



The New Rule of 10%

The Coming Pension Crisis,
Higher Savings Rates, and
Fundamental Changes in the
US Financial Services Industry

May 2010

A publication of PricewaterhouseCoopers'
Financial Services Research Institute (FSRI)

PRICEWATERHOUSECOOPERS 

Contents

Section	Page
1. Point of view	3
2. <i>Financial State of the US Household Survey</i>	19
3. A framework for action	40
4. How PwC can help	49
Appendix Select qualifications	54

Section 1—Point of view

Point of view

The world economy is undergoing dramatic global shifts in savings and consumption.

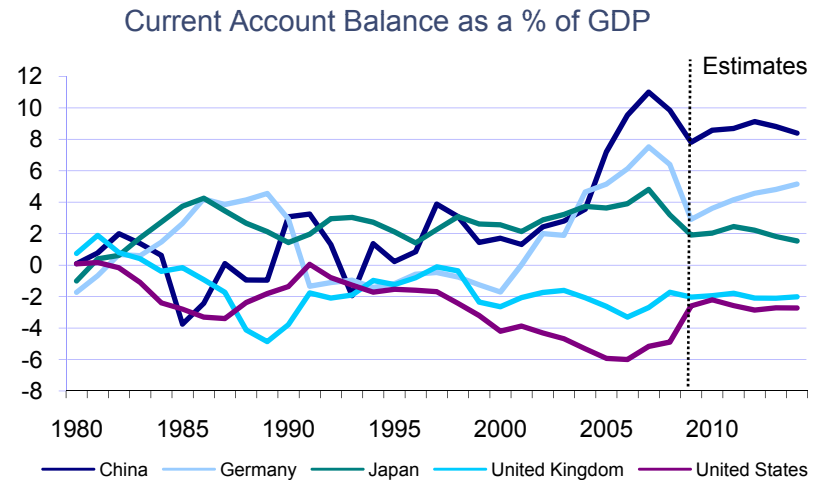
As the world economy begins to emerge from the financial crisis, it is undergoing fundamental shifts in the levels and global distribution of savings, consumption, and trade.

Over the past 20 years, global imbalances in savings and consumption have evolved. These imbalances, in the aftermath of the financial crisis, are beginning to stabilize through reduced trade flows and targeted efforts by some countries, notably China, to boost domestic consumption.

As seen in the graph, the current account balances of China, Germany, Japan, the United Kingdom, and the United States have been converging in recent years. Reductions in income and wealth combined with stringent credit terms in the United States and other industrialized countries have led to increased savings and decreased consumption, including that of imported goods.

As described by Ben Bernanke, chairman of the US Federal Reserve Board, in an October 2009 speech, "Together with lower oil prices and reduced business investment, changes in behavior have lowered the US current account deficit from about 5 percent of GDP in 2008 to less than 3 percent in the second quarter of this year. Reflecting in part reduced import demand from the United States, China's current account surplus fell from about 10 percent of GDP in the first half of 2008 to about 6.5 percent of GDP in the first half of [2009]."¹

These trends have continued through 2009 and into 2010.



Source: IMF

¹ Bernanke, Ben. "Asia and the Global Financial Crisis." Santa Barbara, CA. 19 October 2009. <http://www.federalreserve.gov/newsevents/speech/bernanke20091019a.htm>

Point of view

Any significant change in US consumption and savings would dramatically impact US and global trade flows.

The ripple effects of a long-term change in the consumption behavior and a corresponding increase in the US savings rate would be transformational in nature.

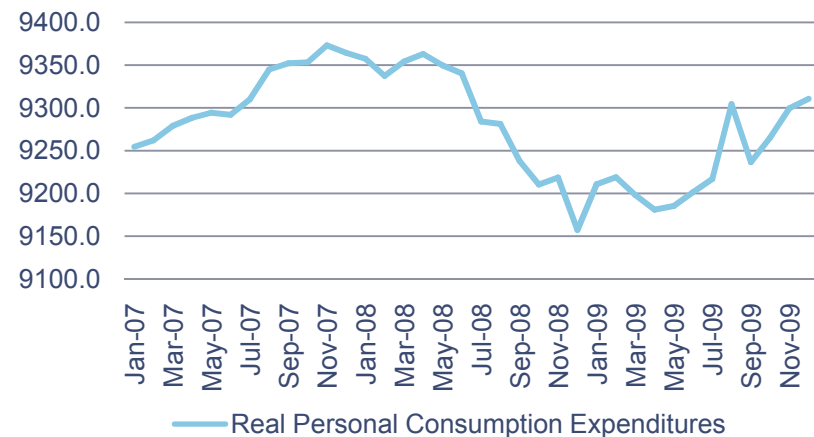
The United States has historically been the world's largest consumer market and will continue to be for the foreseeable future. Approximately 71 percent of US gross domestic product (GDP) is driven by consumer spending and the United States is a leading export destination for goods from around the world.¹ A decrease in US consumption would have far-reaching impacts on the US and global trade flows.

As described in a speech by Federal Reserve Vice Chairman Donald L. Kohn on October 13, 2009:

"In the consumer sector, spending fell sharply in the second half of 2008 as households raised their saving in response to reduced net worth, tighter credit conditions, and increasing uncertainty about job and income prospects. Following the steep declines in spending late last year, outlays were essentially flat on average during the first half of this year, and the saving rate leveled out. Expenditures appear to have increased in the third quarter, boosted during July and August by the cash for clunkers program and by increased dealer incentives...."²

The ripple effects of a long-term change in US consumer behavior would be transformational in nature within the United States and abroad. The United States has also traditionally been the world's "consumer of last resort" and many countries have no short- to medium-term alternative destination for their industrial production. As we move into the second quarter of 2010, the markets are beginning to appreciate the implications of the re-balancing of consumption and savings in the United States.

Real Personal Consumption Expenditures
2007-2009



Source: FRED, BEA

Personal consumption expenditures in the United States were \$9,310.6 billion in December 2009, down 0.7% from its peak of \$9,373.1 billion in November 2007.³

¹ "Gross Domestic Product," US Bureau of Economic Analysis and PwC calculations. <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>. Calculations based on Table 3.

² Kohn, Donald. "The Economic Outlook." St. Louis, MO. 13 October 2009. <http://www.federalreserve.gov/newsevents/speech/kohn20091013a.htm>

³ "Personal Income and Outlays." December 2009. www.bea.gov. Reported in chained 2005 dollars to adjust for the effects of inflation.

Point of view

Past US recessions have usually been accompanied by increases in savings rates and reductions in consumer spending.

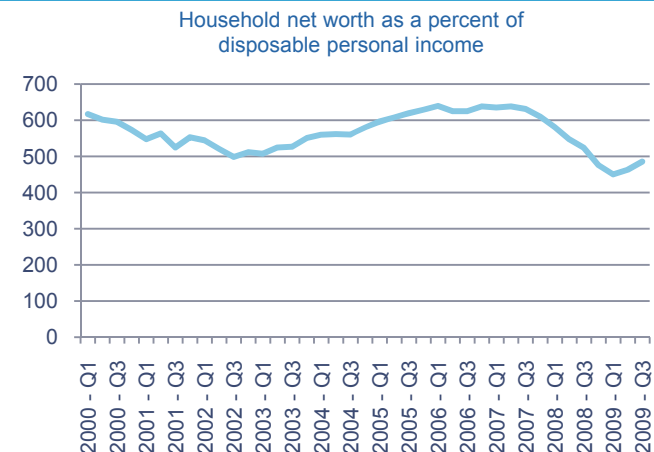
Personal savings rates usually increase during economic downturns as households save at higher rates until they rebuild their personal balance sheets.

We see the financial crisis as a fundamental shock to the system, but not in and of itself irreparably changing the consuming public's "DNA" in regard to savings and investment. It has, however, resulted in decreasing aggregate demand across the board and negatively impacted household net worth. Some of the reduction in demand will be temporary as consumers put off buying durable goods until conditions improve. Other components of the reduction will be longer lasting as banks rebuild their capital positions, enhance lending standards, and households rebuild their personal balance sheets. Savings rate data from the previous seven recessions indicate that consumers ramp up savings during economic downturns, but usually only by 1 or 2 percentage points.¹ These upswings are generally temporary, with savings behavior reverting to prerecession levels soon thereafter.

According to a behavioral model developed by economist Christopher Carroll, consumers tend to hold assets mainly to shield against unpredictable fluctuations in income. This "buffer-stock" behavior arises because consumers are both *impatient*, leading them to want to spend against their future income, and *prudent*, in that they accumulate precautionary savings. The buffer is usually some multiple of their normal income.²

As of the third quarter 2009, household net worth was 486 percent of household disposable income, down from a peak of 638 percent in 2007. This ratio can be restored through appreciation in housing prices or retirement savings, or through stepping up of personal savings rates. According to a recent article in *The Economist*, this ratio has a "historical average of about 500 percent.... To restore wealth to this long-run average, households would have to repay about \$1.4 trillion of debt. At their present rate of savings, these balance-sheet repairs will not be finished until 2012."

According to the theory, household savings rates will jump in response to the crisis, and gradually subside as their buffer of wealth slowly builds up again.³ In a world of higher uncertainty about future income, however, consumers may decide to aim for a higher target ratio. This larger cushion would take longer to accumulate and would require a permanently higher savings rate to maintain.



Source: Federal Reserve Board/Haver Analytics

¹ "Personal Savings Rate." US Bureau of Economic Analysis and PwC calculations. www.bea.gov.

² Carroll, Christopher D., Hall, Robert E., and Zeldes, Stephen P., "The Buffer-Stock Theory of Savings: Some Macroeconomic Evidence," *Brookings Papers on Economic Activity*, Volume 1992, Issue 2 (1992), 61-156.

³ "From Ozzie to Ricky. The crisis was a big setback for American consumers. Will it usher in a new era of thrift?" *The Economist*, 1 October 2009.

Point of view

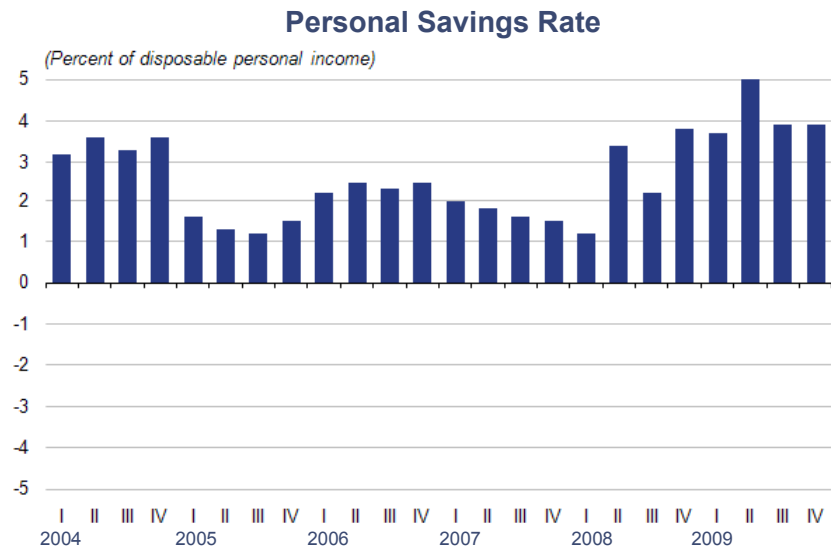
Consistent with historical experience, the US personal savings rate rose in tandem with the current economic downturn.

Personal savings have increased since the onset of the recession in December 2007. Recent signs of recovery as well as rising unemployment have caused the savings rate to retrench slightly in the last couple of quarters.

Personal saving, the portion of disposable personal income left over after personal current taxes and outlays for personal consumption expenditures, was \$441.3 billion in December 2009. Personal saving as a percentage of disposable personal income was 4.0 percent in December 2009, compared with 1.4 percent in December 2007.¹

The current savings rate has decreased from the record highs seen earlier in 2009, when the three-month average savings rate from January to March averaged 3.8 percent and the April to June savings rate averaged 5.4 percent. However, the savings rate has remained consistently above the record lows seen before the financial crisis.²

So far, this behavior is consistent with the past several economic cycles. So, where do we go from here?



Note: Real GDP growth is measured at seasonally adjusted annual rates.

US Bureau of Economic Analysis

¹"Personal Income and Outlays." US Bureau of Economic Analysis. December 2009. www.bea.gov/newsreleases/national/pi/pinewsrelease.htm. Accessed April 1, 2010.

²"Personal Savings Rate." US Bureau of Economic Analysis and PwC calculations. www.bea.gov.

Point of view

Predictions of future savings rates in the United States vary widely depending on analytical assumptions and the length of historical patterns used in analysis.

Forecasters have widely varying predictions for US private savings for the next several years up until 2018. PwC's recent *Financial State of the US Household* survey offers some insights into future expectations in this area.

Macroeconomic Advisers describes the period from 2008 through 2011 as one of “sharp adjustments by households to a massive decline in wealth that, through usual wealth effects will push the personal saving rate up from close to 1% as recently as late 2007 to 4.2% by the end of 2011.”¹ Macroeconomic Advisers' model of savings is based on a life-cycle model of consumer spending. In its latest commentary, it noted that “embedded in our forecast is the assumption that our underlying (life cycle) model still captures consumer spending and saving decisions. Some observers think that the crisis may have caused a structural shift in household behavior, manifested as an ongoing downward shift in consumer spending relative to income. In this case, the savings rate would rise more aggressively than we expect, taking its toll on the *growth* of consumer spending.”²

Others have focused on household indebtedness. The central issue from this perspective is how US consumers deleverage themselves from the surge in spending and indebtedness leading up to the recession. US household leverage, as measured by the ratio of debt to personal disposable income, increased modestly from 55 percent in 1960 to 65 percent by the mid-1980s. Then, over the next two decades, leverage proceeded to more than double, reaching an all-time high of 133 percent in 2007. A simple model of household debt dynamics can be used to project the path of the savings rate that is needed to push the debt-to-income ratio down to 100 percent within the next 10 years. Assuming an effective nominal interest rate on existing household debt of 7 percent, a future nominal growth rate of disposable income of 5 percent, and that 80 percent of future saving is used for debt repayment, the household savings rate would need to rise from around 4 percent currently to 10 percent by the end of 2018.³

PricewaterhouseCoopers' recent *Financial State of the US Household* survey (“The PwC Survey” or “Our recent survey”) asked a representative sample of US consumers a series of questions related to their current financial situation, including their anticipated personal savings rates in the future. Respondents indicated a clear sentiment to further reduce household debt over the next 12-24 months and increase personal saving. Results of this survey are presented later in this report.

All in all, the indicators appear to be pointing toward at least several more years of relatively higher levels of savings than during the years leading up to the financial crisis.

¹ “Macroeconomic Advisers Forecast Details.” Vol 28, No. 2. 8 March 2010. http://www.macroadvisers.com/download/radAC0BE.tmp/MA%20Forecast%20Details_002.pdf

² “Macroeconomic Advisers Outlook Commentary.” Vol 28, No. 2. 5 March 2009. <http://www.macroadvisers.com/download/radA4B1C.tmp/MA%20Outlook%20Commentary%20002.pdf> (by subscription only).

³ Glick, Reuven and Lansing, Kevin J. “US Household Deleveraging and Future Consumption Growth.” 15 May 2009. <http://www.frbsf.org/publications/economics/letter/2009/el2009-16.html>. Reprinted from the Federal Reserve Bank of San Francisco Economic Letter 2009-16. The opinions expressed in this article do not necessarily reflect the views of the management of the Federal Reserve Bank of San Francisco, or of the Board of Governors of the Federal Reserve System.

Point of view

We believe there are new factors in this economic cycle to consider when predicting future savings rates, including capital constraints and overall rule set uncertainty.

An important factor impacting both the current and future savings rates is a new era of more expensive capital, leading to reduced credit supply and increased costs.

Credit availability has been restricted for many consumers and will likely remain so for years. Banks are restrained by difficult economic conditions, higher capital requirements, and overall uncertainty about the “rule set” of the US economy, including healthcare costs, energy prices, and financial regulation. These concerns remain despite a general improvement in financial conditions (except unemployment) and increases in bank stock prices and earnings during the past year. The impacts of these forces on the economy are already apparent and disproportionately affect the savings habits of younger, less creditworthy segments of the population, as “no-money down” options for home, auto, and other durable purchases are increasingly hard to find and credit is restricted through new limitations, fees, and higher interest rates.

In terms of the changing rule set of the economy, it is important to note that, although the outcomes of financial regulatory and climate change reform are highly uncertain, it is hard to imagine scenarios where capital costs and the overall regulatory burden on financial institutions will go anywhere but up. This could have a negative impact on credit supply and cost to consumers and businesses.

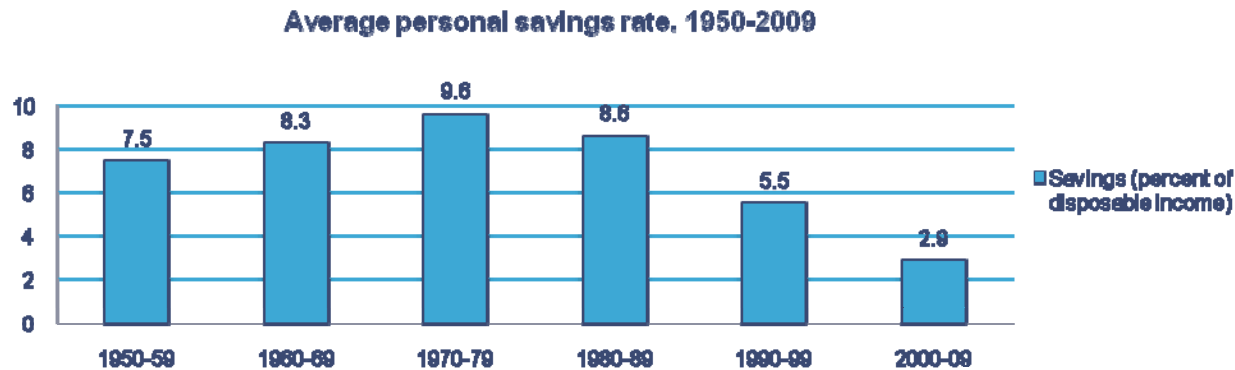
Point of view

More importantly, we also see other trends emerging that herald a longer-term and more pronounced structural shift in savings rates.

In our view, these trends will cause the US savings rate to rise significantly beyond current levels, potentially returning to levels not seen since the 1970s and 1980s, for a sustained period.

We recognize that there is quite a bit of dispute over this contention. However, in our view there are a number of game-changing trends underway, all of which will lead to a significant long-term increase in the personal savings rate and an increased focus on personal wealth management in the United States.

Drivers include the evolving demographics of the US population (such as birthrates, life expectancy, and immigration), large US structural budget deficits, and the continued movement in the corporate sector to defined contribution plans from defined benefit plans. Many of these drivers have been discussed extensively in the press and within political and economic circles. In our view, these changes, while important, are in and of themselves not game-changing in nature.



Source: US Bureau of Economic Analysis. Savings rate data and PwC calculations. www.bea.gov.

Point of view

The most important and permanent driver of higher savings rates will be increased uncertainty regarding retirement income.

In our view, the tipping point driving a long-term increase in personal savings will be the loss of future retirement benefits for some workers, and the increased uncertainty of future benefits for others.

In our view, the key underlying trend to move the personal savings rate to 10 percent will be the increasing fragility of the US pension system, particularly state and municipal pension funds, Social Security, and the broader defined benefit plans in place for private employers. While part of the stress on the systems stems from the financial crisis, the long-term issues of structural mismatches between promised benefits and the ability to fund those benefits are the real issue. A number of pension plans have already begun to negotiate benefit changes, but this is just the beginning of the process, in our view.

Recently, an analysis completed by Orin Kramer, chairman of New Jersey's State Investment Council, estimated a \$2 trillion actuarial deficit based upon current benefits and projections in the state and municipal pension plans and an additional \$1 trillion in post-retirement health benefit shortfalls.¹ Almost every day there is another story of a state and/or municipality under financial stress from post-retirement obligations and in need of restructuring current and/or future benefits. Simply put, benefit levels provided to current retirees as well as current retirement ages are unsustainable across the board and will be significantly adjusted for future and perhaps current retirees. In some states and municipalities the problem could become so acute that we may see threatened or actual bankruptcies before the necessary structural changes are made.

Even if these changes have not been reflected yet in current savings levels, there is evidence that expectations of future savings rates are beginning to be embedded in the mindset of the US public. According to a recent PwC survey, while only 13 percent of households are currently saving 7 percent or more of their income, fully 36 percent of households expect to be saving at this level in 5-10 years.² This is quite a dramatic shift and indicates a degree of skepticism about the ability of pension plans to pay promised benefits in the future.

All in all, we expect the tipping point to occur during the next several years as a number of budget crises arise in states and municipalities, particularly as US Federal government stimulus money runs out. A default in the sovereign market or disruptions in the US government debt markets could accelerate this trend. In any case, we expect these types of headline events to translate into significant benefit reductions and much greater economic insecurity. This, in turn, will drive the need for large portions of the working-age population to significantly augment their personal savings by working longer and spending less.

¹ Kramer, Orin. "Unfunded Benefits Dig States' \$3 Trillion Hole." 20 January 2010. <http://www.bloomberg.com/apps/news?pid=20601039&sid=aKQk6SUcSr3A>.

² PricewaterhouseCoopers LLP. *Financial State of the US Household Survey*. December 2009.

Point of view

US Social Security benefit payments are projected to exceed tax receipts this year.

The largest single potential tipping point is Social Security. Today, Social Security is a major source of income for most retirees, yet its financial situation indicates that future benefit reductions are almost inevitable.

According to data from 2002, Social Security provides 39 percent of the total income of those ages 65 and older. For two-thirds of this population, it provides more than half of their total income. Even those in higher income brackets receive approximately 20 percent of their retirement income from Social Security.¹

According to a recent *New York Times* article, "This year, the system will pay out more in benefits than it receives in payroll taxes, an important threshold it was not expected to cross until at least 2016, according to the Congressional Budget Office. Stephen C. Goss, chief actuary of the Social Security Administration, said that while the Congressional projection would probably be borne out, the change would have no effect on benefits in 2010 and retirees would keep receiving their checks as usual. The problem, he said, is that payments have risen more than expected during the downturn, because jobs disappeared and people applied for benefits sooner than they had planned. At the same time, the program's revenue has fallen sharply, because there are fewer paychecks to tax.... Indeed, the Congressional Budget Office's projection shows the ravages of the recession easing in the next few years, with small surpluses reappearing briefly in 2014 and 2015. After that, demographic forces are expected to overtake the fund, as more and more baby boomers leave the work force, stop paying into the program and start collecting their benefits. At that point, outlays will exceed revenue every year, no matter how well the economy performs."²

PwC's recent *Financial State of the US Household* survey indicated that household confidence in receiving full Social Security benefits when people retire is relatively low. In fact, the majority of respondents (56 percent) indicated that they are either "not at all confident" or "undecided" that they will receive full Social Security benefits at their planned retirement age. Furthermore, it is inevitable that taxes, benefits, or both, will be adjusted to solve Social Security's financial issues. Once this happens, we expect the savings rate to increase significantly. More than four in ten (42 percent) respondents to our survey indicated that they would immediately raise their savings rates to address reductions in future Social Security and/or pension benefits. Only 8 percent indicated that they would definitely not adjust their savings rates in this situation.

¹ "Social Security: Why Action Should be Taken Soon." Social Security Advisory Board. September 2005. <http://www.ssab.gov/documents/WhyActionShouldbeTakenSoon.pdf>.

² "Social Security to See Payout Exceed Pay-In This Year" Walsh, Mary Williams. *The New York Times*, March 24, 2010.

Point of view

Defined benefit plans in the private sector continue to enact benefit changes that reduce benefit costs and increase plan participant uncertainty.

Private defined benefit pension plans are financially stressed and continue to enact benefit changes to reduce future liabilities.

As of March 2008, only 20 percent of private-industry workers had a defined-benefit plan.¹ Of these, 20 percent had experienced a freeze in benefits.² “Many employers have opted to freeze their current defined benefit plan and provide an alternative. Employees are and will continue to be forced to reevaluate their retirement savings needs as employers alter their benefits package.”³

It is important to note that private pension plans have a number of safeguards that protect retirees already vested in the plans. These include the Pension Benefit Guarantee Corporation (PBGC), which insures most private defined benefit plans, and Employee Retirement Income Security Act (ERISA), which protects existing funds in retirement plans from creditors in the event that the company goes bankrupt.⁴ Despite these protections, there is evidence of public anxiety over these safeguards. The PBGC’s deficit has almost doubled since 2008, and the PBGC said its “potential exposure to future losses from financially weak companies was about \$168 billion in fiscal 2009, up from \$47 billion the prior year.”⁵ Vince Snowbarger, acting director of the PBGC, stated that, while they will not fail to meet their obligations to retirees, they do need to find “a long-term solution to stabilize the insurance program.”⁶

¹ “Defined-contribution plans more common than defined-benefit plans.” US Bureau of Labor Statistics. March 2009. <http://www.bls.gov/opub/perspectives/issue3.pdf>.

² National Compensation Survey. US Bureau of Labor Statistics. March 2008. Available from: <http://www.bls.gov>

³ Curtin, Scott. “Alternatives to Frozen Defined Benefit Pension Plans.” US Bureau of Labor Statistics. 28 August 2009. Available from: <http://www.bls.gov>

⁴ Franklin, Mary Beth. “In tough times, many pension plans covered by safeguards.” *Newsday*. 22 February 2009.

⁵ PBGC deficit soars as plan terminations rise in recession, Jerry Geisel, November 16, 2009, *Business Insurance*, Volume 43; Number 411

⁶ Elliott, Douglas J., “The PBGC’s \$22 Billion Deficit.” 13 November 2009. Available from: www.brookings.edu. Accessed 25 March 2010.

Point of view

Public sector employees face additional uncertainty as widespread state benefit plan shortfalls are increasingly the norm.

Defined benefit plans for state and local government workers are undergoing changes already, particularly for younger workers.

As of March 2008, 83 percent of workers in the state and local government had access to an employer-sponsored defined benefit retirement plan.¹ According to a new report released by the Pew Center on the States, there was a \$1 trillion gap at the end of fiscal year 2008 between the \$2.35 trillion states had set aside to pay for employees' retirement benefits and the \$3.35 trillion price tag of those promises. The study also found that 34 of the 50 states are deemed to be in need of improvement or have serious concerns regarding their pension obligations.²

Governor Arnold Schwarzenegger, in his January 2010 California State of the State address, highlighted pension reform as one of his top priorities. "The cost of state employees' pensions is up by 2,000 percent in the last ten years.... I ask the Legislature to join me in finding the equivalent of a water deal on pensions, so that we can meet the current promises and yet reduce the burden going forward."³ This situation is increasingly the norm as states continue to look for ways to change their future benefit obligations by restructuring plans for younger workers. In the state of New York, government employees, police, and firefighters hired in January 2010 or later will be subject to the "Tier 5" plan for retirement benefits. Tier 5 increases the benefit vesting period from 5 to 10 years, increases member contributions to the plan, and increases the benefit reduction for early retirement.⁴

And this is only the beginning of a multi-decade adjustment process.

¹ "Defined-contribution plans more common than defined-benefit plans." US Bureau of Labor Statistics. March 2009. Available from: <http://www.bls.gov>

² "Pew Study Finds States Face \$1 Trillion Shortfall in Retiree Benefits." 18 February 2010. Available from: <http://www.pewtrusts.org>

³ Schwarzenegger, Arnold. "2010 State of the State Address." 6 January 2010. <http://gov.ca.gov/speech/14118>

⁴ "Key Tier 5 Benefits Compared to Current Benefits." New York State Office of the State Comptroller. Available from: <http://www.osc.state.ny.us>

Point of view

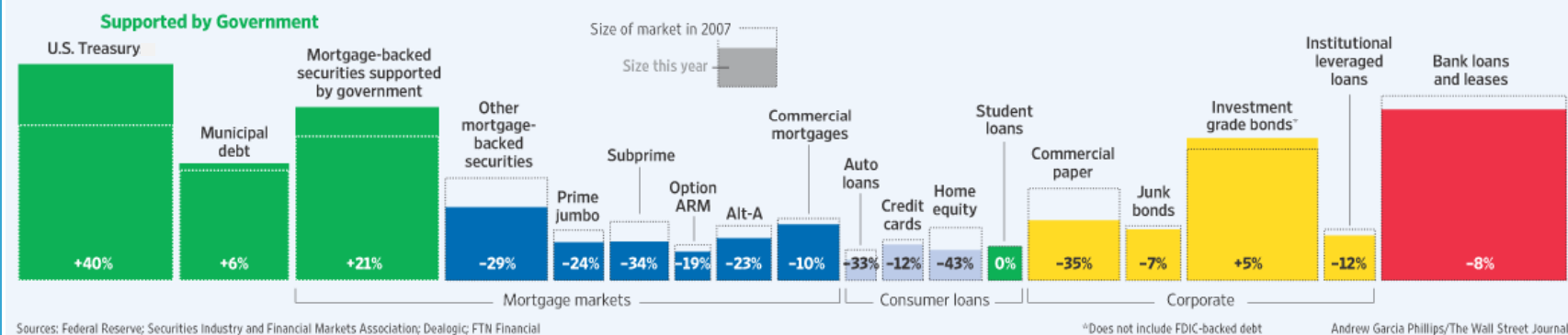
All of these trends mean lower baseline lending levels post-financial crisis, even if underwriting standards are eased and/or more credit is made available.

Bank lending has decreased sharply since 2008. Even though standards have eased recently, they will remain high and loan demand will likely be muted for many years.

Credit availability has been restricted for many consumers and will likely remain limited for years. The Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices (Fed Senior Loan Officer Survey) shows that, as of January 2010, "commercial banks generally ceased tightening standards on many loan types in the fourth quarter of last year but have yet to unwind the considerable tightening that has occurred over the past two years. The net percentages of banks reporting tighter loan terms continued to trend lower. Banks reported that loan demand from both businesses and households weakened further, on net, over the survey period."¹ The chart below indicates how the US debt markets have essentially replaced private with government debt. This path is clearly not sustainable and, in fact, governments are beginning to unwind stimulus and consider future debt issuance reductions.

As a result of these factors, we do not foresee bank lending or the securitization market being as large or as accommodating as in the past. The impact of these forces is already apparent, and has a disproportionate effect on the younger and less creditworthy segments of the population as "no-money down" options for home, auto, and other durable purchases disappear.

U.S. Debt Markets | How the \$27 trillion debt markets have changed since the credit crisis began



Source: Rappaport, Liz, and Ng, Serena. "Lending Squeeze Drags On," December 8, 2009, *The Wall Street Journal*.

¹ The January 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices. Federal Reserve. 26 March 2010. Available from: <http://www.federalreserve.gov>

Point of view

Lower baseline lending levels and higher savings rates will significantly reduce consumer spending.

With more of a focus on paying down existing debt and building savings, consumer spending in the United States will likely be muted for a number of years.

US GDP as of December 2009 was \$14.5 trillion.¹ In the year ended December 2009, the US population saved 4.0 percent (\$441.3 billion) of total personal disposable income of \$11.1 trillion. Given these numbers, each percentage point rise in the savings would remove approximately \$100 billion in consumption from the economy. Moving to a 10 percent savings rate would, therefore, remove more than \$650 billion from current levels of consumption.²

The impacts of this level of savings and consumption, notwithstanding regulatory changes, will be transformational.

We are predicting:

- Continued consolidation and difficult business conditions for not only consumers, but also retailers, real estate developers, and other consumer-driven service businesses for the next three to five years
- Above-trend unemployment for the foreseeable future, given the current high concentration of domestic-oriented service industries that will be negatively impacted by lower spending
- A renewed focus by US businesses to substitute exports for domestic demand, disrupting relationships with key trading partners
- Significant push by investors to find opportunities for significant new pools of capital created by higher savings rates
- Depending upon US government expenditures, increasing localization of US debt and reducing dependence on foreign governments and investors to finance deficits

All in all, this will be a significantly different economic environment for senior financial services executives to navigate and align their business strategies.

¹ GDP News Release. US Bureau of Economic Analysis. 25 March 2010. Available from: <http://www.bea.gov>

² "Personal Income And Outlays: January 2010." US Bureau of Economic Analysis. Tables and PwC calculations. Accessed April 1, 2010. Available from: <http://www.bea.gov>

Point of view

Financial institutions will need to reexamine their strategies and, in many cases, reposition their platforms and offerings to survive and prosper in this new world.

The new world of increased savings and reduced lending is a significant change from the structure of the US market during past decades. Many financial institutions with significant exposure to the United States need to significantly change their strategy to address this seismic shift or risk being irrelevant in a few years time.

We believe that financial institutions will need to be less reliant on consumer and business lending, trade, and consumer-based transaction revenue as a percentage of net income for the foreseeable future. In fact, as these businesses find their new, lower baselines, a larger percent of total revenue will need to be derived from savings and investment products as well as from consumer and business services (such as custody, fund accounting, and outsourcing for other financial institutions). Financial institutions should quickly develop and implement clear strategies to operate and succeed in a world of higher savings and lower consumption. In our view, this new landscape is so fundamentally different that it is impossible to identify all of the changes required. The following are some of the key attributes of tomorrow's winners:

- **Business models reflect the new reality of increased savings and decreased consumption**—Many of these business models will rely, for example, less on lending-based revenue as origination and servicing revenues find their new (lower) baselines. Because of the reduction of lending volumes, we believe that significant additional lending capacity must still be taken out of the system to balance supply and demand. This situation, which applies to many products, will cause financial institutions to selectively outsource, consolidate, or exit businesses where new baseline volumes fail to support the existing cost base. We are seeing this trend play out in earnest in the FDIC-assisted bank consolidation process underway in the United States today as well as in outsourcing and divestment trends in the marketplace. Despite cutbacks during the financial crisis, most institutions, however, have not fully adjusted cost structures to prosper going forward.
- **World-class wealth management capabilities**—Going forward, we believe that successful wealth management businesses will be critical to creating and preserving shareholder value. Whether a bank, a broker, or an insurance company, as the savings rate increases, client relationship, revenue, and market share will directly or indirectly be tied to wealth management. Service providers may find that their current models are not well suited to an increasingly demanding and empowered client base at all levels of affluence. In the wealth business, operating models, human capital, technology infrastructure, risk, and compliance are about to undergo profound changes. Managing the costs of retirement, the complex distribution of accumulated wealth, and intergenerational wealth transfer all offer financial institutions enormous opportunity and considerable risk. At present, however, all but a few banks, insurers, or asset managers have world-class, well-integrated wealth management businesses.

Point of view

Financial institutions will need to reexamine their strategies and, in many cases, reposition their platforms and offerings to survive and prosper in this new world. (continued)

The new world of increased savings and reduced lending represents a major change from the structure of the US market during past decades. Many financial institutions with significant exposure to the United States need to substantially change their strategy to address this seismic shift or risk being irrelevant in a few years time.

- **Total client relationship versus a product-silo focus**—In a world of higher savings, increased capital requirements, and fewer competitors, financial institutions will need to focus on customer relationship management and customer loyalty. Successfully using loyalty pricing and other such mechanisms prevalent in other markets around the world will demand a new mindset, rewards systems, and customer relationship management infrastructure and technology. Practically, this means that brokers and financial advisors must be able to offer investment, banking, and insurance products in a seamless manner, that the current trend of insurance companies buying or becoming banks will continue, and that banks will continue to bolster their offerings of investment products. We already see examples of this trend. Many institutions are refocusing on providing mortgage lending, for instance, through their branches only and/or to their own clients, with levels of loyalty pricing built into the product structure. We are also seeing a renewed investment in core banking platforms and “single view of the customer” applications.

Section 2—*Financial State of the
US Household Survey*

Survey results—savings behavior
 The US household savings rate will increase in the future.

PwC survey respondents indicated plans to increase their personal savings in the future.

13%

Households are currently **saving 7% or more** of their disposable income

36%

Plan to save this amount 5–10 years from now

Survey question: What is/was/will be your expected personal savings rate during the following time periods?

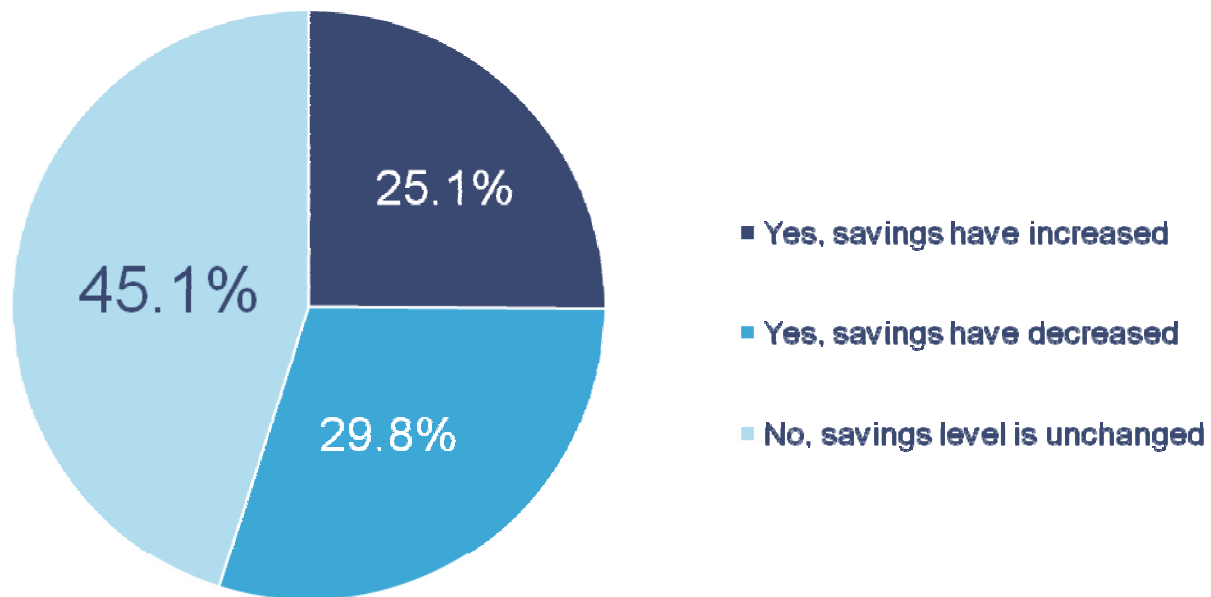
Expected savings	12 mo. ago	Today	Next 12 mo.	12–24 mo. from now	2–5 yr. from now	5–10 yr. from now
< 0%	36%	37%	30%	26%	24%	23%
0–3%	23%	26%	22%	20%	17%	15%
3–5%	16%	14%	21%	19%	16%	13%
5–7%	8%	10%	10%	14%	15%	13%
7–10%	8%	5%	8%	11%	15%	14%
> 10%	9%	8%				
			13%			36%

Survey results—savings behavior

Change in personal savings over past 12 months

Survey question:

Have you changed your personal savings habit in the past 12 months?

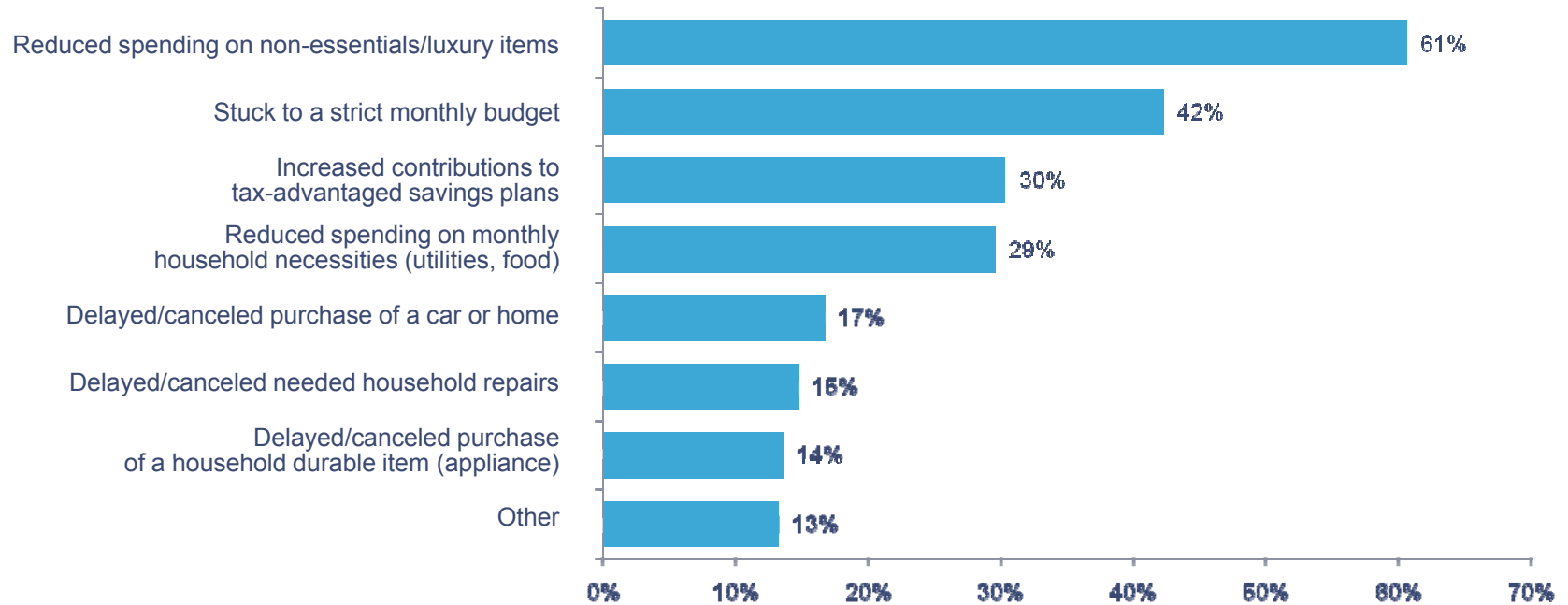


Survey results—savings behavior

Actions to increase savings

Survey question:

Which of the following actions have you taken to increase your savings over the past 12 months?¹



¹ Multiple responses were allowed. Only responses are for those indicating that they had increased their savings over the previous 12 months.

Survey results—savings behavior

Change in personal savings over past 12 months by income category groups

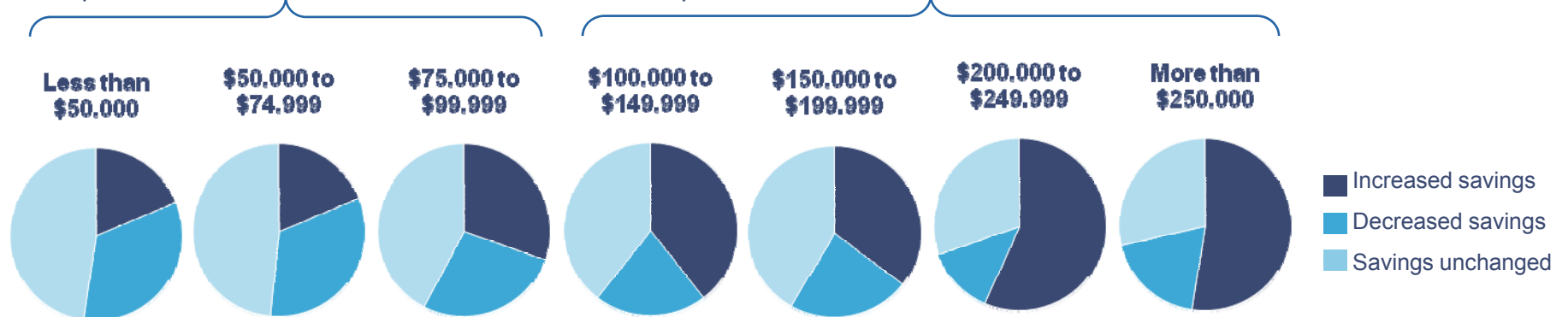
Survey questions:

Have you changed your personal savings habit in the past 12 months?

Which of the following categories best describes your expected total annual household income for 2009 before taxes?

Households with total annual household income less than \$100,000 largely did not change or decreased savings over the past 12 months.

Households with total annual household income more than \$100,000 largely did not change or increased savings over the past 12 months.

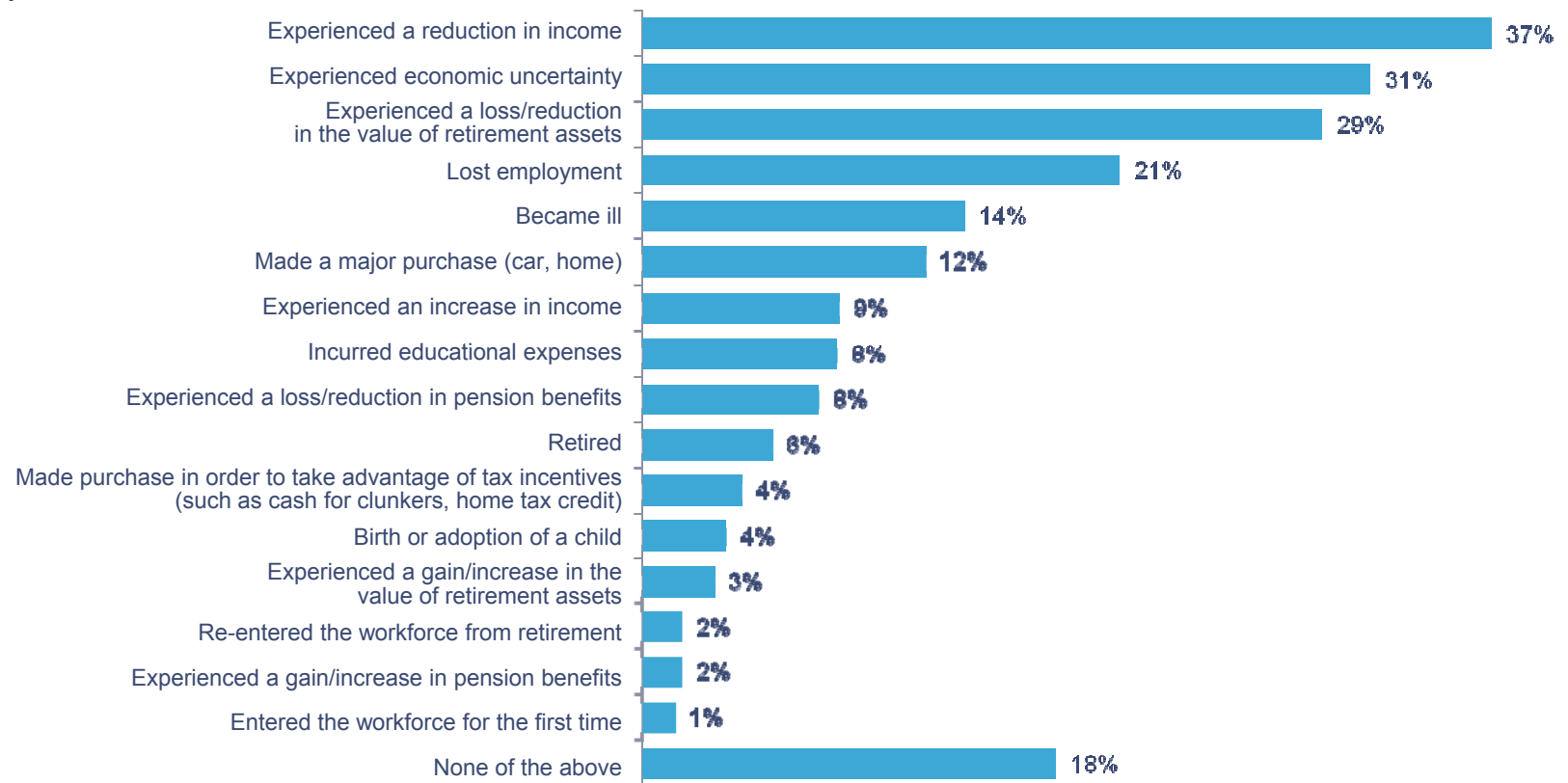


Survey results—impact of financial crisis

Distribution of household events over past 12 months

Survey question:

Which of the following statements describes events that affected your household over the past 12 months?¹



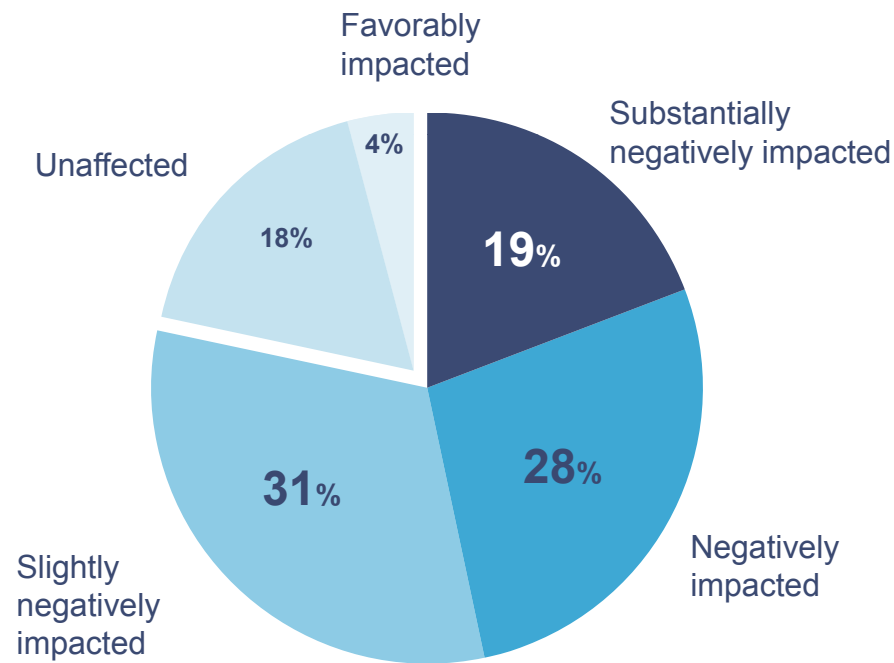
¹ Of the respondents who did not select “None of the above,” multiple selections were allowed.

Survey results—impact of financial crisis

Negative financial impact on households of the financial crisis

Survey question:

To what degree was your household net worth affected by the financial crisis?¹



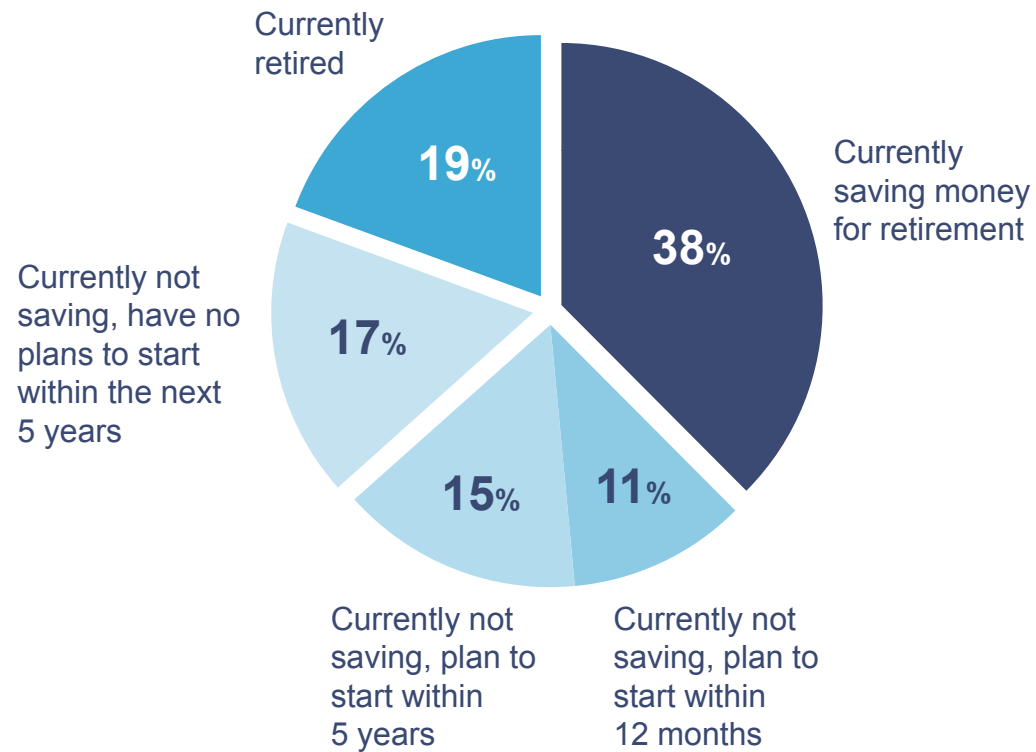
¹ Total net worth is the value of all assets, including home equity and vested retirement savings, minus debt.

Survey results—retirement saving and income expectations

How many Americans are saving for retirement?

Survey question:

Which of the following best describes your current situation?

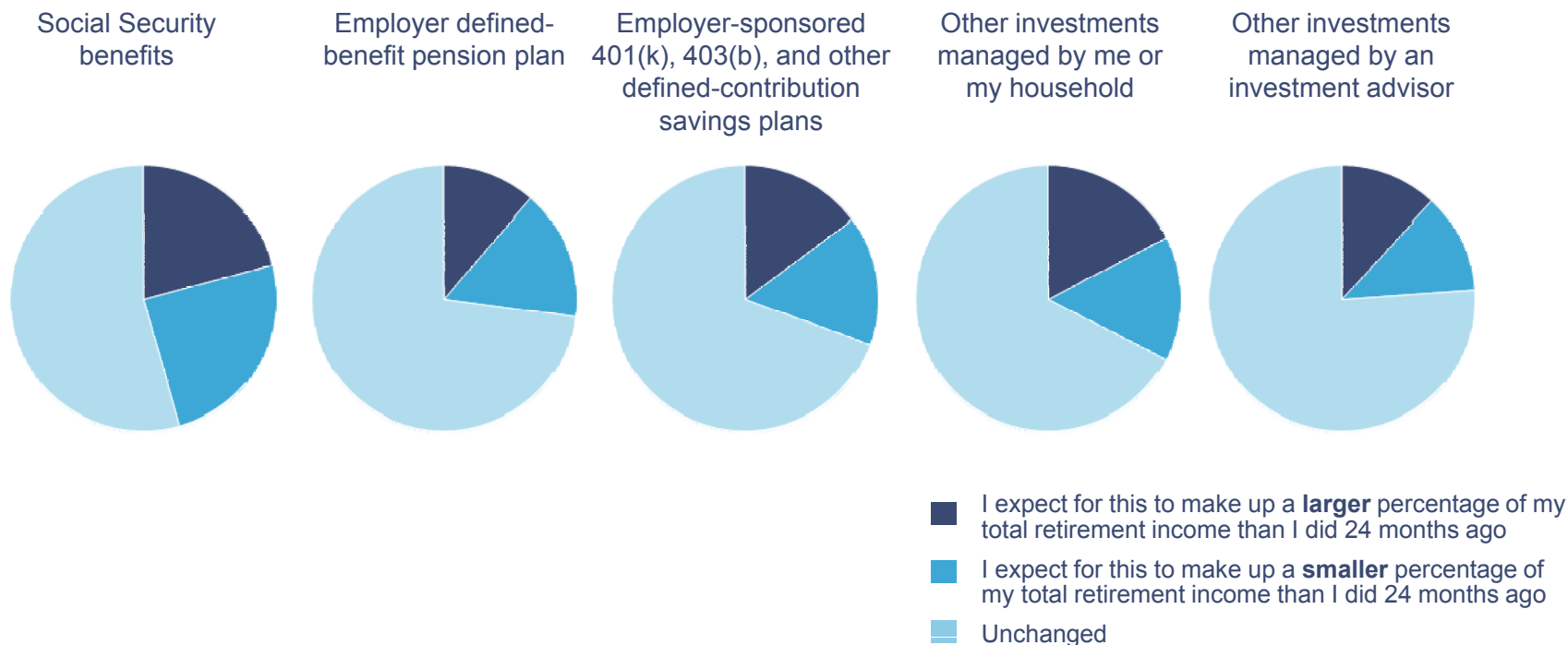


Survey results—retirement saving and income expectations

Expectations of retirement income are changing from two years ago.

Survey question:

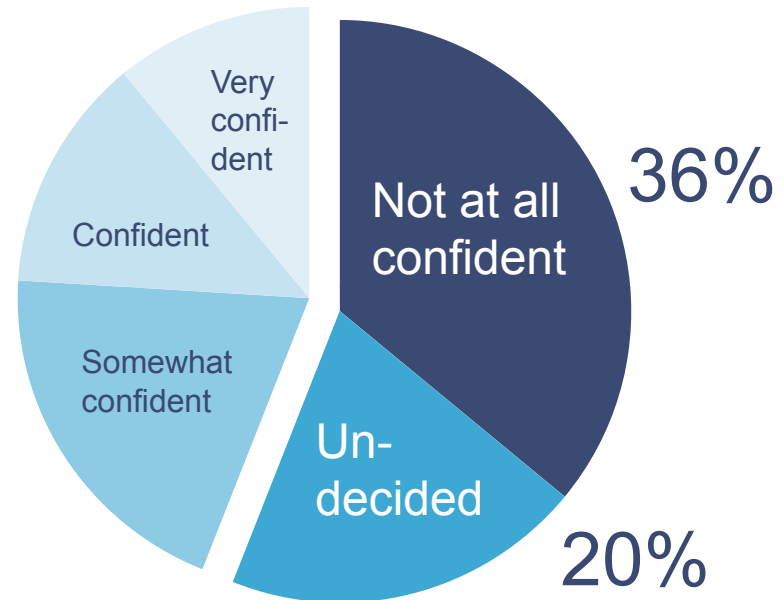
Which of the following statements best describes how your expectations of retirement income have changed over the past two years?



Survey results—retirement saving and income expectations

The US population has little confidence that Social Security will provide full retirement benefits at their time of retirement.

The majority of PwC survey respondents (56%) indicated that they are either “not at all confident” or “undecided” that they will receive full Social Security benefits at their planned retirement age.

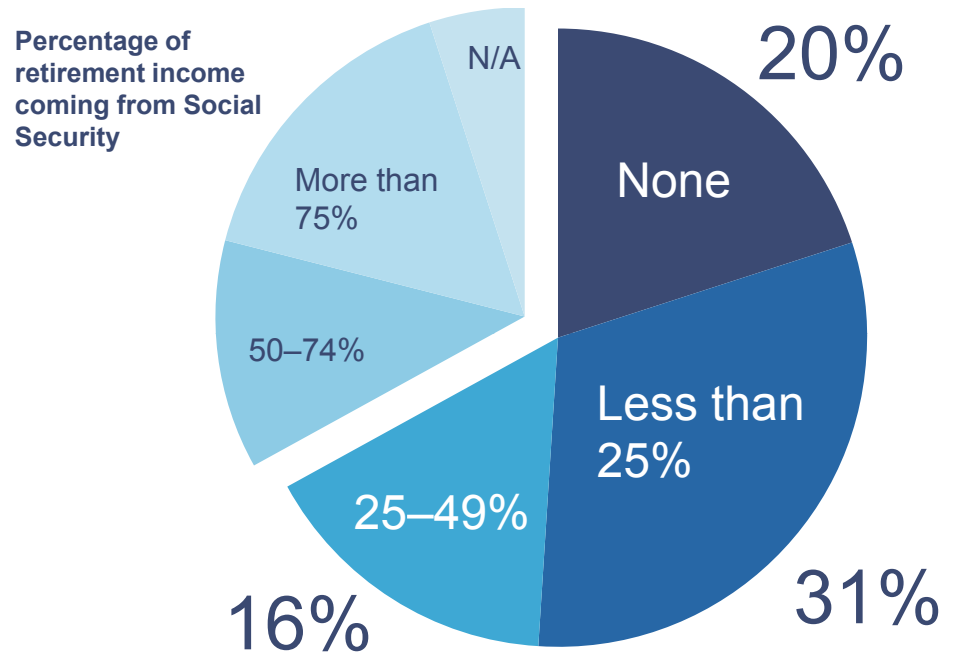


Survey question: Which of the following statements best describes your level of confidence that you will receive full Social Security benefits in retirement at your planned retirement age?

	Percentage
Not at all confident	36%
Un-decided	20%
Somewhat confident	20%
Confident	13%
Very confident	11%

Survey results—retirement saving and income expectations
 US consumers lack confidence that Social Security will be the primary source of their retirement income.

Two-thirds (67%) of PwC survey respondents indicated that they expected less than 50% of their retirement income from Social Security.



Survey question:

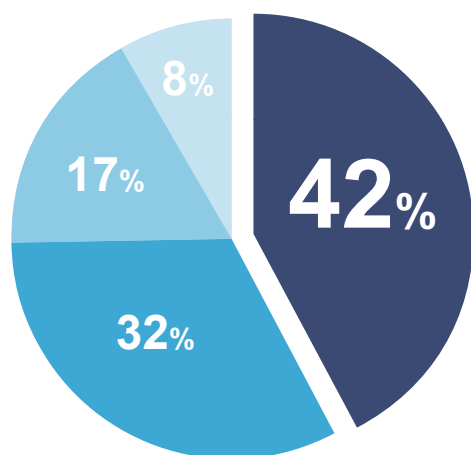
Approximately what percentage of your retirement income do you expect from each of the following sources?

Response	None	Less than 25%	25%–49%	50%–74%	More than 75%	N/A
Social Security benefits	20%	31%	16%	12%	16%	5%
Employer defined benefit pension plan	41%	19%	13%	7%	5%	15%
Employer-sponsored 401(k), 403(b), and other defined contribution savings plan	37%	16%	18%	8%	5%	17%
Other investment managed by me or my household	32%	28%	14%	8%	5%	14%
Other investments managed by an investment advisor	47%	17%	10%	4%	3%	20%

Survey results—retirement saving and income expectations

Uncertainty regarding sources of retirement income will spur additional savings.

Of the PwC survey respondents eligible for Social Security and/or a defined benefit pension plan, 42% indicated that an increase in uncertainty regarding guaranteed retirement income would definitely lead them to “save more now to prepare.”



- I would definitely **save more now** in order to prepare
- I am **unsure** of how it would affect my savings choices
- I would **not necessarily save more now** in order to prepare
- I would definitely **not save more now** in order to prepare

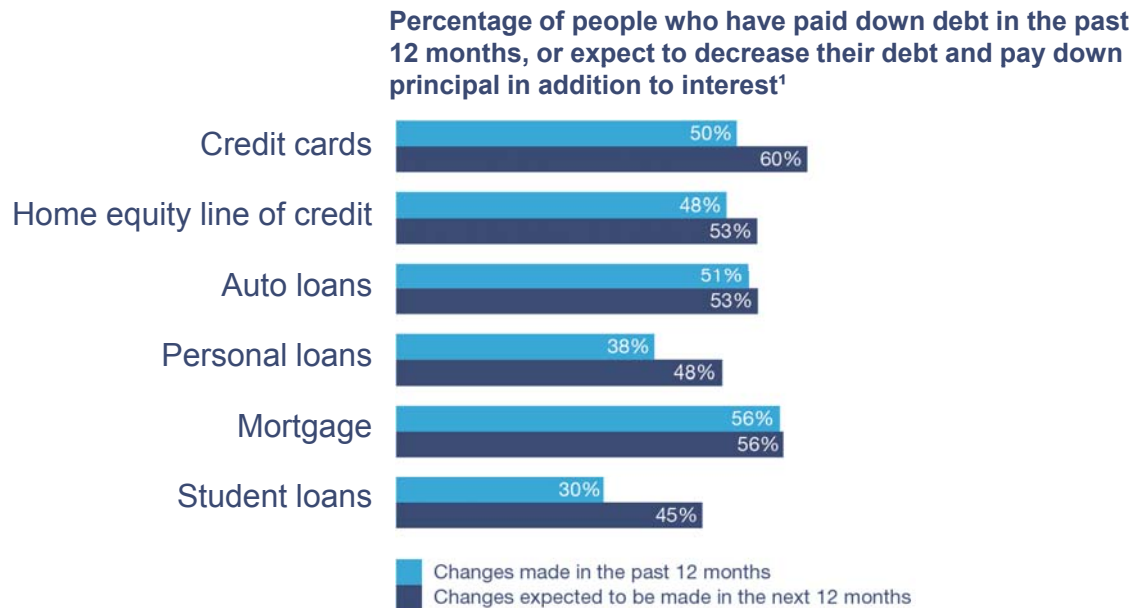
Survey question: Which of the following statements best describes how an increase in uncertainty regarding guaranteed retirement income from Social Security and/or employer managed pension plans would impact your decisions regarding your personal finances?

	Percent	Percent excluding N/A response
I would definitely save more now in order to prepare	37%	42%
I would not necessarily save more now in order to prepare	15%	17%
I would definitely not save more now in order to prepare	7%	8%
I am unsure of how it would affect my savings choices	28%	32%
Not applicable. I am not eligible for either Social Security or a defined benefit pension plan	13%	-

Survey results—reliance on debt

In the short term, US consumers are turning away from debt as a financing option.

The majority of PwC survey respondents reported that they have been paying down debt over the past 12 months. An even larger percentage plan to pay down debt over the next 12 months.

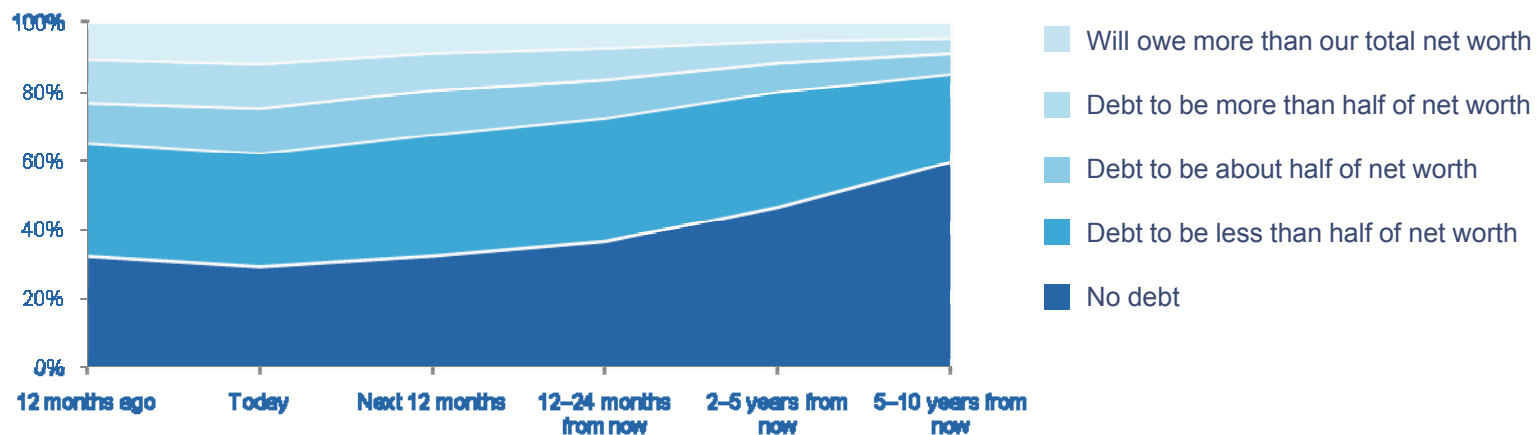


¹ For each type of debt, percentage calculations excluded respondents who indicated that they did not have that particular form of debt.

Survey results—reliance on debt

This lower reliance on debt is expected to continue long term as US consumers lower their debt relative to their net worth over the next decade.

PwC survey respondents expect personal debt to become a smaller percentage of net worth in the future.



Survey question:

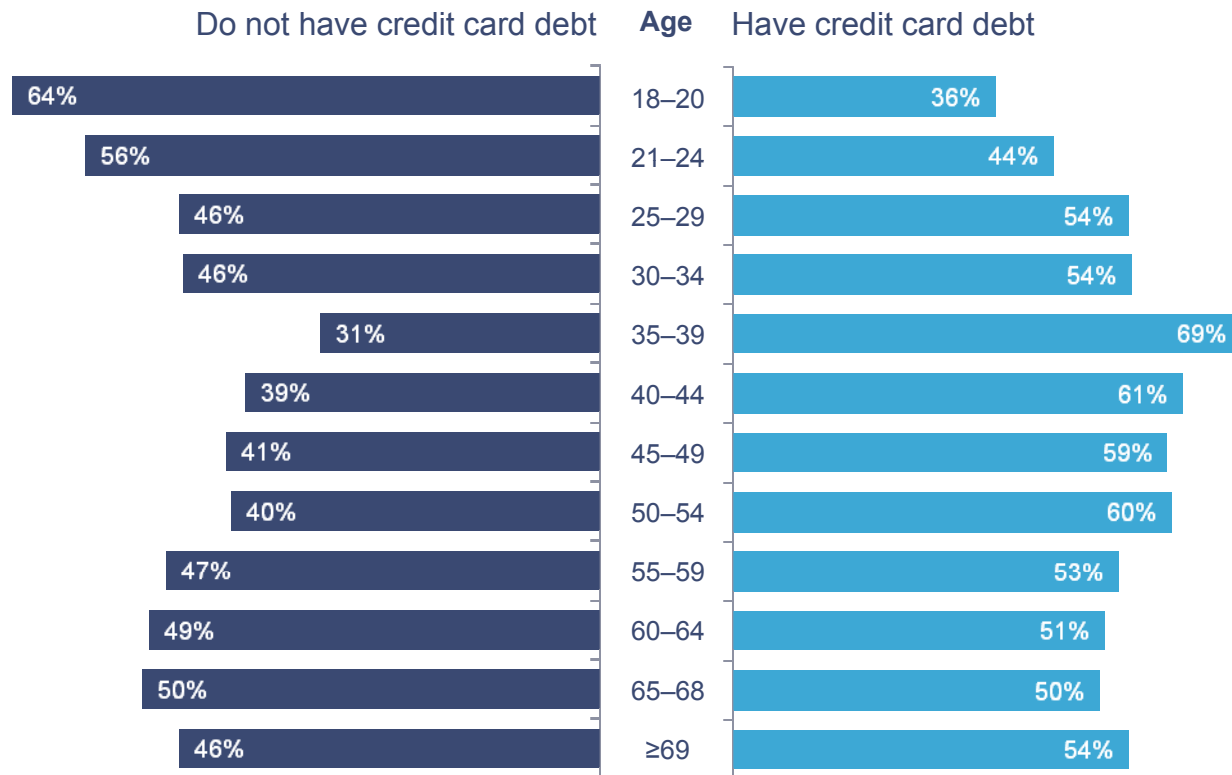
What was/is/will be your expected personal level of debt in the following time periods?

Response	12 mo. ago	Today	Next 12 mo.	12-24 mo. from now	2-5 yr. from now	5-10 yr. from now
No debt	32%	29%	32%	37%	47%	60%
Debt to be less than half of net worth	33%	33%	36%	36%	34%	26%
Debt to be about half of net worth	12%	13%	13%	11%	8%	6%
Debt to be more than half of net worth	13%	13%	11%	9%	6%	4%
Will owe more than our total net worth	11%	12%	9%	7%	5%	5%

Survey results—reliance on debt

Credit card debt by age

PwC survey respondents between the ages of 35 and 54 are more likely to have credit card debt than respondents in other age categories.¹



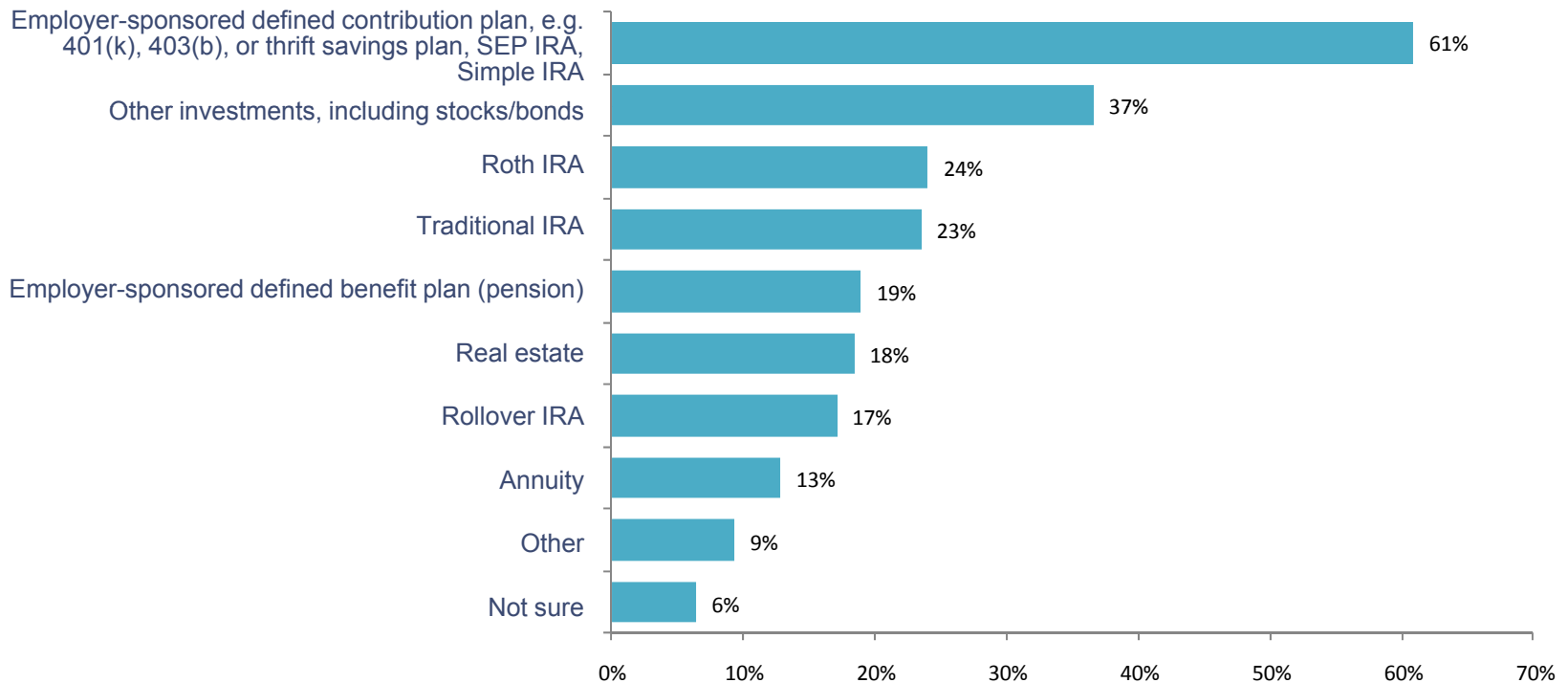
¹ Multiple responses were allowed. Responses to the part of the question asking if the respondent had credit card debt were examined by age category.

Survey results—savings vehicles, investment advice, and banking products

What investment vehicles are consumers using to save for retirement?

Survey question:

Which of the following vehicles are you using to build savings for income in retirement?¹

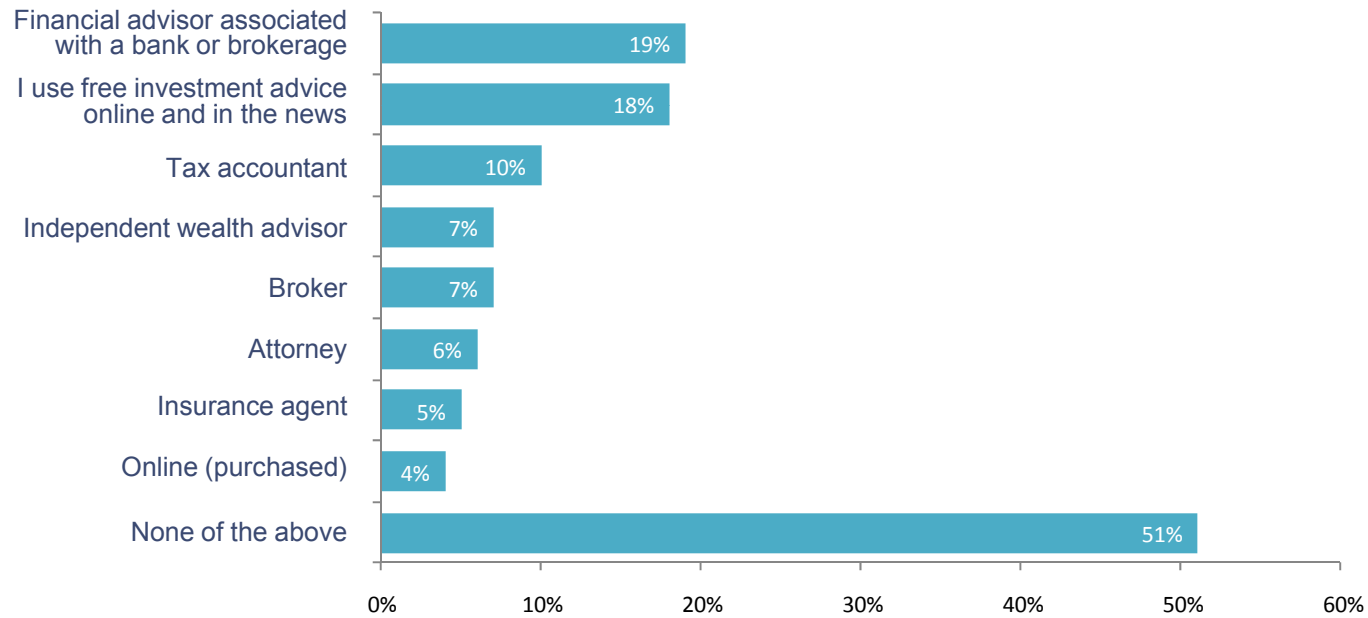


¹ Multiple responses were allowed. Only those who indicated that they were currently saving for retirement were asked to respond to this question.

Survey results—savings vehicles, investment advice, and banking products Consumers rely on a wide range of sources for their investment advice.

Survey question:

From which of the following sources do you receive/purchase financial advice?¹

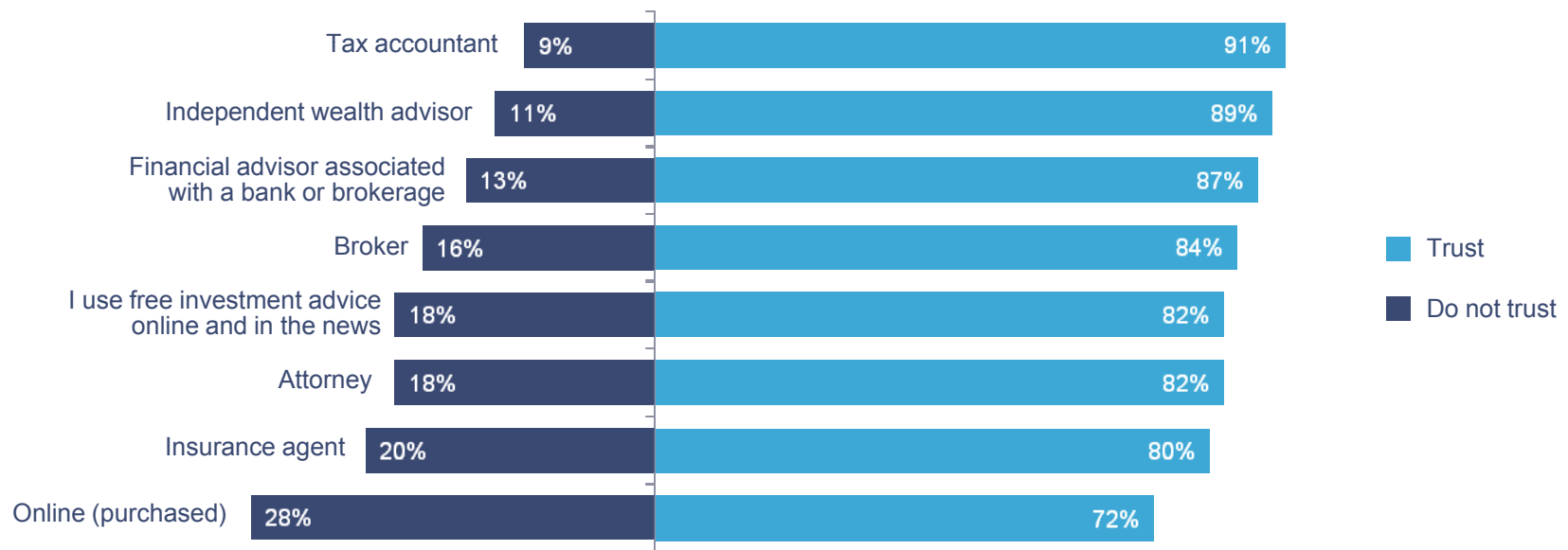


¹ Of the respondents who did not select "None of the above," multiple selections were allowed.

Survey results—savings vehicles, investment advice, and banking products Consumers typically trust the financial advice that they receive from their chosen sources.

Survey question:

Please indicate for each of the following whether or not you trust the advice you receive from this source.¹

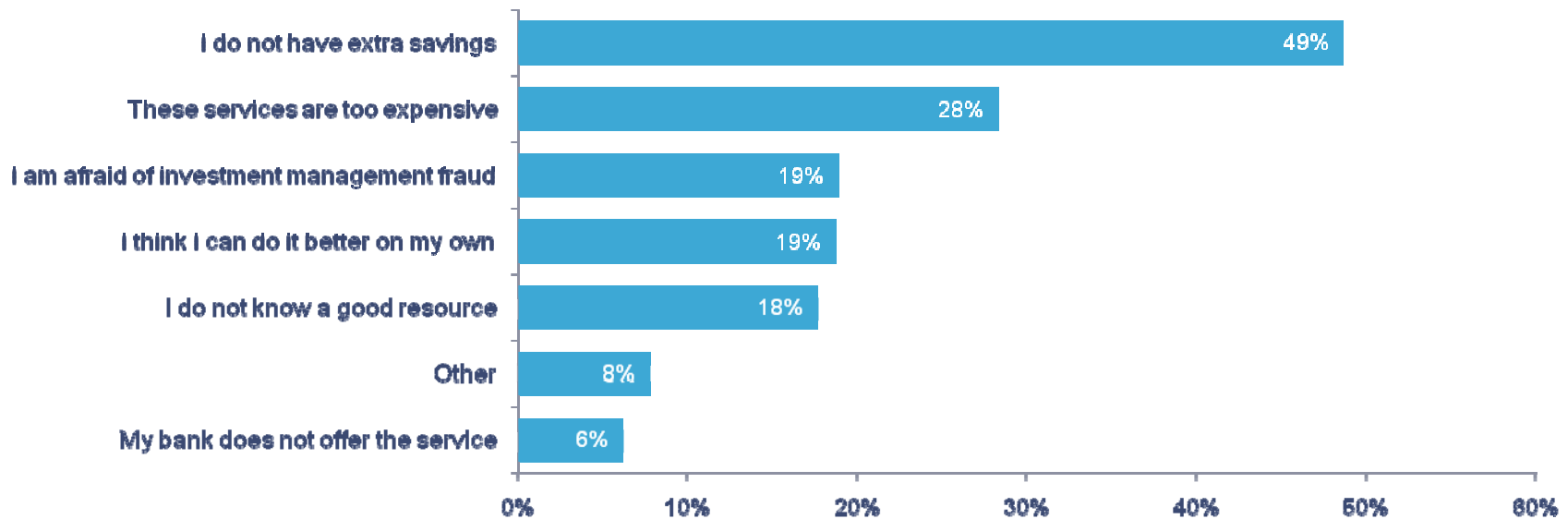


¹ Respondents were asked to respond only for sources that they indicated they use (see previous slide).

Survey results—savings vehicles, investment advice, and banking products
Reasons cited as to why consumers did not purchase financial advice from any of the sources listed.

Survey question:

Which of the following statements describes why you do not receive/purchase financial advice from any of these sources?¹

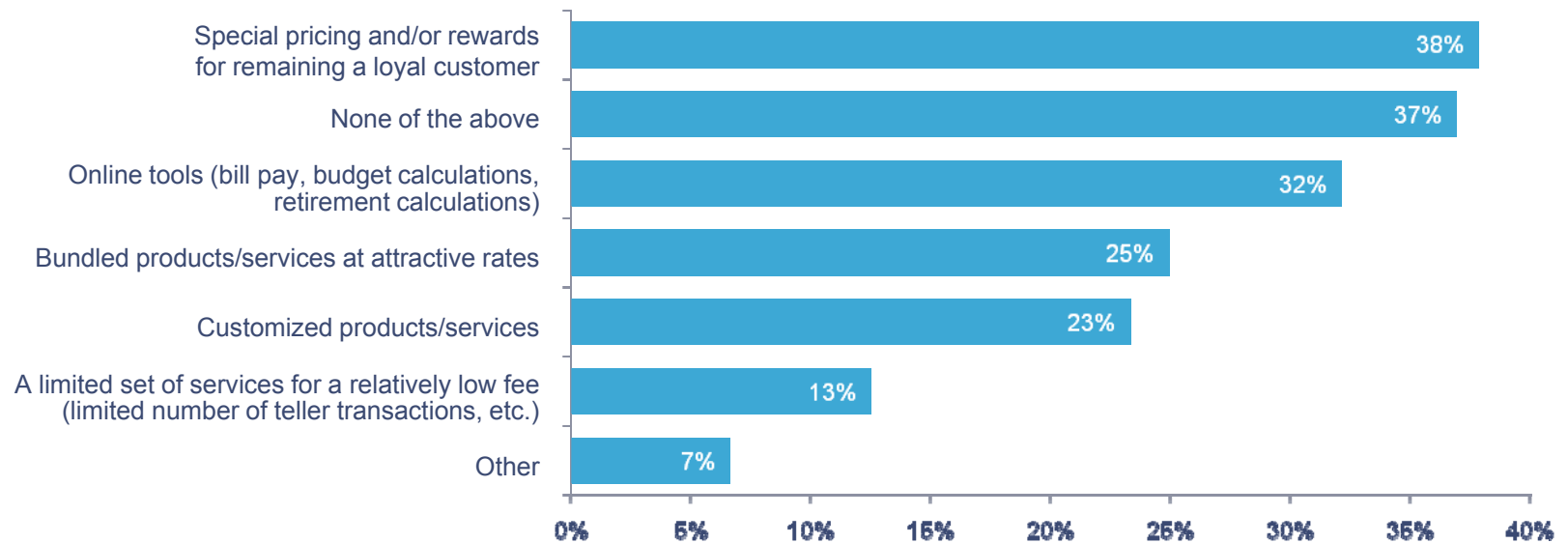


¹ Reasons are listed for respondents who selected “None of the above” to the question “From which of the following sources do you receive/purchase financial advice?” Multiple responses were allowed.

Survey results—savings vehicles, investment advice, and banking products What customers are looking for in a bank.

Survey question:

Which of the following would make you more likely to do business with a given bank if they were offered?¹

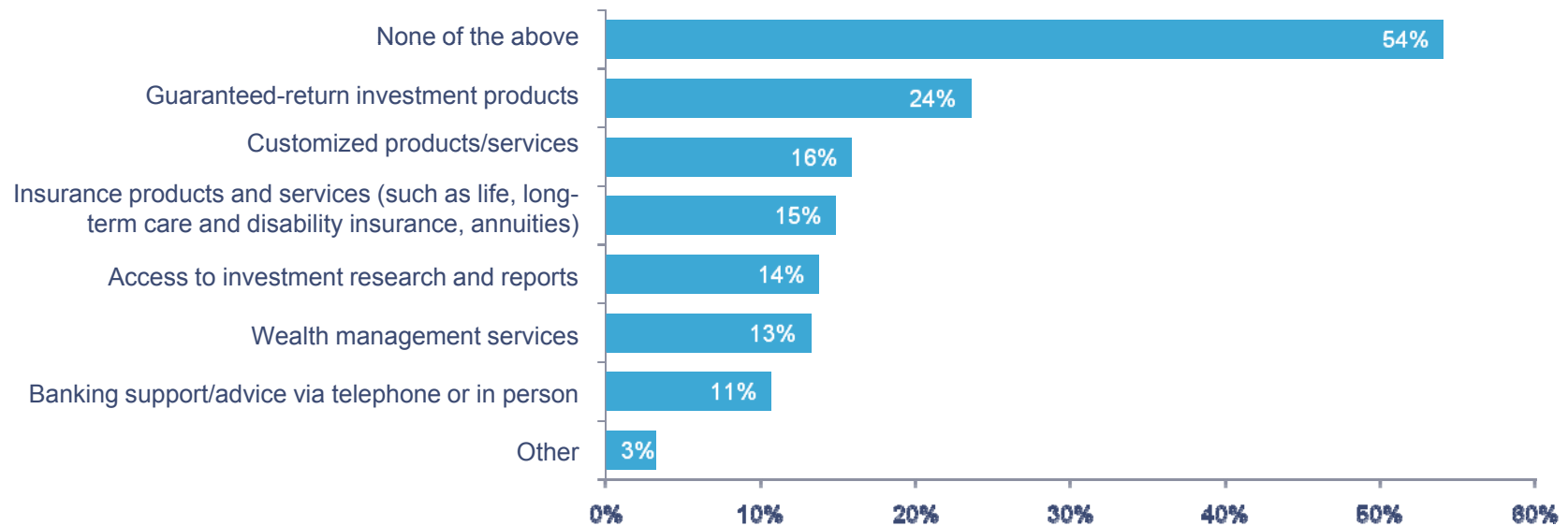


¹ Multiple responses were allowed.

Survey results—savings vehicles, investment advice, and banking products What customers would purchase.

Survey question:

Which of the following would you be interested in purchasing if your financial institution offered them?¹



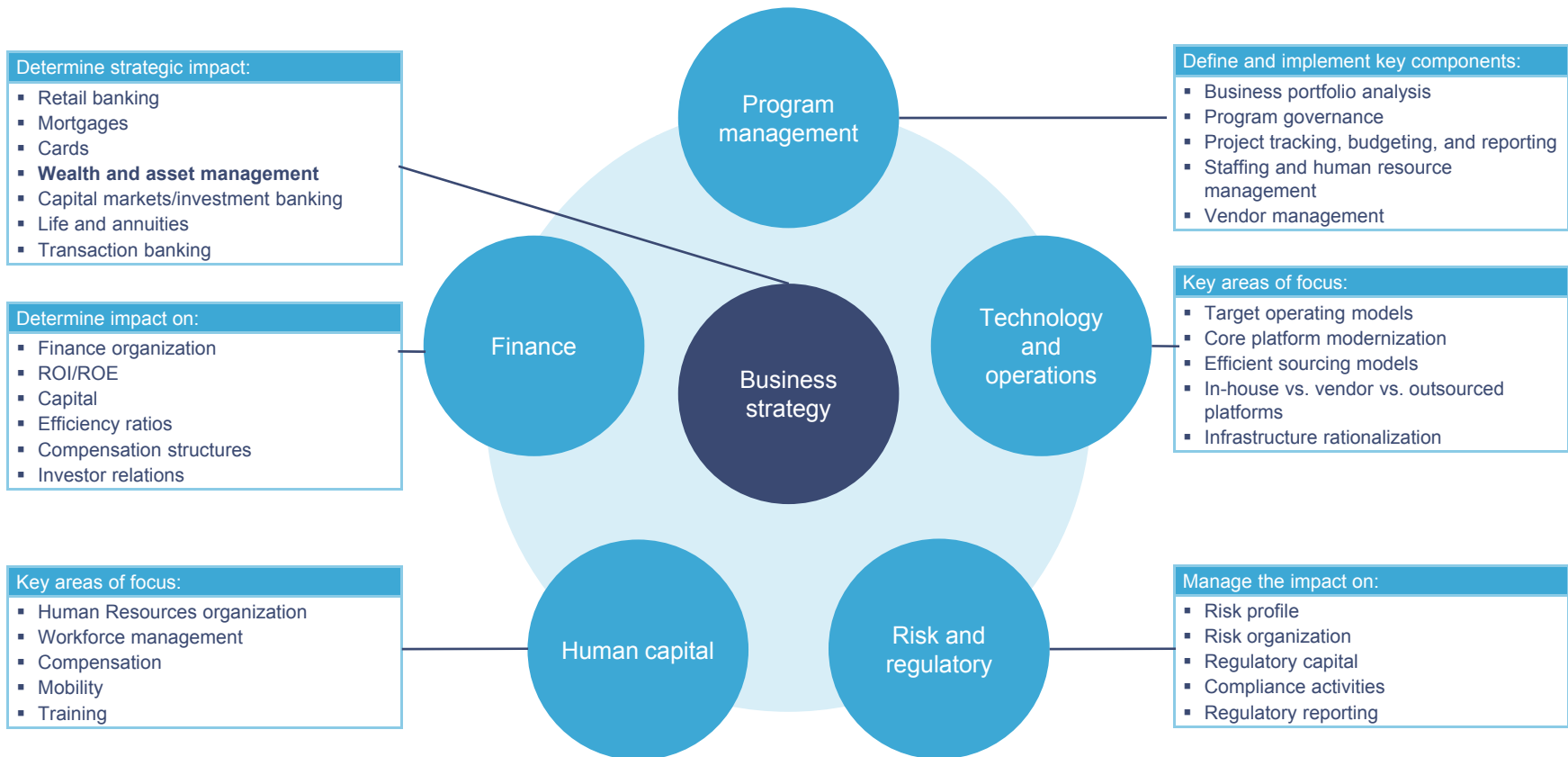
¹ Multiple responses were allowed.

Section 3—A framework for action

A framework for action

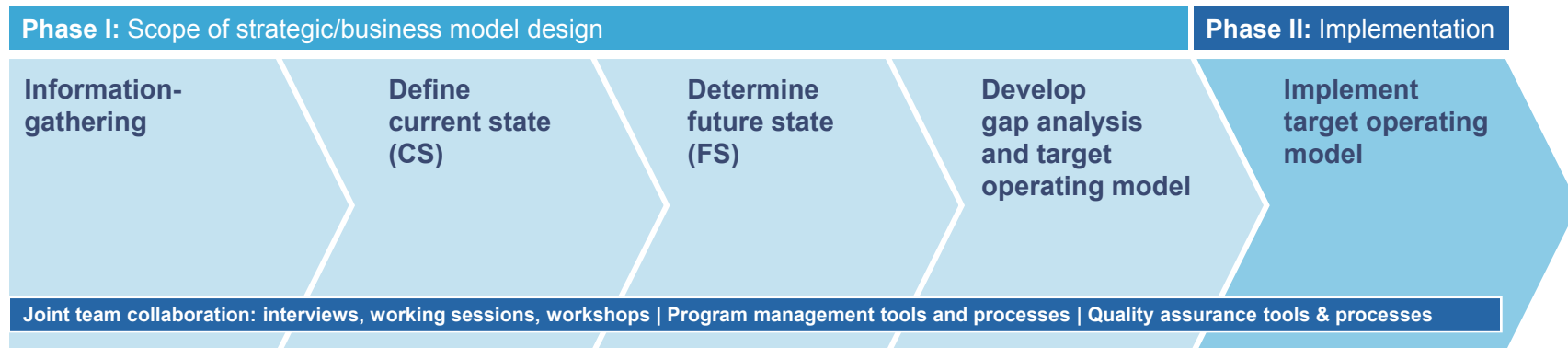
Overview

Given the game-changing nature of these changes, a structured approach is required to model these business changes and apply them to the business. For purposes of brevity, we focused both on providing an outline of an overall framework to approach this issue and included a case study around driving a comprehensive wealth management business strategy and implementation.



A framework for action—wealth management case study

Strategic/business model design steps



- Solidify scope and objectives
- Submit/gather data requests
- Review existing documentation
- Interviews and workshops
 - Business stakeholders
 - Support team stakeholders

- Confirm business vision and strategy
- Document current-state business by enterprise model components
- Evaluation of model, including people, product mix, sales/distribution, geographies, support platform (e.g., tech, operations, risk, compliance, HR)

- SWOT analysis – leading practices and competitors
- Develop future state enterprise model, including target client profile and engagement model
- Define future state business organization and processes
- Develop compensation and evaluation models
- Identify candidate solutions (internal/external), where appropriate
- Run RFP process to third-party solution providers

- Current state/future state gap analysis
- Alignment of product/model to targeted AUM bands
- Define roadmap of initiatives
- Develop supporting business case(s)
- Run RFP process to third-party solution providers

- Detailed planning and design of roadmap initiatives
- Implement roadmap of initiatives
- Change management and adoption/training
- POC/Pilot/Rollout

A framework for action—wealth management case study

Key areas of focus

Analyze each of the key wealth management enterprise model components

Front office

Product & geography	Wealth, lending, and other products, domestic vs. international focus
Distribution channels	Local office/branch call center, relationship executive, online, social networking (Facebook, Twitter)
People	FA and support model, compensation
Client relationship management	Marketing, fulfillment, relationship management, tracking, compliance
Financial planning	Estate, personal/corporate tax, modeling, reporting, educational, nuptial, philanthropy

Middle office

Portfolio management	Portfolio monitoring, tracking, due diligence, performance attribution, analysis
Reporting	Performance, individual, aggregate, scenario simulation, risk
Client account opening	On-boarding, conversion, expansion
Trading	Trade entry, trade order management
Loan administration	Tailored lending, venture capital, insurance, annuities
Accounting	Portfolio, performance

Back office

Asset servicing	Custody, fund accounting, trustee, foundations, philanthropy, collectibles, aviation/marine
Data repository	External interfaces/messaging, DR/BCP

▶ Wealth platform

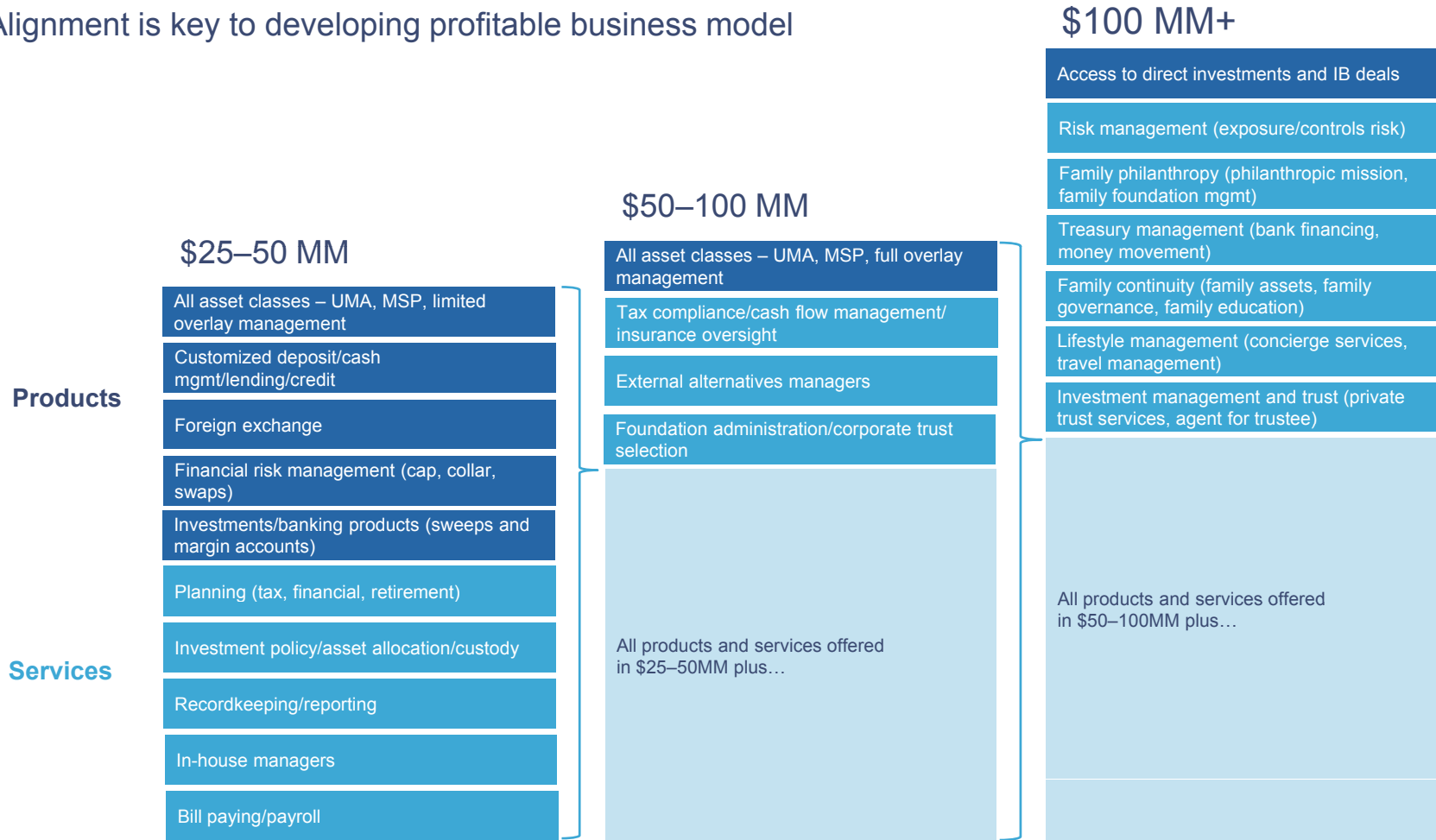
▶ Workflow

▶ Core technology infrastructure

A framework for action—wealth management case study

Alignment of product/service strategies with AUM bands

Alignment is key to developing profitable business model



A framework for action—wealth management case study

Determination of target client profile

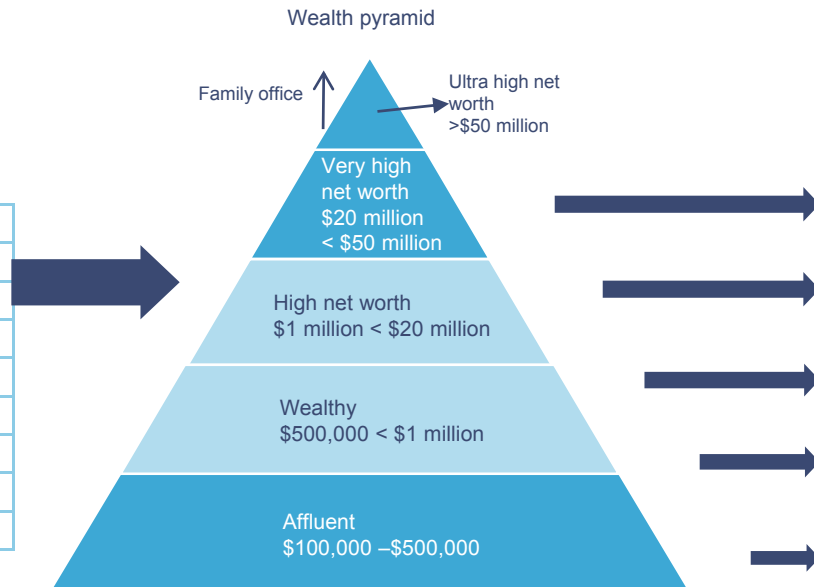
Focus on:

- Which segments are the most profitable
- What products and services resonate best with target clients
- Who are the real buyers, influencers, gatekeepers, and blockers
- What are the keys to establishing viable intergenerational relationships to secure follow-on revenue
- How to most cost effectively deliver these products and services

Target segmentation

Key customer segmentation traits

Demographics
Investing behavior
Profession/affiliation
Source of wealth/maturity of wealth
Cultural & religious factors
Level of financial involvement
Life events/life stage
Risk appetite
Gender



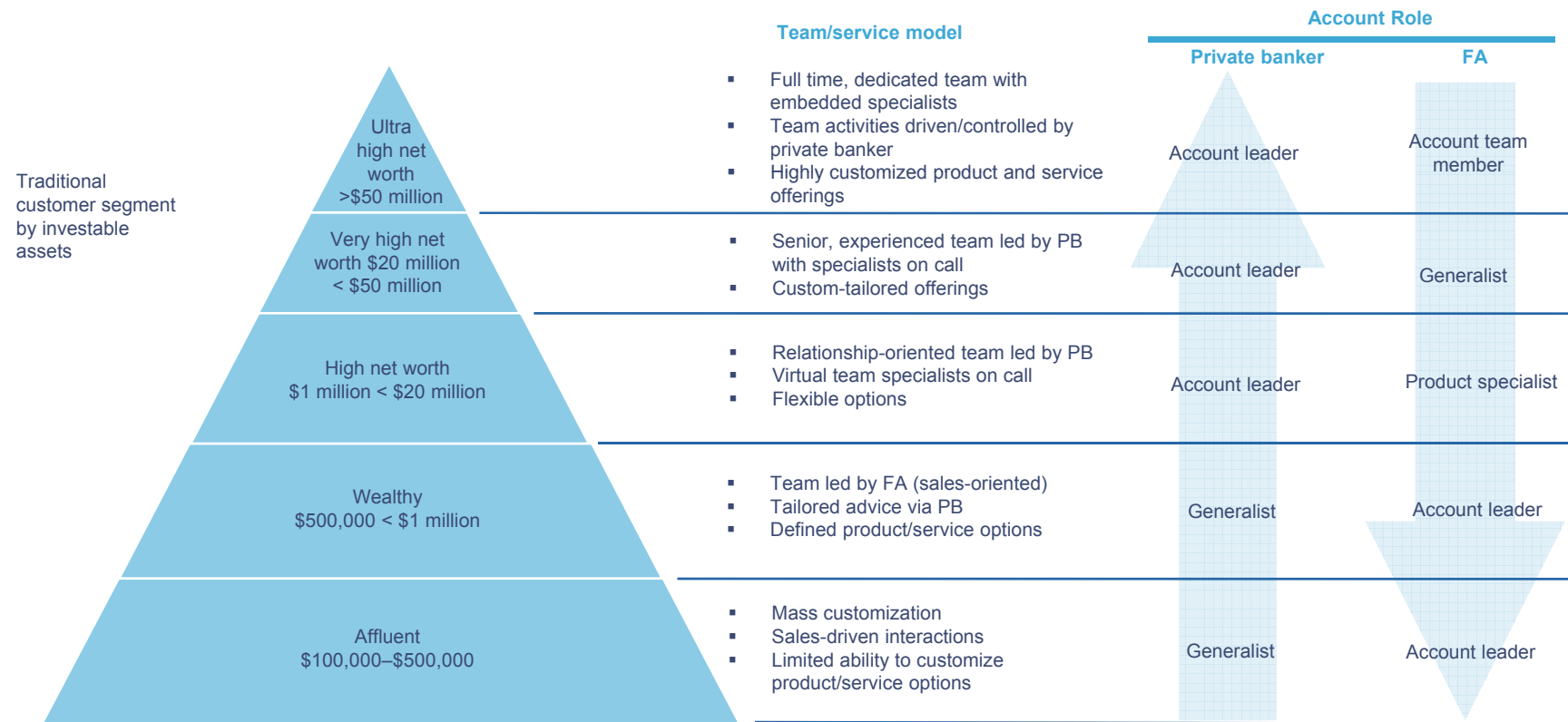
Analytical framework
Supporting hypothesis driven
Approach to winning offering

Who	What	How	Why	When

A framework for action—wealth management case study

Consideration of different team and service delivery models

Determine appropriate team and service delivery models for different segments with profound human capital and profitability implications for those serving the affluent.



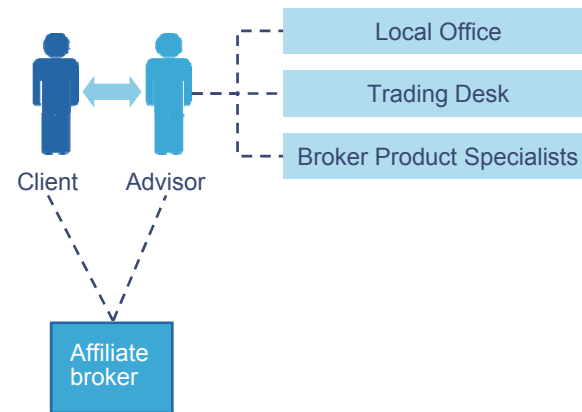
Source: PwC Global Private Banking and Wealth Management Survey, A New Era: Redefining Ways to Deliver Trusted Advice. All Rights Reserved. (July 2009)

A framework for action—wealth management case study

Developing the client engagement model

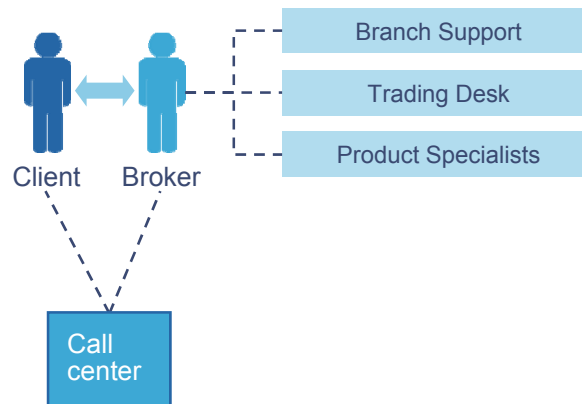
RIA model → Local practitioner

- Approach**
- Relationship goes through the advisor, who usually focuses on financial planning, portfolio management, with a third-party affiliate broker network
- Client Experience**
- Sizeable client-to-advisor relationships predominately at mass affluent, wealthy levels, with some extensibility to higher levels of wealth
 - Single channel with limited interaction, dominated by solo performers and ensemble teams in local offices
 - Relationship is usually a combination of non-discretionary and self-directed
- Compensation**
- Flat fee + commission



Broker model → Private client group

- Approach**
- The relationship goes through a broker, who is part of a group focused on the affluent, who acts as the portfolio manager, via a packaged product such as a mutual fund wrap, or UMA, or other structure
- Client Experience**
- Sizeable client-to-broker relationships
 - Channel interaction split: Typically 30% broker, 50% call center, and 40% online
 - Supporting specialists are often more product-focused, with no direct relationship with the client
 - Call center helps off-load a great deal of client servicing including routine client queries such as dividends and checking, but must be in sync with the broker
 - Relationship is a combination of non-discretionary and self-directed
- Compensation**
- Commission + bonus



A framework for action—wealth management case study

Developing the client engagement model

Upper mass affluent/high-net worth → Relationship manager model

Approach

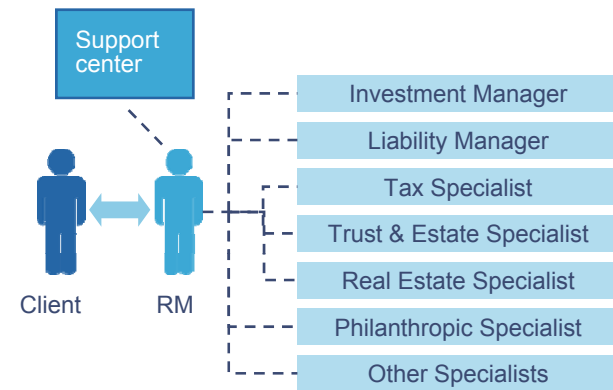
- Relationship goes through the Private Banker or Senior Relationship Manager who is a “quarterback” and will pull in the centrally co-located specialists as needed

Client Experience

- Lower client-to-advisor ratios (10–40)
- Co-location of liability manager (private banker) within branches and major offices to drive cross-sell
- Channel split: 70% RM, 10% call center, 20% online
- Supporting specialists will have ongoing dedicated interaction with the client
- Relationship is discretionary, but likely spread across many institutions with open architecture/predefined options
- Support center provides financial planning, client reporting, and overlay management support

Compensation

- Base + bonus in Europe



Ultra high net-worth → Multi-disciplinary teams

Approach

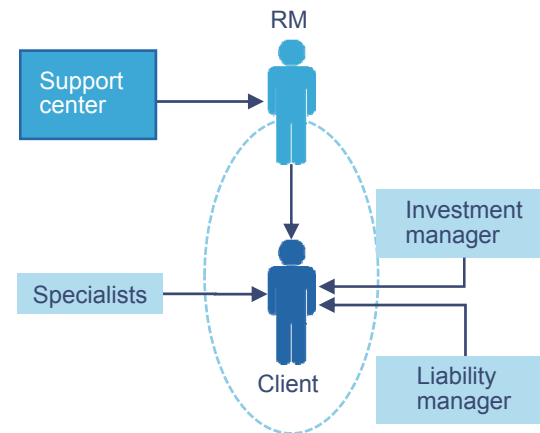
- Family office-like approach, all team members focus on the client, with the RM acting in a coordination function

Client Experience

- Low client-to-advisor ratios
- Channel interaction split: 90% RM, 0% call center and 10% online
- Client and their interested parties interact directly with specialists on ongoing basis—specialists can take lead in relationship as needed
- Relationship is discretionary and more sole-sourced
- Support center provides financial planning, aggregated client reporting, and additional specialists

Compensation

- Compensation structure: Fixed schedule + specific services + bonus



Section 4—How PwC can help

How PwC can help Client needs and issues

We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.

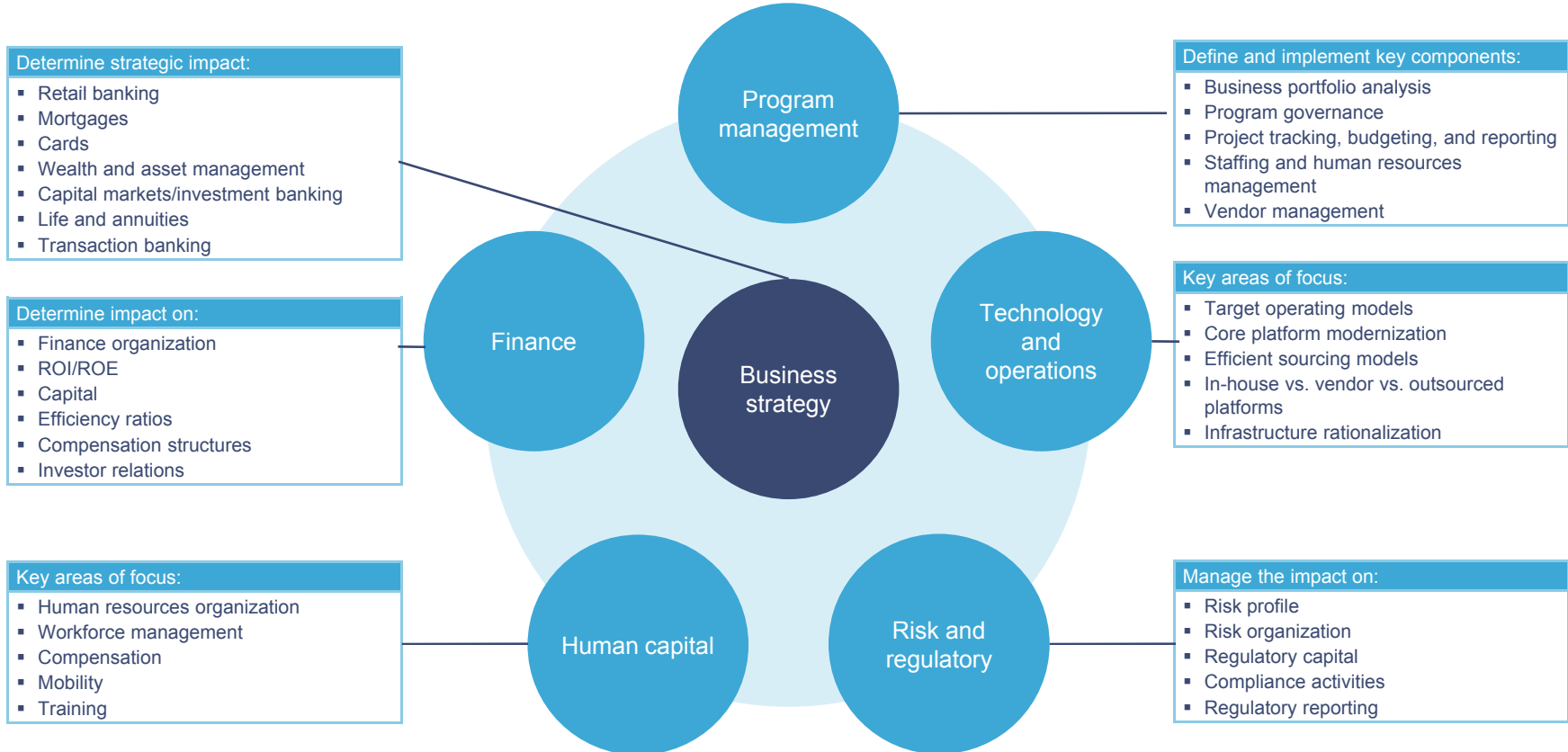
Client needs	Issues we help clients address
Build effective organizations	<ul style="list-style-type: none"> ▪ Rethinking strategy in terms of markets, geographies, channels, and clients ▪ Restructuring organizational models in terms of structures, policies, and roles ▪ Establishing effective strategic sourcing and procurement ▪ Realizing competitive advantage through effective sales operations and inventory planning ▪ Transforming the close and consolidation process to work for rather than against you
Manage risk, regulation, and financial reporting	<ul style="list-style-type: none"> ▪ Building a risk-resilient organization ▪ Managing ERP investment and project execution risk ▪ Safeguarding the currency of business; keeping sensitive data out of the wrong hands ▪ Affirming capital project governance and accountability ▪ Assessing and mitigating corruption risk in your global business operations ▪ Accounting and financial reporting ▪ Third-party assurance ▪ Taxation
Reduce costs	<ul style="list-style-type: none"> ▪ Driving efficiency through shared services ▪ Redesigning finance to realize efficiency and competitive advantage ▪ Taking control of cost through effective spend management and cash forecasting practices ▪ Driving sustainable cost reduction
Leverage talent	<ul style="list-style-type: none"> ▪ Defining and implementing an effective HR organization ▪ Rethinking pivotal talent
Innovate and grow profitably	<ul style="list-style-type: none"> ▪ Reshaping the IT function into a source of innovation ▪ Transforming business information to drive insight and fact-based decision making ▪ Evaluating acquisition and divestiture strategies to position for the future ▪ Realizing deal synergy and value ▪ Developing sustainability programs that add value



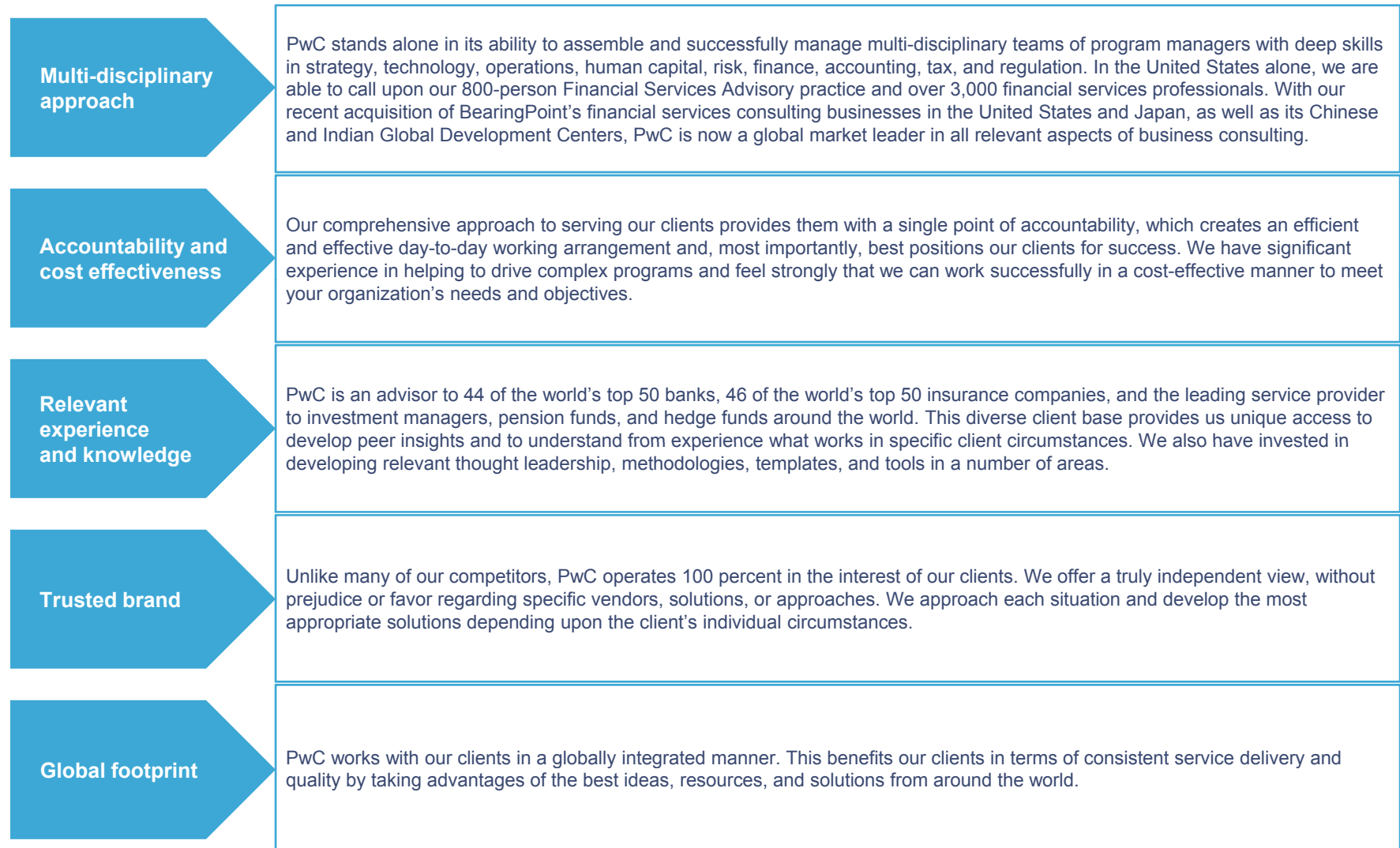
How PwC can help

Our market-tested approach

Given the game-changing nature of these changes, a structured approach is required to model these business changes and apply them to the business. For purposes of brevity, we focused both on providing an outline of an overall framework to approach this issue and included a case study around driving a comprehensive wealth management business strategy and implementation.



How PwC can help Our Financial Services practice



How PwC can help
For further information, please contact:

Americas

John Garvey
US Banking and Capital Markets Leader
US Financial Services Advisory Leader

john.garvey@us.pwc.com
+1 646 471 2422

James Flanagan
US Financial Services and Assurance
Financial Services Leader

james.f.flanagan@us.pwc.com
+1 646 471 5220

Joe Foy
US Financial Services Tax Leader

joseph.foy@us.pwc.com
+1 646 471 8628

Miles Everson
US Banking and Capital Markets
Advisory Leader

miles.everson@us.pwc.com
+1 646 471 8620

Gary Meltzer
US Asset Management Advisory Leader

gary.c.meltzer@us.pwc.com
+1 646 471 8763

Paul McDonnell
US Insurance Advisory Leader

paul.h.mcdonnell@us.pwc.com
+1 646 471 2072

Appendix—Select qualifications

Select qualifications

Leveraging organization's US platform internationally—global wealth management firm

Issues	A leading asset manager was seeking to aggressively grow its assets under management despite having its primary business and platform focused on the slow-growth US market. Specifically, the firm needed to assess and quantify the costs and benefits of maintaining the current US-centric platform and management model versus moving to a more transformative globally distributed management model and platform to better capture share in high-growth emerging markets.
Approach	PwC undertook a multi-disciplinary approach to capturing the true cost of ownership and the quantitative and qualitative costs of the various options. We supported analysis and review of current enterprise model components, direct and indirect costs, and due diligence around potential options, providers, and expansion approaches. Working with the client, we conducted an in-depth analysis of current costs, vetted future-state costs, and developed target operating models and implementation plans based upon this analysis.
Benefits	The client was able to position itself for significant profitable growth internationally and cost-effectively leveraged its current capabilities and platform. Additionally, the client made changes in its management model that allowed it to better attract and retain the type of non-US talent that was critical for its growth strategy to succeed.

Select qualifications

Operating model evolution—global wealth management firm

Issues	A leading asset manager sought to quantify the benefits of its current operating model in comparison to a more transformative globally distributed model.
Approach	PwC undertook a multi-disciplinary approach to capture the true cost of ownership and to capture the quantitative and qualitative costs of transformation. We supported analysis and review of current direct and indirect costs, and supported due diligence around potential options, providers, and approach. Working with the client, we conducted an in-depth analysis of current costs and vetted future-state costs.
Benefits	The client obtained independent accurate information that revealed a positive rate of return on transformation and a significant reduction in operating risk. Thus, this information helped to position the client for significant growth in the wealth management space. The client was also able to identify additional savings as well as opportunities to introduce profitable new products.

Select qualifications

Restructuring—leading regional trust and wealth manager

Issues	A leading regional wealth manager found that its operating model was no longer suited for the current business environment . The client sought to evolve its model to address potential regulatory issues and open the way for new marketplace opportunities.
Approach	PwC worked directly with the board of directors to review all aspects of the business and its operating model. We provided guidance on a variety of options and approaches to gaining greater market share, preserving the brand, and addressing potential challenges related to the evolving regulatory environment.
Benefits	<p>The client was able to leverage independent perspective and detailed analysis to support its review and assessment of critical decisions around different approaches to evolving the business and its operating model. This information helped the board:</p> <ul style="list-style-type: none">▪ Address key issues and risks▪ Streamline the migration to a new future-state model▪ Support regulatory discussions and interactions with applicable regulatory bodies at multiple levels▪ Provide business case and decision-support capabilities for top management

Select qualifications

Improving efficiency and reducing costs—wealth management firm

Issues	The client experienced years of fragmented growth of its front-office infrastructure and applications to support its financial advisors and branches. Although the client spent hundreds of millions of dollars annually on maintaining and upgrading its platform, the investment produced diminishing value for the front office.
Approach	PwC assisted with the requirements definition for reengineering the front office, including new applications for customer relationship management, financial planning, portfolio management, client reporting, market data, advisor administrative tools, and branch management tools. We supported the client throughout the lifecycle of the multi-year initiative, beginning with developing a business case and vendor evaluation. PwC also assisted with the negotiation of an outsourced application maintenance contract.
Benefits	<ul style="list-style-type: none">▪ The client demonstrated that it could achieve a 20 percent cost reduction in its annual technology spend by migrating to a future-state operating model which relied on outsourcing the core financial advisor platform to an industry leading vendor.▪ The reengineering requirements provided program management and migration planning support. This enabled an accelerated decommissioning of a high-maintenance system and the early rollout of new branch infrastructure which resulted in a combination of cost savings and increased financial advisor (FA) value in the first year.▪ The client also shifted from 20 percent to 60 percent of its focus on client technology resources to higher-value new development work, with maintenance and support shifted to lower-cost providers.

Select qualifications

Delivering sustainable cost reduction—super-regional banking institution

Issues	A multi-billion dollar, super-regional banking institution with fully diversified lines of business sought to significantly reduce bottom-line costs in a manner that would cause the least disruption and risk to its business. Only limited capital was available for any “spend-to-save” investment. The client recognized that this initiative required multiple skill sets and subject-matter expertise across both institutional and retail businesses and was seeking a service provider that could marshal all of these capabilities in order to minimize communication and implementation risks. Lastly, the institution sought a partner that could execute in a manner wholly consistent with its corporate culture, particularly given the sensitivity and likely staff impacts of the engagement.
Approach	Utilizing a cross line-of-service team, PwC delivered a proprietary sustainable cost-reduction methodology and performed specific cross-business analysis to identify opportunities that spanned multiple divisions, business lines, and areas of management control. Highlights of our contributions included: <ul style="list-style-type: none">▪ Stressing “intelligent business model changes,” as opposed to simple performance-based headcount reductions, to drive savings and limit required investment▪ Providing targeted external market analysis and peer and competitor points-of-comparison where required▪ Ensuring that all recommended changes advanced the organization toward a leading-practice profile▪ Risk managing the process, such that corporate communications and HR considerations were effectively planned for and incorporated throughout
Benefits	As a result of this engagement, cost savings in excess of 10 percent of the total cost base were identified. Additionally, the client was able to prioritize and implement these savings in a manner that fully met its requirements for sensitivity to the business and its staff.

Select qualifications

Consolidated sales order management platform—major investment bank

Issues	A major investment bank's fixed income trading floor wanted to redesign their core sales processes and infrastructure to achieve simplified cross selling, a paperless environment, operations that are more efficient, and the capacity to support new business initiatives. The end state of this vision was an integrated suite of applications that provide seamless exchanges of order and trade information from the front-end trading environment to back-end records and accounting.
Approach	Leveraging a multidisciplinary team, PwC partnered with front-office personnel to create the functional and technical design of an integrated sales order management system. This design offered the institutional sales force the ability to have a single point of entry for complex and multi-product trade orders. We worked with the sales and trading staff to first define the current state, and then worked collaboratively to document the desired future state by applying leading practices.
Benefits	The client's technology division was able to quickly execute the roll out of the envisioned application which resulted in benefits including the following: <ul style="list-style-type: none">• Creation of a straight through processing environment• Reduction of manual and duplicative input• Association of order and trade information which allowed for enhance future client focused reporting• Increased order flow capacity• Ability to more easily integrate new businesses and products

Select qualifications

IT vendor and service-provider platform assessment—commercial and retail banking institution

Issues	A multi-billion dollar, super-regional banking institution with fully diversified lines of business sought to significantly reduce bottom-line costs without impacting the business or elevating operating risk. A key concern for the bank was the cost structure underlying its current IT platform of applications and service providers across all business units and corporate and shared service support areas. The bank wanted to determine whether there was a significant gap between its platform and those of industry leaders and whether the gap contributed to an increased cost of support and maintenance.
Approach	PwC defined, designed, developed, and documented an IT platform assessment and study of leading and peer institutions. This enabled development of a gap analysis between the client's current platform and application environment and those of others in the industry. A prototype of current and typical IT and platform service providers was established to provide a basis against which the client was able to compare its future-state strategy and current- state environment.
Benefits	The bank was able to develop a strategy and future-state roadmap to prioritize and address identified gaps in a cost- effective and strategic manner.

Select qualifications

Improved channel management efficiency—Fortune 50 life insurance company

Issues	A multi-line life insurance and retirement services company wanted to improve the organizational and cost efficiency of the sales and distribution management structure in place. This company leveraged multiple channels (affiliated agency, independents, banks, broker dealer/wirehouses) to go to market.
Approach	<p>PwC recommended a segmented channel management strategy to radically improve performance and cost efficiency. PwC's approach for this phase of the engagement included:</p> <ul style="list-style-type: none">▪ Channel survey and focus groups to understand channel-specific needs▪ Channel economics (cost and profitability) analysis▪ Producer productivity analysis▪ Competitive benchmarking of operating and cost structure▪ Broker/dealer operations review▪ Broker/dealer compliance effectiveness analysis▪ Segmented channel management strategy development▪ Segmented operating model design▪ Roles and responsibilities alignment▪ Performance tracking and analytics approach▪ Implementation roadmap design
Benefits	<p>As a part of the insurer's overall growth strategy, this initiative provided foundational strategic direction for channel design and economics with the following benefits:</p> <ul style="list-style-type: none">▪ Improved alignment between customer needs and business strategy▪ Differentiated value proposition for high-performing channel partners▪ Improved effectiveness of resource allocation and utilization▪ Improved productivity resulting from enhanced sales support▪ Reduced cost-of-distribution support▪ Better understanding of how various channels contribute to profitability▪ Comprehensive plan for realigning the distribution model

Select qualifications

Improved top-producer productivity—global life insurance company

Issues	A global multi-line insurance and financial services firm wanted to grow its top line by enabling its top producers and financial services representatives with segmented support and service structure. The insurer asked PwC to assess the market opportunity, understand the needs of its top producers, develop a competitive analysis of its current capabilities, and provide recommendations for improving top-producer productivity, satisfaction, and retention.
Approach	<p>PwC worked with senior sales and distribution leadership of the insurer, in collaboration with business partners from service, marketing, technology, and finance organizations, to conduct a comprehensive assessment of the opportunity. We provided actionable recommendations to enhance the top-producer strategy, including:</p> <ul style="list-style-type: none">▪ Producer segmentation analysis▪ Benchmarking survey of life insurance and financial services organizations to understand competitor capabilities, strengths and weaknesses▪ Voice-of-the-producer analysis▪ Operational assessment of existing top-producer capabilities▪ Financial analysis of producer growth opportunities by segment▪ Recommendations for developing a world-class top producer program▪ Key opportunities around practice management, local marketing, and sales management▪ Design and launch of producer practice management program▪ Business coaching program design and pilot implementation
Benefits	<p>This initiative provided the foundation for the insurer's top producers to be able to deliver double-digit growth in their production levels. Specific benefits included:</p> <ul style="list-style-type: none">▪ Increased larger case sizes and complex cases▪ Improved local level value propositions for the producers▪ Improved practice management capabilities to ensure growth and sustainability▪ Established business coaching program to jumpstart practice-driven growth▪ Ability to leverage analytics to drive target marketing

Select qualifications

Enhanced customer experience in claims and cross-business unit—large US personal insurance company

Issues	<p>One of the largest US personal insurance firms sought to improve customer service satisfaction ratings by:</p> <ul style="list-style-type: none">▪ Enhancing the experience of customers who utilize the insurer’s call center systems▪ Increasing operational efficiencies through improved call routing and self-service functionality
Approach	<p>PwC was engaged to provide an objective assessment of the company’s current-state claims contact center and direct sales and service capabilities compared to industry peers and cross-industry leaders. PwC developed a future-state target operating model with opportunities for enhancements and recommendations to remedy current challenges, a tactical plan to implement near-term initiatives, and a strategic plan to continue to build longer-term capabilities to maintain a leading edge. Our approach included key activities including:</p> <ul style="list-style-type: none">▪ Validating the customer-experience vision and strategic objectives▪ Sharing multi-channel cutting-edge trends and widely deployed leading practices across contact centers▪ Providing a current-state assessment and competitive analysis of key processes and technology at contact centers▪ Defining the future-state customer-contact model, incorporating voice of the customer feedback▪ Developing a gap analysis to implement best practices and identify initiatives to work toward the future state▪ Defining and prioritizing short- and long-term initiatives based on costs, benefits, complexity, and impact▪ Developing tactical one-year and strategic three- to five-year roadmaps to implement initiatives with supporting justification
Benefits	<p>Our recommendations and roadmap to execute enabled the client to justify and move forward with initiatives to:</p> <ul style="list-style-type: none">▪ Achieve operational efficiencies through decreased inbound call volume, transfers, and agent talk time▪ Increase customer satisfaction ratings, customer self-service options, and self-service utilization▪ Simplify the customer experience and provide cross-channel consistency▪ Use customer data for customized routing, treatment, and self-service▪ Increase proactive contact-reduction strategies▪ Develop metrics to help achieve continuous improvement▪ Invest in initiatives with strong business justification support or strategic long-term value

www.pwc.com

© 2010 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.