FEATURE ARTICLE

Billions on the move

Ray Soudah, founder of MilleniumAssociates AG, says re-segmentation of markets is expected to dominate private banking and wealth management M&A, with what he predicts to be US$500 billion to US$1 trillion to be re-segmented.

Whether they admit 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 to determine which market segments / nationalities and domiciles of clients to focus and – from which they should de-focused.

This requirement has been anticipated for some time. 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 least disruptive manner.

MANAGING REPUTATIONAL RISK

Service providers are scrambling to reduce the number of markets they cover. This has been induced 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 reputational risk in case of overly complex client / market portfolios.

In some cases, market coverage is being reduced by 60% to 80%, 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 UHNW clients tend to do.

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

RAY SOUDAH
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Even regulators are encouraging banks to limit the market coverage of the RMs to as few as two or three markets per officer, given that the knowledge required is significant.

In numerical terms, based on feedback from a wide selection of institutions, between 5% and 10% of their AUM is being re-segmented in this round. If we assume the international offshore private wealth market is around US$10 trillion, that means that between US$500 billion and US$1 trillion in AUM will be shifted from some institutions to others, more than half thereof booked in European centres.

This represents in aggregate around 100 markets being exited, even though each institutions' number of market exits may be limited to between 10 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 reviews taking place and that will take place during the period ahead will have several consequences.

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

This will lead to failed or reduced scope of sales processes and 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.

M&A valuations in the shorter term are therefore likely to come under pressure, and may even fall slightly before recovering once the re-segmentation process is concluded (estimated to potentially take until 2018).

This client-friendly approach which still requires traditional KYC and AML 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 appreciate the ease of operation in a confidential manner

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Secondly, the number of RM resignations / dismissals before and after any residual M&A process 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 predicted earlier, the Swiss and multi-market centre platform called "CATCH" (operated independently by MilleniumAssociates AG 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 rejecting them without further assistance.

suiting the needs of the exiting party, the receiving party and also the end clients alike.

Independent asset managers are now also starting to join the proprietary CATCH platform.

That allows 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. ■