WealthBriefing

New Service Taps Need To Efficiently Re-Segment Clients, Move Declared Money

Tom Burroughes, Group Editor in London **7 April 2014**

As wealth managers shake up client segments and reposition offshore and onshore models, a new service has been launched in Europe so that potentially hundreds of billions of flows of client money between affected firms can be handled painlessly.

Taking advantage of what is seen as a period of up to two to three years years in which re-segmentation and repatriation to home markets is happening at a brisk pace, driven by issues such as regulation, Millenium Associates, the independent M&A and Corporate Advisors to the global wealth management industry, has launched its "CATCH" programme. It is aimed at wealth managers and private banks based in Switzerland, Luxembourg, Liechtenstein and Monaco as well as surrounding onshore nations. It is now live and in a determined build-out phase.

CATCH, Millenium Associates says, allows wealth institutions and private banks in these jurisdictions to provide an orderly methodology to handle two issues simultaneously: changes to client segmentation and the consequent reshuffling of money amongst the insitutions, and repatriating declared assets to clients' home countries. (The service does not invite nor handle cross-flows of undeclared funds.)

Ray Soudah, Millenium Associates' founder – and a judge for the recent Switzerland & Liechtenstein WealthBriefing 2014 Awards – told this publication that the programme will help firms deal with inflows and outflows of client money without incurring the kind of goodwill accounting impairments that can be a feature of such movement.

"The best way to think of this is a centralised introduction system. And it is trusted as we've been around for 15 years supporting in an unconflicted way the wealth management industry on a global level," Soudah said.

Asked why the four jurisdictions (Monaco, Switzerland, Liechtenstein and Luxembourg) are featured, Soudah said: "The reason for these four centres at present is the fact that they contain large "pools" of wealth managers and private banks; some are re-segmenting their focus markets and others are seeing a client repatriation to onshoring markets whilst others are willing to receive the exited clients whether in these centres or in the onshoring markets. The phenomenon of this scale of movement isn't anticipated in the other centres as they don't have the legacy of the history of these four centres."

More than 100 banks have been approached; more than 90 per cent have shown great interest in CATCH, which earns a slice of revenues involved in the transfers introduced made via the platform, Soudah said.

How it works
The service works as follows: Firms sign up to CATCH, and if a firm puts up a "flag" that it is willing to take inflows of money from a corresponding platform member, or wishes to offload client money due to a change in its segmentation policy, then the monies can be exchanged between the members themselves without confidential or any private client data entering the system at all thus respecting client confidentially and banking secrecy. At the outset, clients of the programme members are consulted and when providing their tentative agreement the receiving members conduct their client vetting; this rather than clients being told later as a sort of fait accompli when they are sold in traditional M&A processes or exits. Client data does not enter the secure system, thereby protecting their privacy, Soudah said. Furthermore the programme is expected to run for up to three years whilst the market places handle in an orderly fashion the various exits, does not invite or encourage undeclared assets to be flagged by the members.

He expects 75 Swiss based banks and important wealth mangers and 25 institutions in the other three jurisdictions and surrounding onshore centres to join the rollout of the live programme.

The launch of CATCH is an example of how firms serving the private banking and wealth management industry in Europe, Asia and North America are trying to earn a living helping institutions that must confront regulatory cost burdens – in some cases, leading to firms hiking minimum AuM requirements on clients, or consolidate booking centres; exit jurisdictions for regulatory/cost reasons, and reposition models to boost profitability.

Barely a week now goes by without fresh M&A activity and re-segmentation. Last month, for example, saw firms such as UK-listed Rathbone Brothers make acquisitions and Societe Generale sell its Asia private bank to DBS. Credit Suisse has sold its Clariden Leu (Europe) operation to Falcon Private Bank, and sold its onshore German private bank to ABN AMRO, while the Zurich-listed firm has bought part of the non-US wealth management arm of Morgan Stanley. Some banks have made a point of focusing more on UHNW clients. Consultants have said more of such reshuffling of the wealth management market is likely.

Another trend has been what Soudah calls "moving undeclared assets into declared assets"; he estimates that around half of the client money that has been undeclared will return to the lands of the actual client especially those onshore nations surrounding Switzerland, Lietchenstein, Luxembourg and Monaco. (Specific figures can be hard to obtain since undeclared money, by its nature, is not measured easily, however Soudah estimates this to be a flow of up to 150 billion US dollars at least.)

The CATCH programme also finds value in that when firms have bought and sold books of client business in the past, an issue to deal with is logging impairments to goodwill that can be required if some client money does not survive the migration from Firm A to Firm B. With cross-flows organised by CATCH, this sort of issue does not arise.

"With these [usual M&A] deals there is a lower retention rate, depending on how you look at it," Soudah said. One reason for why clients dislike a transfer to another bank via M&A is that they are often only informed once the merger or takeover has been announced, he said.

As the financial merry-go-round in wealth management continues, banks and other institutions will want to figure out how to get their business models in shape with the minimum of angst. Soudah and his colleagues are determined to tap what they see as a period of such demand and provide a further independent service to the wealth industry in a neutral orderly fashion. This publication will be in touch with Millenium Associates to see how CATCH is faring.