Print this article

WealthBriefing

14 April 2015

EXCLUSIVE GUEST OPINION: MilleniumAssociates Talks Billions On The Move In Private Banking

Ray Soudah

Founder - MilleniumAssociates

Ray Soudah, founder of [tag|MilleniumAssociates AG|]MilleniumAssociates AG[/tag], the international corporate finance and M&A specialist, writes about how "re-segmentation" of markets is expected to dominate private banking and wealth management M&A - with "$500 billion to one trillion to be re-segmented". Soudah is also a member of the WealthBriefing advisory board and the editors are delighted to share his insights into this important topic. We invite readers to respond with their views; they can contact the editor at tom.burroughes@wealthbriefing.com

Whether admitting it or not, the majority of private banks and wealth managers in almost every important world wealth centre are busily conducting fresh market and client focus reviews in order to determine which market segments, nationalities and domiciles of clients should be focused on, and which should be defocused.

This requirement has been anticipated for some time and in this round of reviews the most rigorous efforts are being made to determine, at a minimum, which markets to exit, and subsequently how to achieve such exits in an orderly, or least disruptive, manner.

Managing reputation risk
Induced to do so by a combination of stricter cross-border regulations, limited or total lack of the requisite onshore market know-how, limited product coverage and last but not least the desire to eliminate potential sources of reputation risk in case of overly complex client/market portfolios, service providers are scrambling to reduce the number of markets covered.

In some cases, market coverage is being reduced by 60 to 80 per cent, depending on the size of the institution. In most instances, this is an ongoing process and the early market exits are likely to be followed by the further narrowing of covered markets.

Banks and wealth managers in effect must offer "onshore" investment advice or its equivalent, especially for the smaller to medium sized clients who are less likely to have structured their tax affairs, which many of the ultra-high net worth clients tend to do.

It will be impossible to maintain quality advice to clients in the new environment when the relationship managers are not, and cannot be, deemed experts in domestic market tax and product issues. Rather than risking regulatory and mis-selling exposure, banks prefer to exit the markets they cannot or wish not to service fully in a compliant way.

Even regulators are encouraging banks to limit the market coverage of the relationship managers to as few as two or three markets per officer given the significant knowledge required.

Billions of dollars on the move

In numerical terms, based on feedback from a wide selection of institutions, between 5 per cent and 10 per cent of their assets under management are being re-segmented in this round.

If we assume the international offshore private wealth market is around ten trillion dollars, that means that between five hundred billion and one trillion dollars of assets under management will be shifted from some institutions to others, more than half thereof booked in European centres.

This represents in aggregate around one hundred markets being exited even though each institution's number of market exits may be limited to between ten and 50 markets given the differences in preferred market strategies of each firm.

Luckily, not each firm has the same market exit strategy and this phenomenon allows the underlying clients to be placed safely in institutions with a focus on their market origins.

Intense re-segmentation needs a different approach. The impact of the intense re-segmentation reviews taking place and that will take place during the period ahead will have several consequences.

Firstly, traditional M&A processes with the "take what we have for sale or not at all" belief of sellers are unrealistic. Each private bank willing to consolidate is becoming increasingly more specific as to what they would acquire in terms of market coverage or minimum client size, often not wanting all of the markets a seller has to offer, or limiting their focus to only the higher end clients in certain markets.

Also, this will lead to failed or reduced scope of sales processes and a reduced number of "holistic" buyers, as most prefer market by market acquisition strategies and will be even more determined in the period ahead to only bid for what they would actually like as a whole. Merger and acquisition valuations in the shorter term are therefore likely to be pressured and may even fall slightly before recovering once the re-segmentation process is concluded (estimated to potentially take until 2018).

Secondly, the number of relationship manager resignations and dismissals before and after any residual M&A processes will increase as they independently seek an institution willing to support the market coverage of their specific know-how and historical client base.

Client friendly solution

Thirdly, and as earlier predicted, the unique Swiss and multi-market centre platform called "CATCH" (operated independently by MilleniumAssociates and covering all European wealth centres as well as relevant onshore markets) is continuously expanding its service to the market by being the only client friendly mechanism whereby de-emphasised clients from markets to be exited can be offered a choice of willing receiving banks and wealth managers, rather than being rejected without further assistance.

This client-friendly approach, which still requires traditional know-your-client and anti-money laundering reviews at the client level, has been proven to allow exiting banks to find receiving banks and wealth managers for their re-segmented markets/clients in an orderly and profitable manner.

Volumes are expected to rise dramatically as the implementation of re-segmentation initiatives is still at an early stage with the majority of institutions, and as they are appreciating the ease of operation in a confidential manner suiting the needs of the exiting party, the receiving party and the end clients alike.

Independent asset managers are now also joining the proprietary "CATCH" platform, which is garnering industry attention and winning innovation awards, allowing them not only to conduct their re-segmentation initiatives but at the same time also to find like-minded growth partners via an expanded participation model tailored specifically to their needs.

The era of re-segmentation will dominate private banks and wealth managers in the period and years ahead with recurring market segment reviews and client exits diminishing the role of M&A and increasing the practice of client-friendly bilateral and multilateral re-segmentation.