifically known for Islamic finance. The Cayman Islands (C) are recognized for hedge funds and investment structures but not for Islamic finance.

## Wealth Management Participants

The infrastructure of wealth management firms comes in different forms. We list the main types of service providers here.

- *Universal banks* – Wealth management is only one segment of their services, sometimes under a different brand name, as they leverage their extensive client base across various businesses. They have a global presence, both onshore and offshore.
- *Local banks and trust departments* – With either retail banking or wealth management on offer, these players include local, state, regional, and private banks.
- *Private banks and trusts* – Independent private banks and trust companies (or trust departments in larger banks) primarily offer wealth management, though larger firms may offer additional services.
- *Investment banks* – Fenced by a very high entry level, and not direct competitors to traditional wealth managers, they provide institutional-type services in the realms of mergers and acquisitions and capital raising for ultra-high-net-worth individuals (UHNWIs). The types of investments on offer are typically unavailable to smaller clients.
- *Digital and direct banks* – Focusing on smaller clients and using digital platforms that produce automated investment advice, these entities have a minimal presence or no physical sites at all. Their automated processes are low-cost and rely extensively on robo-advisers.
- *Brokerage firms* – Brokerages act as intermediaries between buyers and sellers to facilitate market transactions. Larger brokerage firms may also offer a wide range of investment management and planning options. Their low-fee structure mirrors that of digital and direct banks. Interactive Brokers and Charles Schwab are well-known US firms.
- *Asset managers and fund managers* – These teams emphasize their asset management capabilities through dedicated funds or products. Wealth management isn't usually on offer, and instead their investment products constitute single building blocks for clients' portfolios.
- *Independent advisers (also referred to as financial advisers, wealth advisers, independent or external asset managers)* – These advisers operate primarily on an independent basis, meaning they are not tied to any specific financial institution's set of investment products or strategies. Some may choose to affiliate themselves with larger entities like global platforms, banks, or insurance groups to access additional resources or investment options. Despite these affiliations, they typically maintain their autonomy in investment decision-making, managing assets using their own strategies and sometimes their proprietary funds.
- *Family offices* – Family offices manage a diverse array of financial matters, which can include administration, investments, tax planning, wealth and estate planning, and philanthropy, among others. Some are single-family offices (bespoke to the needs of one single family), and some are multi-family offices (servicing ultra-high-net-worth clients). They may manage their portfolios directly or delegate to banks and fund managers.

## Competitive and Strategic Drivers

### *Porter's Analysis*

An analysis of Porter's five forces (Porter, 1980) supports an understanding of the industry.

### **Threat of New Entrants**

High regulatory barriers and the importance of trust and reputation make entry relatively difficult. Established firms such as Goldman Sachs or J.P. Morgan enjoy economies of scale and reputational strength. In recent years, family offices, specialized wealth management firms that exclusively serve the financial needs of a single family, and **multi-family offices**, which extend that specialized service to multiple families, have gained market share in the ultra-high-net worth (UHNW) and high-net-worth (HNW) spaces based in part on their high level of personalized service. At the same time, **robo-advisers**, which are automated platforms that use algorithms for financial planning and investment, have demonstrated some success by offering lower costs, making them popular in the mass affluent segment (Napach 2022).

### **Bargaining Power of Buyers**

The primary buyers in the wealth management industry are the mass affluent, high-net-worth individuals (HNWIs), and ultra-high-net-worth individuals (UHNWIs). Among these, UHNWIs possess the greatest bargaining power owing to their substantial wealth and the alternative options available to them. They typically demand highly personalized services and have the flexibility to switch providers with ease.

### **Bargaining Power of Suppliers**

The suppliers in this space are tax advisers, legal specialists, technology providers, custodians, and asset managers, to name a few, and their bargaining power is limited, except when directly dealing with large banks and DC providers, when they can exercise more influence. Specialized expertise, such as custody of non-traditional investments, can grant moderate power. Firms often rely on suppliers for advanced tech and legal advice.

### **Threat of Substitutes**

Alternative options include self-directed investment platforms, robo-advisers, and family offices. Multi-family offices, which serve multiple families and can operate internationally, may appeal to clients seeking specialized, highly personalized services. For UHNWIs, multi-family offices pose significant competition, offering highly personalized and often outsourced services that can match or exceed those provided by traditional wealth management firms. Notably, both family offices and multi-family offices can act as clients when they outsource specific services.

### **Intensity of Competitive Rivalry**

Competition is high among various types of wealth management firms. It centers on service quality, not just investment performance. The breadth and depth of products, and specialized expertise enhance competitive positioning.

### **Factors Influencing Specific Strategic Decisions**

Factors influencing a wealth management firm's strategy include:

- unique in-house expertise that differentiates from competitors;
- reputation as a strategic asset or liability;
- financial capacity for technology investments, positioning for either a mass market or niche market;

- target market segments;
- sophistication of markets and clients in operational regions;
- extent of regulation in operational regions;
- presence or absence of an established distribution network; and
- presence or absence of physical branches or offices.

When considering location, wealth management firms must decide between offering onshore and offshore services, as well as whether to establish a local presence. The decision is complex and must take into account various local requirements. For example, a firm planning to operate in multiple countries will need to navigate disparate regulatory landscapes, understand cultural preferences in client-adviser relationships, meet professional norms that may differ significantly, and offer services that address the unique needs of clients in each location.

To illustrate, if a US-based firm is contemplating an expansion into Switzerland, it must consider Swiss banking secrecy laws, the local appetite for risk, and even the types of assets that Swiss investors commonly hold. The firm will also have to decide whether to open a local branch or operate remotely, keeping in mind the high value that Swiss clients place on privacy and face-to-face interactions. Therefore, deep knowledge of local requirements such as licensing, cultural nuances, professional norms, and specific client needs is essential for a successful international strategy.

### ***Legal, Licensing, and Technology***

The firm's license sets the framework for strategic planning. Firms typically identify target markets based on opportunities and then ensure compliance with local regulations. Access to qualified legal advice is generally not a constraint and is essential for navigating regulatory landscapes in different markets.

Technology is universally important in client acquisition and management, although its specific role can vary. While traditional methods like personal connections and referrals remain key, technology is increasingly integral in managing these relationships. The degree of reliance on automation and tech resources may differ based on the firm's focus and the wealth level of its clients.

### ***Client Acquisition and Retention***

Understanding the dynamics of client retention, acquisition, and development is crucial for wealth management firms looking to build a sustainable business model. Wealth management firms, like many other service providers, operate in three key stages: client acquisition, development, and retention. In the acquisition phase, the goal is to attract new clients cost-effectively, leveraging referrals and collaborations with professionals like lawyers and accountants. Marketing strategies, including digital outreach and events, also play a role.

During the development stage, the firm aims to deepen client relationships. This involves cross-selling various offerings and persuading clients to allocate a greater share of their investable assets to the firm.

For client retention, the focus is on maintaining profitable, growth-oriented relationships. The firm stays attuned to changes in client circumstances and proactively adjusts its services. Trust-building, open communication, and problem-solving are key, along with expertise that adds value and encourages long-term engagement. Exhibit 3 provides a summary of the client acquisition, development and retention cycle.

### Exhibit 3: Client Acquisition, Development, and Retention Cycle



#### Implementation Strategies

Wealth managers employ strategies grounded in Porter's three core approaches for competitive advantage: cost leadership, differentiation, or focus/niche strategies. These strategies are not mutually exclusive and can be adapted to create a multi-pronged approach to market competition.

- *Cost Leadership* – This strategy is geared toward a broad customer base, focusing on economies of scale and operational efficiency. In the context of wealth management, this often means offering low-cost investment options and automated platforms. Both universal banks and specialized services compete in this segment.
- *Differentiation* – Targeting HNWIs and the mass affluent, this strategy seeks to provide unique offerings valued by clients. It aims to achieve higher margins by offering comprehensive wealth planning and exclusive investment opportunities not readily available to retail investors.
- *Focus/niche* – This involves targeting a specific, often niche, segment of HNWIs or UHNWIs in specialized markets or regions. The strategy prioritizes personalized, face-to-face interactions and specialized services that warrant premium pricing.

By understanding and leveraging these approaches, wealth managers can create a competitive advantage tailored to their operational markets and client base.

To illustrate how some wealth management firms are uniquely tailoring their strategies to meet the complex needs of HNWIs and UHNWIs, let's consider the case of Pi R-Squared Investors (PRS), a newly established firm that leverages long-standing industry relationships and specialized investment opportunities.

**CASE STUDY****Pi R-Squared Investors**

Motivated by the opportunity for greater innovation and personalized service, a group of experienced partners from a leading international financial institution founded Pi R-Squared Investors (PRS), a newly established wealth management firm. These partners were confident that their loyal client base would follow them to the new venture.

PRS allows the team to leverage their long-standing relationships with asset managers to offer clients truly exceptional investment opportunities. Through diligent research and risk assessment, they identify and access high-caliber alternative investments. This is particularly appealing to their clients, eager for better investment options.

While PRS may not have the scale to compete purely on cost, they strategically partner with independent service providers to deliver top-quality services at reasonable prices. As a result, clients might encounter slightly higher fees and fewer conveniences, but they benefit from better risk-adjusted returns and more personalized attention.

**KNOWLEDGE CHECK**

1. Which of the following best describes the main implementation strategy for brokerages, such as Charles Schwab and Interactive Brokers?

- A. Cost leadership
- B. Differentiation strategy
- C. Niche strategy

**Solution:**

A is the correct response. As per the reading, Interactive Brokers and Charles Schwab offer a low-fee structure mirroring that of digital and direct banks, with many similar firms operating globally that emphasize costs.

***Services and Product Range***

Wealth management firms offer a diverse range of services, which may vary by firm and by type of client, some of which are in-house and some are outsourced.

**Core services typically include:**

- deposit management,
- liquidity and payment oversight,
- client reporting (statutory, tax, and on-demand), and
- account administration.

**Lending services might encompass:**

- mortgages (private or commercial),
- credit cards (usually via separate issuers),
- Lombard loans (secured by investment assets),

- specialized lending (eg for aircraft, artwork).

Brokerage and securities dealing services can include trade execution for securities, currencies, funds, and structured products.

**Asset management services usually involve:**

- portfolio management,
- discretionary and advisory mandates,
- asset allocation advice, and
- investment products (in-house or third-party).

**Wealth planning and advice can cover:**

- wealth structuring,
- legal and tax guidance,
- estate planning,
- financial planning,
- retirement and pension optimization, and
- philanthropy advice.

**Insurance and wealth protection services may include:**

- life insurance and
- trusts and global fiduciary services.

**EXAMPLE 1**

**The Success of External Asset Managers: A Look at Switzerland and Beyond**

Swiss **External Asset Managers (EAMs)**, also known as independent asset managers or independent wealth managers, have carved out a unique space in Switzerland's financial system and offer a distinct alternative to larger financial institutions.

The EAM landscape is diverse, ranging from specialized asset managers to client-focused wealth managers. With more than 1,500 firms, the average EAM employs between three and four people and manages a median of around CHF100 million in assets. Collectively, they oversee CHF600–700 billion, making up 10% to 15% of the total assets held in Swiss banks that offer services to EAMs.

For their clients, who are primarily HNW and UHNW, EAMs focused on wealth management offer several advantages. Their smaller size often translates to greater agility and flexibility, allowing for more personalized services. Clients may also benefit from better access to specific markets and sectors, as well as specialized expertise. Additionally, the legal separation between asset ownership and management can offer an extra layer of security that some clients find appealing. The success of the EAM model in Switzerland has inspired similar regulatory changes in other countries, including Singapore, resulting in the emergence of more than 1,000 EAM firms there.

## Private Client Segmentation

After understanding the different services offered by wealth management firms, it's crucial to delve into how these firms segment their client base to tailor these services effectively. Most wealth management firms' cater to clients that fall into one or more wealth-based segments determined by client assets.

### *Wealth-based segmentation*

Wealth-based segmentation employs specific terminology and asset ranges:

- retail,
- affluent,
- HNW, and
- UHNW.

Each category has a theoretical asset range, whether made up of deposits, investable, or liquid assets.

- *Retail*: At this entry level, clients typically receive minimal dedicated servicing. The focus is largely on savings accounts and product-driven solutions like inexpensive passive vehicles (ETFs) and in-house investment funds.
- *Affluent*: Services may include basic financial planning and tax considerations. Technology and digital tools often play a significant role, and standard in-house products dominate the offerings.
- *High net worth*: These clients generally have a longer investment time horizon and may require wealth-transfer assistance. The focus shifts to tailor-made investment solutions, and the range of investment products becomes more exclusive.
- *Ultra-high-net worth*: This group is a subset of HNWI's and their needs are often highly complex. They may require a network of both internal and external advisers. The asset mix is diverse, often including both liquid and non-liquid investments. Senior management and even the board of directors of the wealth management firm may be involved in client relationships.

### WHAT IS HNW AND UHNW?

Classifications and categorizations vary by region and by firm. However, the following could be used as a general guideline in the United States:

Client Type	Net Investable Assets
Retail	Up to USD250,000
Affluent	Between USD250,000 and USD1 million
HNW	Between USD1 million and USD30 million
UHNW	Above USD30 million

Though wealth-based classification is relatively straightforward and used by many private wealth managers, it does have some obvious shortcomings. Applying net worth to client segmentation can prove challenging when clients, influenced by historical or cultural taboos, are reluctant to divulge information about their total global wealth. Provided clients agree to share it, a tax declaration gives a comprehensive view of income and its sources.

Another shortcoming of a wealth-based classification system is that it fails to capture the complexity of clients' circumstances, which will vary from client to client; however, it remains, by large, the most common approach in the private wealth sector.

### QUESTION SET



1. Which of the following is the biggest driver of the bargaining power of wealth management clients?
- A. The formation of “buyer’s groups” for such services
  - B. Heavy reliance on suppliers of specialized services (tax, legal, etc.)
  - C. Widespread availability of providers via traditional and non-traditional engagement (e.g., virtual, low-touch)

**Solution:**

C is the correct response. The ability to switch wealth management firms is relatively easy, and buyers have power due to the plethora of alternative providers. A could be true if such a thing existed at scale. B is related to the bargaining power of service providers to the wealth management industry.

2. Which of the following statements best describes the impact of technology on client acquisition and retention strategies in private wealth management?
- A. Technology has limited the reach of firms to potential clients.
  - B. Technology has made wealth management services less accessible and affordable.
  - C. Technology has enabled firms to reach a broader audience and made wealth management services more accessible and affordable.

**Solution:**

The correct answer is C. Technology has enabled firms to reach a broader audience through digital marketing and social media platforms. Additionally, digital tools have made wealth management services more accessible and affordable.

3. How are advisory and execution-only investment mandates similar?
- A. Similar relative cost structure
  - B. Same underlying decision maker
  - C. Legal contracting

**Solution:**

B is the correct response. In both cases, the final investment decisions reside with the client. A is wrong as we would expect advisory to often have different fees. C is wrong as advisory would typically need an additional set of documentation relating to the provision of advice.

## FEE, REVENUE, AND COMPENSATION STRUCTURES

# 3

- discuss typical fee, revenue, and compensation structures prevalent in the private wealth management industry

This section will examine the prevalent fee and compensation models in the private wealth management sector, which typically charges higher fees than retail banking, thereby generating greater revenue for professionals. Advisers should be aware of regulatory mandates that require detailed, regular disclosure of all fees to clients, especially considering the reporting rules in the countries where their clients reside.

The industry is experiencing a transparency shift led by new online wealth management firms that prioritize clear fee structures. This contrasts with traditional institutions, which may offer personalized services at higher fees but with less transparency.

### Business Models and Industry Drivers

Beyond prevailing market conditions, a wealth management firm's revenue-generation capacity is influenced by its business model and available operating licenses. Company size, geographical presence, and staff experience and efficiency also play crucial roles.

Most revenues can be grouped into the following categories:

- *Recurring* – These revenues primarily originate from portfolio management activities, the use of investment funds and other products, custody, and tax planning as well as other service-related activities that occur on a regular basis.
- *Non-recurring* – These revenues may arise from activity prompted by various life events or “one-off” events (death, divorce, sale of business, etc). Also, special projects such as bespoke analysis and reports requested by clients can result in fees.

Revenues can also be seen as:

- *Fixed Revenue* – These could include service fees charged on a periodic basis.
- *Variable Revenue* – These would typically include transaction fees or assets under management (AUM)–based fees.

It's likely that most fees are a combination of these characteristics. For example, a one-time transaction might be charged a fixed fee that would qualify as non-recurring. Or, as a client's AUM rises or falls, the related charges will track the variation.

### External Drivers Impacting Revenues: Industry Trends

External factors influencing wealth management firms' revenue growth include:

- The growing connectivity of global capital markets and increased sensitivity of markets and market valuations to macroeconomic and geopolitical developments brings both benefits (broader access to global opportunities) and costs (greater asset sensitivity to geopolitical risks).
- While publicly traded asset prices may be more sensitive to global risks, the growing use of private markets investments (private equity and debt, real estate, or venture capital) alternative investments can provide diversification for investors and should benefit from a return premium due to their low liquidity. There are two views of the impact of lower liquidity. Some market

participants reason those infrequent valuations and low turnover make alternatives lower volatility choices. Other participants counter that the less frequent valuation of alternative investments leads to less pricing information and only helps to make volatility measurement unreliable.

- Continued adoption of technology such as robo-advisers and trading platforms with lower cost structures than traditional firms, could lead to lower client costs but also lower industry revenues. Alternatively, technology could also create opportunities for small investors to use wealth management firms for the first time, raising industry revenues.
- Environmental, social, and governance (ESG) awareness has become an important consideration in portfolio management and is increasingly expected to be included in related wealth management services. However, ESG-related services are not costless to advisory firms. As with any service, if costs related to providing the service cannot be passed to clients they will compress net revenue.

These trends and other factors reflect the increasing intensity of competition in wealth management. Additional initiatives, such as those described in the example below, could further compress industry revenues.

#### EXAMPLE 2

### Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR)

Since the 2000s, regulatory authorities have intensified their focus on fee transparency and reducing incentivized payments, particularly in the United Kingdom through initiatives like the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR), as well as under European regulations like MiFID.

The RDR, implemented by the UK Financial Conduct Authority in 2013, aimed to elevate advice standards and transparency in the retail investment market. A key objective was to eliminate commission-based payments for financial advisers to minimize conflicts of interest. Instead, advisers must charge clients directly through transparent fee structures, enhancing client understanding of costs. The RDR also mandated higher qualifications and ongoing professional development for financial advisers, along with stricter disclosure requirements, enabling clients to make more informed decisions.

Launched in 2015 by the UK Financial Conduct Authority and HM Treasury, the FAMR aims to make financial advice more accessible and affordable, especially for those with lower wealth levels. Recognizing that traditional face-to-face consultations may not be cost-effective for this demographic, the FAMR explores technology-driven and simplified advice models. It also aims to streamline regulations to reduce unnecessary burdens while maintaining consumer protection. To address the advice gap, the FAMR promotes alternatives like automated investment platforms and online tools.

### *Internal Drivers Impacting Revenues: Growth Strategies*

When considering the revenue drivers of wealth management businesses, it is critical to remember that the wealth manager's primary task is to ensure that clients receive the most suitable investment products and services at fair fee levels. At the same time, wealth management firms need to generate revenues and profits. A firm's revenue can generally be increased through four methods:

1. *Client portfolios can hold investments with increasing returns.* Since a large amount of fees in this industry are based on AUM, higher asset returns lead to higher assets and higher revenue. While this can be a powerful force for generating client returns and adviser revenues, this procyclicality cuts both ways, leading to lower revenues in down markets. Moreover, this is a passive and unreliable approach to revenue growth in a competitive marketplace in which firms are actively competing for earnings.
2. *Firms can increase their fees.* This seems simple, but higher fees imply higher charges for clients. Significantly raising fees is difficult to do in a competitive and transparent industry. However, advisers with unique or differentiated products may have more pricing power. This might mean having a strategic advantage with a certain type of client (perhaps certain types of business owners) or through providing differentiated services. For example, discretionary accounts may be less cost sensitive, in which case delivering a higher mandate penetration rate, meaning the percentage of an adviser's mandates that are discretionary or advisory, ties to increased ability to raise fees.
3. *A firm can solicit new clients.* If client growth leads to growth of net assets at a firm, this should raise firm revenue. However, catering to all market segments is not feasible for most small to mid-sized firms. Accordingly, sensible revenue planning calls for wealth management firms to focus on the relevant segment of clientele and monitor the efficiency of their efforts. However...
4. *...a firm's clients may choose to leave for a variety of reasons.* All else equal, a strong focus on client retention can help to keep AUM and revenue losses to a minimum. While this is a defensive strategy, it is good business practice as satisfied clients are more inclined to remain with a firm and to refer new business to the firm. Some firms use scorecards to monitor advisers' effectiveness in adding and retaining clients, as well as success across products and market segments. This practice can enhance wealth managers' productivity and help a firm's management to gauge progress on key goals over time.

Two common metrics related to revenue management are **Net New Money** (NNM) and **Net New Business Volume** (NNBV). NNM is focused on bringing new client new money to the firm. NNBV captures the volume of new business across new and existing clients.

### **Pricing Strategies and Characteristics**

Wealth management firms align their pricing strategies with the price sensitivities of clients. Pricing strategies revolve around fees which are either recurring or non-recurring and they can be fixed or variable. Most fees can be bundled together or charged separately. Additionally, they may be directly applied or may be imbedded in the product.

Pricing consistency should be the norm at the firm level, with special pricing as occasional exceptions rather than a standard practice. In most markets, firms are legally bound to provide clients' with transparency on how fees are assessed.

**EXAMPLE 3****LPL Financial**

LPL Financial is a US company that white-labels a set of investment products and services, meaning it puts its own name on offerings from certain third-party managers, and then it distributes these investments through its own network of advisers and through independent advisers who have no ownership affiliation with LPL. Behemoths such as USAA and Northwestern Mutual, both old insurance companies, drive this process as well.

End clients in these distribution chains face a lack of transparency in that they bought from LPL Financial but are left with investments at third-party firms that may not be as transparent or responsive as a direct provider might be. CFA Codes and Standards should be fully applied by market participants to increase the level of transparency for end users.

**Types of Fees**

Fees can be levied on most activities undertaken by a wealth management firm. While fees are often described as advisory fees or management fees, direct fees often take one of these forms:

- asset-based,
- transaction-based,
- interest- and margin-based,
- service- and maintenance-based, and
- additional or supplementary.

Certain indirect or hidden fees are applicable to each of those categories.

Some fee structures are not available to all industry participants. Only banking institutions and their equivalents can act as custodians, hold client deposits, and generate interest income from these deposits. Similarly, entities to whom the authorities have granted trading authorization can levy brokerage and transaction fees. Types of fees common to different types of wealth managers are highlighted in Exhibit 4.

**Exhibit 4: Indicative Fees Category by Type of Entity in Wealth Management**

	<b>Asset</b>	<b>Transaction</b>	<b>Margin</b>	<b>Service</b>	<b>Additional</b>
Universal bank	X	X	X	X	X
Local bank and trust	X	X	X	X	X
Private bank and trust	X	X	X	X	X
Commercial bank			X	X	X
Bank assurance	X	X	X	X	X
Investment bank	X	X	X	X	X
Digital bank	X	X		X	
Brokers		X	X		
Asset/fund manager	X	X			
External asset manager	X	X			X