SHAPING THE FUTURE OF FIDUCIARY SERVICES IN GLOBAL WEALTH MANAGEMENT

May 2016

FOREWORD

"Many banks around the world are at tipping point in their decision-making around whether to remain in the business of wealth structuring."

I was delighted to host a series of exclusive roundtable discussions on behalf of Amicorp Group in nine locations around the world in 2015 and early 2016.

This involved around 90 industry leaders across local and international wealth management institutions and advisory firms, which discussed the extent of changes to future operating and business models and how they will offer wealth structuring solutions going forward.

These were held against the backdrop of the barrage of challenges they face. These relate to regulatory pressure, tax transparency, escalating costs, hurdles to scalability, revenue and shortage of talent.

As a result, they are at a cross-roads: should they remain in the business of wealth structuring?

With mounting uncertainty over the strategic positioning of their fiduciary services businesses within their broader wealth management offering, it ultimately comes down to what's core versus what isn't. This is based on regulatory complexity, global tax transparency, cost pressures, scalability and a shortage of talent.

As a result, many banks around the world are at tipping point in their decision-making around whether to remain in the business of wealth structuring.

In the more developed wealth management hubs in Asia such as Hong Kong and Singapore – as well as in Europe and North America – the upshot is that some institutions are selling off their trust arms or considering exiting this business. The appetite for doing everything in-house has disappeared. Others continue to rely on these divisions to provide what they consider as value-add to clients.

Ultimately, the optimal outcome for each institution will come down to how they address the three-pronged challenge of managing costs, controlling risks and increasing revenue. There is no right or wrong approach.

As institutions face up to these important decisions, we look forward to working with them globally.

Peter Golovsky
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Global Head of Institutional Sales
Amicorp Group

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EXECUTIVE SUMMARY

According to the 2015 World Wealth Report by Capgemini and RBC Wealth Management, North America and Asia Pacific pushed global investable wealth to record levels to USD56.4 trillion, with North America still maintaining its position as the wealthiest market with USD16.2 trillion compared with Asia at USD15.8 trillion. (Refer to the chart 'Growth in Global Wealth' on the next page.)

Yet it's anticipated that by 2017, Asia Pacific will emerge as the world's largest wealth market.

Regardless of the numbers, however, what has become increasingly clear is the growing uncertainty that global private banks face over the strategic positioning of their fiduciary services businesses.

"These organisations are grappling with fundamental business objectives such as cost and risk reduction on the one hand, and scale and operational efficiency on the other," says Peter Golovsky, managing director and global head of institutional sales at Amicorp Group.

"Now, increasingly, the question of how – and indeed, if at all – they choose to deliver fiduciary services most effectively, is being put under the microscope".

These were among some of the high-level talking points at this series of global discussions held throughout 2015 and early 2016 in nine locations.

They involved around 90 banking and other industry leaders globally – in Hong Kong, Singapore, Miami, New York, Mumbai, Zurich, London, Sao Paulo and Dubai.

The aim of each roundtable was to examine the key strategic and critical issues facing industry leaders around the important options and choices around how best to deliver fiduciary services – and also to explore these issues in light of a strategic report by Amicorp and Scorpio Partnership on the future of the trust industry.

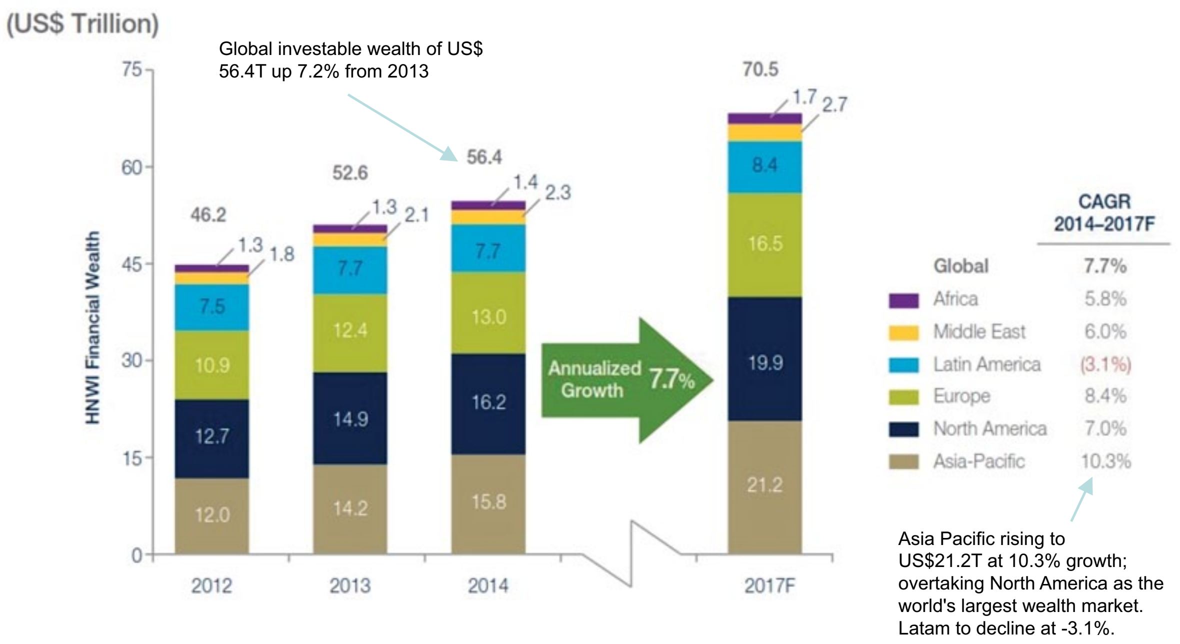
"What has become increasingly clear is the growing uncertainty that global private banks face over the strategic positioning of their fiduciary services businesses."

Further, in light of the "Panama Papers", various countries and organisations, including the UK, EU, OECD, G20, Australia and the US, announced further transparency measures to combat tax evasion, corruption, money laundering and terrorist financing.

Overall the measures are:

- To establish a list of non-cooperative jurisdictions and measures against such jurisdictions
- To create national public registers of ultimate beneficial owner (UBO) information of entities and trusts
- To create automatic exchange of such UBO data between authorities and
- To make banks, advisors and providers co-liable for facilitating tax evasion

GROWTH IN GLOBAL WEALTH



Source: Capgemini Financial Services Analysis, 2015

STRATEGIC DILEMMA

The upshot of the various business challenges for the private banks is that some of them either have already sold – or are now looking to sell – their trust arms. They are considering exiting this business as the appetite for doing everything in-house has disappeared.

Other private banks continue to rely on these divisions to provide what they consider as value-add to clients.

As banks of different types and sizes weigh their options, they are looking at the extent to which the fiduciary business is a 'cost' or 'profit' centre, depending on the institution's wider strategy and wealth management offering.

The stumbling block for these institutions is that they remain undecided. But the urgency of finding a solution is pressing.

In addition to FATCA, data leaks, increasing trends about the exchange of UBO data, the new expansive nature and scope of financial information to be reported under the global standard of Automatic Exchange of Information (AEOI), commonly known as the Common Reporting Standard (CRS), Anti Money Laundering (AML) regulations, and increasing supervisory oversight, and the end of banking secrecy, are all significantly changing the game of international private wealth planning.

> "More than 100 jurisdictions have committed to AEOI regarding foreign accounts and related income earned by tax residents of CRS-participating jurisdictions."

More than 100 jurisdictions have committed to AEOI regarding foreign accounts and related income earned by tax residents of CRS-participating jurisdictions.

With these commitments, all major financial centres are now part of the efforts to enhance international tax cooperation. Well over 50 jurisdictions will commence AEOI under CRS in 2016 with first automatic exchange of information in September 2017.

"With fewer and fewer places to legitimately hide assets, the time of 'do not ask, do not tell' is over."

It is noteworthy that the US has still not signed up to the CRS, on the premise that FATCA and the Inter-Governmental Agreements (IGAs) with more than 100 jurisdictions is an equivalent regime to the CRS.

But as the IGAs are not yet fully reciprocal, this has caused certain UHNW individuals to consider restructuring their investments to make greater use of US structures.

Yet this seems to be a short-term strategy, as the US has committed in these IGAs to implement a look-though approach in the IGAs.

The consequence will be that all US banks and US investment entities (including trusts) will be subject to a look-through to the controlling persons with the resultant reporting under CRS for such persons to the extent they are resident in a CRS reportable jurisdiction.

With fewer and fewer places to legitimately hide assets, the time of "do not ask, do not tell" is over.

As a result, it is time to regularise the past. It is also time to assess whether there is a need to restructure investments such that the new transparency over beneficial ownership (actual or contingent) does not result in unintended consequences for the settlors and beneficiaries.

RESPONSE NEEDED

The latest developments around the world clearly impact bankers as well as their HNW / UHNW clients.

On one hand, the banks will require the account-holders to provide confirmation of full compliance or alternatively supported by professional opinions. On the other hand, the role of private bankers, wealth planners and other intermediaries is to support taxpayers in this process.

More than ever there will be a greater need for collecting client data and for understanding a client's business and objectives. Private clients have to be informed and educated about these global AEOI developments as well as rules in domestic legislation.

It may even be required to terminate relationships with those clients that fail to cooperate in a legitimate manner.

"We are focused on helping the leading global private banks and other financial institutions by supporting them as part of their review and consideration of alternative choices around optimally delivering fiduciary services," says Golovsky, which is working with more than half of the global top 10 private banks on such projects.

"It may even be required to terminate relationships with those clients that fail to cooperate in a legitimate manner."

The starting point, however, needs to be to decide on the core business. As a result, determining the way forward is easier said than done.

Ultimately, the optimal outcome for each institution will come down to how it addresses the three-pronged challenge of managing costs, controlling risks and increasing revenue. And there is no right or wrong way to do this.

BRIGHT FUTURE FOR TRUSTS

A joint research project between Amicorp and Scorpio Partnership proves a useful benchmark in relation to the current state of the global trust industry. This was also noteworthy for being the first global independent piece of work in this space.

In seeking to uncover the perspectives of industry leaders at global private banks across the Americas, Asia and Europe, the findings shed more light on four main aspects of the topic today (see the chart below of the rsearch overview and findings).

First, the challenges and issues for the future of the trust industry; secondly, how senior executives view the fiduciary business in the context of a broader wealth offering; thirdly, the approach of different banks to the challenges from initiatives related to global tax transparency; and finally the focus of the remaining key benefits of trust (i.e. asset protection, estate planning for future generations etc).

"[From the research], we found that Asia Pacific and Latin America represent the two largest international offshore markets with an estimated value of USD5 trillion of the total USD8.5 trillion," explains Golovsky.

Plus, while there are an estimated 475,000 trust structures worldwide, only around 5% of the HNW population seems to have a fiduciary structure. "That presents interesting opportunities for us in this segment, and in terms of the growth rate in business volumes across the trust sector," he says, "which is estimated at 10% per annum, with the emerging markets of Asia Pacific and Latin America to lead the way."

STATE OF THE GLOBAL TRUST INDUSTRY - RESEARCH PROJECT

10% per annum growth in trust industry business volumes

US$5trn worth of assets held by Latin America and Asia Pacific in offshore markets

475,000 trust structures held worldwide

50 - 60 interviews undertaken across the globe with leading market professionals (for the research)

4 business models covered

- Universal banks
- Local banks
- Private banks
- Multi family offices

5 geographic regions analysed and covered around the globe

For the research project, Amicorp brought together 50-60 participants across Asia, Europe and the Americas to disucss the future of trust and examine the key factors driving change in the industry.

Source: AMICORP / Scorpio Partnership

CHANGE DRIVERS

“There is an emergence of new operating models. These include specialist independent trust firms, challenging the traditional operators.”

The Scorpio report highlights six key factors driving change in the trust industry (refer to the chart on the next page). And many of the private banking leaders at the discussions in several financial centres agreed with these as key issues shaping the future of the fiduciary business.

First, is a combination of cost management, business profitability, consolidation and polarisation. Bank-owned trust companies are reviewing their operating models for fiduciary services, evaluating what is core versus non-core, and what aspect of the offering to retain in house, said a number of the banks represented.

“Their options include a sale, strategic segmentation, or outsourcing / white-labelling,” says Golovsky. “I expect to see consolidation as banks review their strategies and re-assess their core businesses, markets and offerings.”

Secondly, there is an emergence of new operating models. These include specialist independent trust firms, challenging the traditional operators.

According to some of the banks, one of the benefits this provides is the ability to access an open-architecture platform which offers scale, flexibility and reliability.

A third factor relates to cross-border complexities and regulation. To cater for HNW clients, given the changing regulatory environment and transparency that global regimes such as FATCA and CRS impose, there is much greater complexity required when creating structures across borders.

The G20 has since endorsed the AEOI standard, which went live in January 2016 (for the early adopters), with more than 50 countries signed up, and in addition 40 more who committed to sign the CAA’s and apply the CRS.

FATCA is only about automatic annual reporting on non-US assets held by US individuals and entities (excluding active businesses) with US controlling persons.

Whilst the policy objectives of FATCA and CRS are identical, FATCA paved the way for CRS, a regime which focuses on AEOI on a multi-lateral basis.

Both FATCA and CRS create an enormous compliance impact for financial institutions (FIs) – under the latter regime, all tax residents of all Reporting Jurisdictions will have to be identified and information about their financial accounts reported on an annual basis.

And based on the look-through approach applied to passive entities, the FIs also have an obligation to identify and report the controlling persons of the entity account holders.

This all will require FIs to make significant investments on compliance and systems, to assign a FATCA and CRS officer and project team, to assess the gaps and to adapt IT systems, onboarding procedures, policies, forms to undertake the required due diligence and annual reporting of these account holders who are tax residents of Reporting Jurisdictions.

6 KEY FACTORS DRIVING CHANGE IN THE GLOBAL TRUST INDUSTRY

Cost management, business profitability, consolidation and polarisation	▪ Bank owned trust companies are reviewing their operating models for fiduciary services, evaluating what is core v non core, retain in house (i.e. options include – sale, strategic segmentation/ 'moving upscale', outsourcing/white-labelling) ▪ Expect consolidation as banks review their strategy, footprint (around core markets)
Emergence of new operating models	▪ Emergence of specialist independent trust operators, that challenge the traditional operators ▪ Access an 'open architecture' platform that offers, scale, flexibility and reliability
Cross border complexities and regulation	▪ Complexity of structures across borders and jurisdictions to cater for HNWI's given changing regulatory environment (i.e. FATCA and CRS) ▪ Need for operators that can deliver 'product excellence' that offer transparency for regulators and governments (talk more about this shortly)
Demand for talent	▪ Finding, attracting and retaining talent to meet projected growth rates will be a challenge in an industry that has not traditionally attracted younger people
Operational excellence / efficiency in administration given margin compression	▪ Need for operational excellence and efficiency in delivery of 'smarter' systems (i.e. trust administration, reporting, IT, compliance, client acceptance /AML etc) ▪ Improvement in communication channels between adviser, trustee and client
Models that can support business growth	▪ Operators and platforms that offer 'scale' and 'open architecture' that can support business growth ▪ Diversification and focus on new markets (i.e. align with growth in emerging markets)

Source: AMICORP / Scorpio Partnership

“Having sufficient knowledge is also more important given the need for practitioners to anticipate issues relating to the structures.”

Service providers are developing solutions to assist FIs in being compliant without compromising the client experience.

Yet regardless of the type of fiduciary offering, whether these are standardised or more customised, roundtable participants are focused on high-quality services. And those that can develop specialist expertise in particular country and markets, in light of these changes in the regulatory environment, will have a key role going forward.

“There is a need for operators that can deliver ‘product excellence’ that offer transparency for regulators and governments,” confirms Golovsky.

The demand for talent is another key issue for the industry, regardless of business models and geographic diversity of the offering. And it is something at the forefront of the minds of many senior executives, given the limitations it imposes on the business model – regardless of other components which might be in place.

In short, this comes down to finding, attracting, training and then retaining talent. That includes wealth planning specialists as well as client advisers, to help banks keep up with projected growth rates in the HNW population.

Having sufficient knowledge is also more important given the need for practitioners to anticipate issues relating to the structures.

A fifth factor driving change stems from the goal of operational excellence and efficiency in administration, especially in light of margin compression. This again comes down to putting in place ‘smarter’ systems for functions such as trust administration, reporting, IT, compliance, client onboarding and AML.

At the same time, improvement is needed in the communication channels between adviser, trustee and client.

A final change-driver is in terms of the models to support the direction of the business. “The objective is to identify and implement operators and platforms that offer scale and open architecture to support growth,” says Golovsky.

Diversification and a focus on new markets where real growth is taking place is another part of this strategy.

MAPPING AGAINST UNCERTAINTY

The choices private banks make about the extent and type of fiduciary services they will offer within today's changing regulatory environment has the potential to significantly re-shape the look and feel of the industry.

Some of the fundamental questions banking leaders are increasingly asking of themselves, and their senior management, include how best they can respond to tax transparency? And given regulatory scrutiny and complexity, along with enforced business changes, how can they deal with the cost of non-compliance of existing account holders with their offshore investment structures?

At the same, time, banking leaders generally expect to see structures getting more customised given clients' evolving needs, cross-border assets and movement, reporting obligations and the impact on them of the regulatory dynamics.

Yet complex structures are not necessarily appropriate. What fiduciaries need to provide, therefore, is a combination of a tailored approach, a high degree of personalisation, an educated staff knowledgeable about country specifics, close coordination with legal and tax advisers, and confidence that clients are in safe hands.

The choices for banking heads seem to boil down to one of two broad options, according to the conclusions of the roundtable discussions.

Either they remain in their core businesses and exit all non-core activities; or, for those operations which are considered to be more peripheral, outsource or white-label the offering. The benefits are essentially a de-risking that fits with their overall objectives in today's environment. Ultimately, they are striving to find clear points of differentiation in their strategy and value proposition.

Indeed, standing out is a key objective for many, which, by extension, is also likely to drive whether they in-source or outsource as a strategic priority.

However, that decision seems to be somewhat connected with the size of the organisation, according to participants at the recent discussions.

"Standing out is a key objective for many [private banks]."

The larger banks have more capacity to invest in compliance systems and appear to have less appetite to exit the fiduciary services capability.

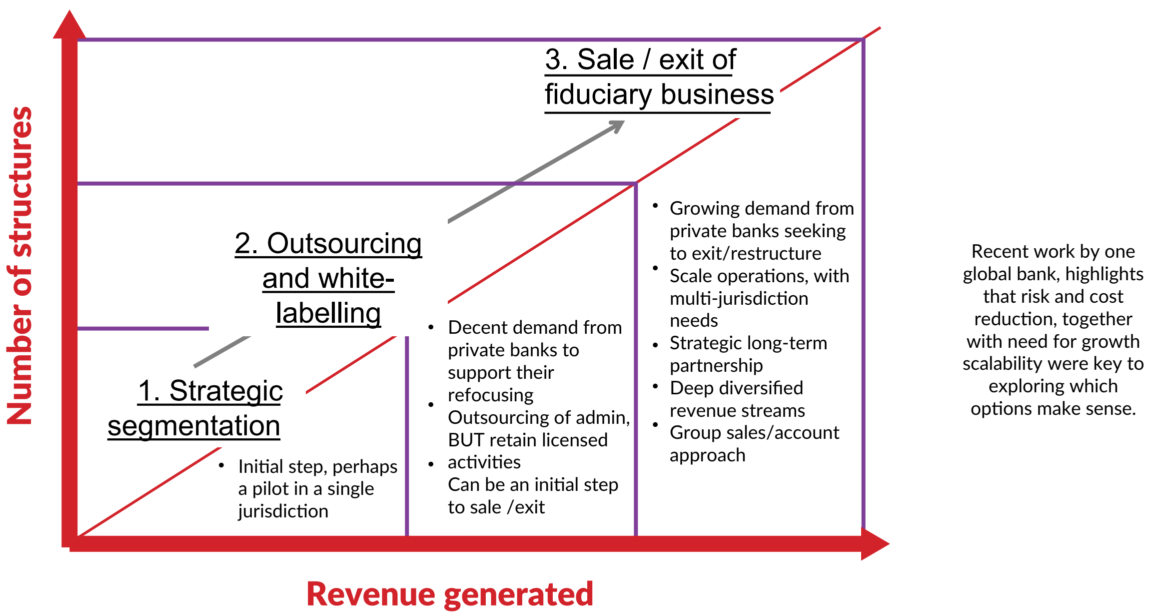
Mid-sized and smaller banks see the increasing burden of compliance as a moment to review their strategy to potentially exit or segment their portfolio to an independent service provider, while keeping the key relationship between the private bankers with the ultimate HNW / UHNW client.

Scale is seen as a vital ingredient. Finding a winning formula to re-align certain businesses to deliver the right service for a client who is willing to pay a reasonable amount of money for it, is akin to the holy-grail of wealth planning.

Plus, it is a way for organisations to achieve sustainable, controlled growth in priority markets.

Yet doing that in a way that also enables the bank to control the risk – not just from a fiduciary point of view but also a franchise perspective – continues to leave executives stumped.

WHAT ARE WE SEEING - 3 MAIN APPROACHES BY THE BANKS



Source: AMICORP

FINDING THE RIGHT PATH

It seems a growing number of banks are now looking at their options from a very practical perspective. In particular, they are focused on resolving the challenges in a way that suits their core strategy and also their approach to client segmentation.

"If you don't have wealth planning as a core strategy, you should outsource it", is a comment that sums it up well for many.

In general, private banks fall into one of the three camps, highlighted in the chart on the previous page, in terms of their thinking and positioning.

Strategic segmentation of the wealth planning and fiduciary services part of the business is one avenue that some are pursuing. This involves, for example, an initial step where perhaps a pilot is launched in a single jurisdiction. This might be done by fee threshold, or per market or product, for example. This is typically a first step to a more significant change down the line.

Other banks are looking at selling their fiduciary business, or otherwise exiting this space. In particular, this has been a growing trend, confirms Golovsky.

An alternative to the first two options is outsourcing / white-labelling. That can also be, for instance, an initial step to sale or exit.

"We have seen decent demand from private banks to support their refocusing through outsourcing of the administrative function, for instance, but they do retain their licensed activities," says Golovsky.

"'If you don't have wealth planning as a core strategy, you should outsource it', is a comment that sums it up well for many."

Forging the future for fiduciary services in wealth management

As wealth management institutions of all types grapple with the strategic positioning of their fiduciary services businesses, Amicorp wants to fill the gap with an outsourced solution – which then frees up resources for firms to focus on their core offering.

Private banks and wealth management firms around the world face a barrage of challenges.

These relate to regulatory pressure, tax transparency, escalating costs, scalability, revenue and people.

As a result, they have hit a tipping point: should they remain in the business of wealth structuring?

The disruption stems from trying to identify where fiduciary services sit within the business.

Ultimately, it comes down to what's core versus what isn't.

"Now, increasingly, the question of how – and indeed, if at all – they choose to deliver fiduciary services is being put under the microscope," says Peter Golovsky, managing director and global head of institutional sales at Amicorp Group, which works with more than half of the top 10 global private banks and other financial institutions in this area.

How Amicorp is looking to help, he explains, is by providing outsourced fiduciary services.

This suits firms which lack resources to deliver this internally. Or, an institution might review its operating model and realise it can benefit from using an independent provider for trusts and such services, and instead focus on what it's best at – managing clients' assets.

"Now, increasingly, the question of how – and indeed, if at all – they choose to deliver fiduciary services is being put under the microscope."

STRATEGIC CHOICE

Amicorp has formalised aspects of what it offers into an Institutional Sales Unit. The Unit leads the firm's engagement with private banks, asset managers, family offices, accounting and legal firms, independent asset managers and insurance companies.

The crux of the offering falls into one of two business models: either strategic partnering and client on-boarding; or white-labelled fiduciary solutions.

With the former, Amicorp acquires an existing portfolio of trusts and clients from a financial institution – generally a private bank. With the latter, the institution maintains its own sales force and branding for fiduciary products, while engaging Amicorp to set up and manage the underlying trusts, foundations or company structures. ■

PARTICIPATING ORGANISATIONS

HONG KONG & SINGAPORE

- Bank of Montreal
- BNP Paribas Wealth Management
- BOCI International
- Bordier & Cie
- CIC Banque Privee
- Citibank
- EFG Bank
- Hang Seng Bank
- Hong Leong Bank
- HSBC Private Bank
- JP Morgan
- PwC
- RBC Wealth Management
- Rothschild Trust
- SEB Private Banking
- Standard Chartered Private Bank
- UBS Wealth Management

DUBAI

- 2i Capital Group
- Al Khaliji Bank
- Banque Internationale A Luxembourg
- Bank J Safra Sarasin
- Bo Fric Associates
- Deloitte
- International Business Consultants
- Standard Chartered Private Bank
- Wragge Lawrence Graham

SAO PAULO

- Banco de Brasil
- Braga & Moreno
- Choaib, Paiva e Justo
- Espirito Santo
- Felsberg Advogados
- GPS
- Itau Private Bank
- Noronha Advogados
- Nunes & Sawaya Advogados
- Ripol Alliance
- Santander

MUMBAI

- Alchemy Capital Management
- ASK Wealth Advisors
- Axis Bank
- BlueOcean Capital Advisors
- Client Associates Family Office
- DH Consultants
- Ernst & Young
- HDFC Private Bank
- Kotak Wealth Management
- KPMG
- RBS Private Banking
- S K Attorneys
- UniDEL
- Veritas Legal
- Yes Bank

NEW YORK & MIAMI

- AndersenTax
- Baker & McKenzie
- Brown Brothers Harriman & Co
- Cantor & Webb
- Day Pitney USA
- Deutsche Bank
- Fiduciary Trust Company International
- HSBC Private Bank
- IFS State Street
- Itau Private Bank
- JP Morgan Private Bank
- LIA
- Maples & Cadler
- Markit CTI
- Morgan Stanley
- Sabadell
- Suntrust
- UBS Wealth Management
- WE Family Office

ZURICH & LONDON

- Bank Julius Baer
- Barclays
- Coutts
- Credit Suisse
- HSBC Private Bank
- Investec Wealth and Investment
- JP Morgan Private Bank
- Lombard Odier
- Markit CTI
- MilleniumAssociates
- Ogier
- PwC
- Scorpio Partnership
- Standard Bank
- Standard Chartered Private Bank
- SYZ Group
- UBS Wealth Management

THE STATE OF THE GLOBAL TRUST INDUSTRY – KEY FINDINGS

In Q2 2014 Scorpio Partnership conducted a series of over 50 interviews to assess the state of the global trust market. Interview participants included a wide range of global, regional and local wealth institutions servicing clients in Asia, Latin America, the US and Europe to seek their views and opinions on the challenges and issues facing the trust industry today and in the future.

KEY NUMBERS

USD5trn estimated worth of assets held by Latin America and Asia Pacific in offshore markets

475,000 estimated trust structures held worldwide

10% per annum projected growth in trust industry business volumes

SEVEN CORE FACTORS DRIVING CHANGE IN GLOBAL WEALTH STRUCTURING

1. Cross border complexities

Structures are becoming increasingly complex across borders and jurisdictions especially for ultra-high net worth clients, largely due to the impact of changing domestic, international and jurisdictional regulations

- The demand for long-term compliant international trust structures that enable international wealthy individuals to manage their assets on a worldwide basis is increasing, particularly in Asia and Latin America.
- But structures will need to offer transparency for regulators and governments alike

2. Costs

The increasing costs of setting up and administering trust structures is contributing to rising minimum asset size thresholds for trust structures, particularly among the bank owned trust firms

- Bank owned trust companies are typically moving upscale due to the increased costs of servicing trusts and raising their entry levels for trust assets, eg. below USD5m assets are increasingly referred externally or alternative solutions are offered to clients
- Where independent firms are willing to cuts prices there is concern amongst practitioners that price cutting can compromise service and administration quality

3. Consolidation and polarisation

Three models are evident – the bank owned trust firms, the independent firms and those owned by private equity houses and continued consolidation is expected around the market leaders in each model

- As several banks consolidate their business strategy around core markets, inevitably this is impacting their trust operations
- However, the valuable opportunities (for M&A) are in new markets rather than increasing presence in the traditional centres (with a few exceptions)

4. Upgrading of trustee role

There is an upgrade in the role of trustees taking place as many take on the roles of trusted adviser, asset allocation and/or risk monitoring as a more holistic service offered by trust companies

- This service could be beneficial both for the end client/beneficiaries and the financial institutions (wealth managers and private banks) that are going to face an increasing burden of accountability to ensure the assets management is in accordance to suitable risk relative to the client needs

5. Talent

Finding, attracting and retaining talent to meet projected growth rates will be a challenge in an industry that has not traditionally attracted younger people

- The absence of talent is most keenly felt in developing markets such as Asia and Latin America where there is a lack of expertise in wealth planning to respond to client demand
- Operators seeking to expand will need to be more flexible in their hiring strategies

6. Administration

The international trust operators that will succeed need to upgrade their reporting and administration and focus on flexibility

- This will support their positioning as the primary advisor for UHNW clients and families
- Much smarter use needs to be made of technology within the trust industry in order to improve efficiency and communication channels with clients

7. Business growth

The trust industry is undergoing a process of modernisation in terms of processes, technology and business growth

- Firms operating in the main jurisdictions have found their traditional sources of new business drying up, despite the statistics that suggest there is still market share to target
- The factors behind this drying up are typically based on the sales processes and relatively primitive marketing that firms are slowly waking up to

INDEPENDENT PLAYERS vs BANK OWNED TRUST FIRMS

Independent firms

- Independent trust firms are increasingly sought by clients due to their greater flexibility and innovation and their ability to offer a broader range of solutions around the jurisdictions offered, along with the ability to offer a ‘conflict free’ range of asset managers

- A growing number of banks are de-risking and the popularity of independent trust firms may well rise. However, size and scale are important and smaller independent firms are at risk given the regulatory and cost burden on the industry as a whole

- Independent firms will need to build scale and volume to achieve the margins to stay in business

- Boutique trust firms will need to become specialists in order to differentiate themselves from the larger players and will take on a greater role as a trusted adviser as a point of differentiation

- A number of independent trust firms are now backed by private equity firms leading to concerns around potentially clashing objectives for the commercial agenda, longevity and M&A turmoil

- While it is acknowledged that PE firms have deep pockets, the long term nature of the trust business and the shorter term aims of a private equity firm in extracting value from its investment are seen at odds with each other

- Continued consolidation across the sector will occur with fewer firms and more polarised offerings at either end of the spectrum from highly bespoke complex offerings for UHNWs to those firms operating with scale and volume across the broader lower value market

Bank owned trust firms

- Global bank players while offering trust services across all five continents are typically joining the dots through a regional approach due to differing dynamics in each market with one or two exceptions

- Banks are de-risking and moving up stream to focus on higher end financial assets, leading to outward referrals of both of low-margin, low-end business and higher risk real assets that directly impacts those assets that the bank-owned trust firms will take on

- Clients are encouraged to book assets in-house when using the trust capabilities of a bank and in many instances the trust firm is an additional source of new assets for the bank

- When referring externally, banks are looking for trust providers to offer a similar high touch relationship to that of the bank for complex assets and structures, while the bank remains heavily focussed on retaining financial assets in house

- However, margins traditionally earned via the asset management capability are now being squeezed so the rationale has turned to securing a long term client relationship with the bank

- Relationships between banks and external providers tend to operate on a referral basis rather than formal partnerships or panels due to a strategy of an open architecture approach and the risks associated with endorsing specific firms

- Several players are reviewing reputational risk within their businesses and the costs of dealing in multiple countries, which is leading to books of assets being put up for sale and a refocussing on core markets

- Bank trust firms are rationalising and focussing on those markets and jurisdictions where they have in-depth expertise since it is no longer possible to rely on ad hoc marginal expertise

REGIONAL MARKET CHARACTERISTICS

Asia

- Asia has one of the fastest growing wealth markets globally, outstripped only by the US. Despite an estimated 20% of Asian wealth kept offshore, penetration rates for both the wealth management and trust industry are perceived to be low
- Asians are increasingly international investors, requiring structures to hold offshore assets but the knowledge of clients locally is typically quite low and many are not comfortable with the concept of loss of ownership that a trust structure entails
- Asian clients are typically highly price sensitive and it can be challenging to provide the correct structure without compromising on service and administration quality

Middle East

- Middle Eastern HNWs, dominated by the Gulf states, notably UAE and Saudi Arabia (while not experiencing as high growth rates of other developing markets) typically offshore the highest proportion of their wealth at an estimated 50% of assets
- The region is highly sensitive to localised economic and geopolitical influences which cause significant movement of money both around the region and inflows/outflows to other parts of the world
- More family oriented influences such as the high ownership of property abroad, especially in the UK, inheritance issues influenced by Sharia law, succession planning across large and diluted families and the traditional reliance on family support for multiple family members all require structuring advice

Europe

- Europe is seen as a more stagnant and even diminishing trust market in the short term by many wealth managers operating in European markets, largely due to the impact of increased transparency across Europe. The move to declared assets has led to trusts being viewed as morally unacceptable in the public view, due to their strong link to undeclared or hidden assets
- The mixed signals around EU regulations from governments are making it increasingly difficult to plan for the future and the increasing costs due to regulations are reducing the willingness of European clients to consider trust structures at present
- Longer term, wealth managers view the trust business as remaining strongly valid for succession planning and asset protection and that wealth planning will continue to gain importance in structuring complex assets for wealthy clients, especially from regions outside of Europe

Latin America

- The Latin American market is dominated by Brazil as the largest wealth market in the region where a more open and transparent climate is resulting in clients opening up to discussing their wealth planning requirements
- Wealth planning is increasingly gaining in importance as a major growth opportunity throughout the region with large, wealthy families have overlapping and complex business and personal needs often requiring cross border structuring requirements
- The trust industry is expected to grow strongly in the region as trusts become a more common place tool for wealth planning although it is more likely that independent firms will play a stronger role in this than banks developing their own internal capabilities
- The lack of strong talent throughout the region for wealth planning may hamper some firms' growth plans but the region is seeing increasing demand for wealth structuring both on and offshore

hubbis

Helping Asia lead the world in wealth management

Our products

Hubbis is the leading provider of ***independent content***, ***learning solutions*** and ***training*** for companies providing wealth management-related products and services in Asia. Our ***ambition*** is to ***help you*** become more competent and capable - so that you can provide ***suitable*** and ***trusted*** advice for your clients.

If you would like to participate in our events, publications or need online training, lets talk.

Get in touch

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