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Wealth Management

Technological advances and the changing global regulatory environment are leading to consolidation in the sector

Under attack

Wealth management is under attack like never before as a growing band of investment innovators disrupt and democratise the industry.

Investors are increasingly moving their portfolios to online platforms which are using digital tools that, in some cases, cut out the need for wealth managers altogether. These investors are not just the younger 'millennials' who have grown up in an online world, but also experienced investors seeking a more personalised service from their wealth managers and value for money.

Wealth managers are having to reduce fees in order to respond to this new climate, yet at the same time the regulatory cost of providing face-to-face advice is rising too, putting even more pressure on their cost base.

In short, technological advances and regulatory change are bringing a whole new transparency to the sector. Against this backdrop it is little surprise that small to mid-sized players realise they must form alliances in order to survive. At the same time private equity, attracted by the consolidation trends within the industry, is showing an increased willingness to invest in the sector.

Technology

Analytics which give easy and immediate access to performance metrics, and which give customers the tools to digest complex data, are reshaping and revolutionising the wealth management industry.

Robo and virtual advisers such as Nutmeg and Swanest can today offer a vast range of algorithm-based portfolio management recommendations, while blockchain – the transaction database technology that underpins the bitcoin currency – is now used by hundreds of investment companies and wealth managers.

Larger players are showing increasing interest in these new kids on the block. For instance German insurer Allianz recently took a stake in robo-adviser MoneyFarm, showing how low-cost automated online investment services are transforming the market.

> "Small to mid-sized players realise they must form alliances in order to survive."

Efficiencies

Research[1] has found that almost half of asset managers are already using blockchain which allows transactions to be verified electronically with no central ledger. The technology is attractive as it means there is no intermediary to pay for certain transactions, therefore offering cost-cutting opportunities. The report concluded that technology was a "tsunami" that will radically change the face of financial services. The World Economic Forum has estimated that by 2027 assets equivalent to 10% of global GDP could be held on blockchain.

The increased use of such technology will become more important in generating efficiencies and future proofing business models, while it can aid regulation and compliance as well. Analytics also allow players to formulate specific investment strategies for their clients, and can be used to gain new insights into customers.

[1] Roubini ThoughtLab: Wealth and Asset Management 2021

Regulation

Massive change in the regulatory environment, largely in the wake of the global economic crash, is continuing to have a huge impact on the sector. The most significant measures include:

- The Markets in Financial Instruments Directive (MiFID) is the framework of EU legislation for investment intermediaries that provide services around shares, bonds, units in collective investment schemes and derivatives, and for the organised trading of financial instruments. MiFID is now being revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are currently set to take effect from 2018 with the new legislation known as MiFID II – this includes a revised MiFID and a new Markets in Financial Instruments Regulation (MiFIR).
- The European Commission's proposals for a Capital Markets Union (CMU) aims to help businesses tap into diverse sources of capital from anywhere within the EU, and offer investors and savers more choice.
- In the UK, the Retail Distribution Review was designed to improve standards of advice and fee transparency, and has changed the way in which fees can be charged by financial advisers. Rather than accepting commission as a reward for recommending or selling a particular financial product, advisers now have to agree a fee upfront.
- In the US, the Foreign Account Tax Compliance Act (FATCA) requires foreign financial institutions to report information about financial accounts held by US taxpayers. Following on from this move, the OECD created the Common Reporting Standard which required firms to identify and report the tax residency and related information of individuals and entities in over 100 jurisdictions.

Brexit

The short term focus for asset managers following the Brexit vote is likely to be the wider economic impact of the uncertainty on market and currency volatility. But the long-term impact on the UK's sizeable wealth management industry remains very unclear and much will depend on the eventual terms of the exit.

Particular confusion surrounds how Brexit will affect UK compliance with MiFID II as countries which are not part of the EU – but which want to sell their products and services in the area – must open a branch within EU borders operating in equivalence with European regulatory standards.

A recent report[1] says there are likely to be significant consequences for asset managers and the financial services industry from Brexit as a significant proportion of UK financial services legislation affecting asset managers is derived from EU law. Some of these rules and requirements could fall away automatically following the UK's exit, although the UK could potentially gain the ability to repeal or modify others.

[1] Norton Rose Fulbright: Brexit – the effect on asset and wealth management

M&A activity

The fragmented nature of the wealth management industry makes it particularly vulnerable to technological change. Indeed, the need to decrease the percentage costs of overheads is driving medium-sized firms across the world to seek mergers with, or acquire, smaller firms.

For smaller firms, the pressure to merge or sell will be hard to resist as they have less capability to handle the scale of business required to achieve a level of efficiency that is profitable in this new environment.

Globally, M&A in the industry increased almost 50% with 124 deals recorded[1] in 2015, although the value of assets transferred in these deals decreased to €366bn from €410bn the previous year. This suggests that rather than the focus being on big-money deals, medium-sized firms are attempting to consolidate their hold in the market by acquiring slightly smaller firms.

UK

The first quarter of 2016 continued the trend of unprecedented levels of M&A activity across the asset and wealth management sector seen during 2015. This has been fuelled by an increasing number of corporates and private equity firms seeking either to grow their existing franchises or establish a foothold in the UK as one of the key global wealth markets.

Growth prospects for the industry also look solid. The heady mix of new pension freedoms, low interest rates, and the continued strength of the property market are tempting many consumers to enter the industry for the first time. Indeed, the private client market is forecast[2] to grow at a CAGR of 9.3% to reach £1.1tn by 2019.

A number of key drivers are making the UK market attractive to investors.

Regulation: The continued development of the regulatory environment – such as through increased pensions freedom, the reduction in annual and lifetime allowances and the Financial Advice Market Review - is driving strong growth in the market.

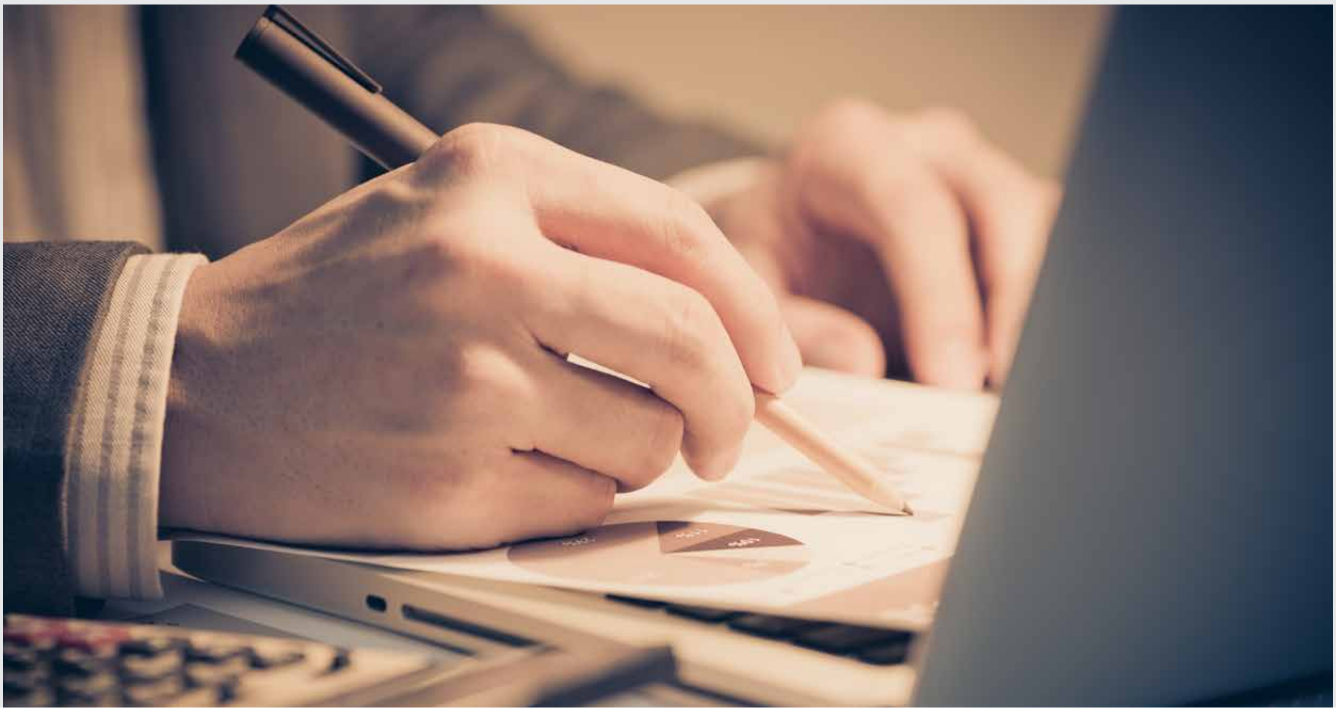
Technology: Advances in technology are driving efficiencies and creating opportunities to better engage with clients. Investors are increasingly looking to build complementary propositions such as robo-advice and D2C (direct to consumer) capabilities.

Fragmentation: A highly fragmented market creates opportunities for building scale. The changes in technology and regulation are driving consolidation among small and medium-sized firms as they look to benefit from economies of scale and improve margins.

Consolidation prospects in the UK market are appealing for private equity investors too, driven by increased costs from an increasingly stringent regulatory environment. In the past, private equity firms have been somewhat notable by their absence from the market, but the Retail Distribution Review – which makes scale essential in the industry – has been a particular driver of PE activity.

Recent PE deals include Synova acquiring financial adviser consolidator Fairstone, and Baird Capital acquiring Bfinance. Bfinance acts as a middleman between large investors and fund managers and has grown on the back of increasing demand for third-party investment advice.

Close Brothers Asset Management has been particularly acquisitive, buying Eos Wealth Management and Mackay Stewart & Brown, while a major recent deal saw SVG Capital acquired by US-based HarbourVest Partners for €1.17bn.



Spain

The market is worth €466bn according to Inverco, the Spanish Association for Collective Investment. Wealth management services are split between: the large commercial banks such as Caixa, Santander, BBVA and Sabadell; foreign institutions such as Blackrock Investment, JP Morgan AM or Deutsche AM; and smaller banks and independent companies dedicated to private banking.

Andorran banks have also entered the sector, developing onshore banking in Spain. This began with the acquisition of Banco de Madrid by Banca Privada d'Andorra, and was followed by the purchase of Banco de Alcalá by Credit Andorra, and Inversis by AndBank.

Like elsewhere, regulation has substantially increased as a consequence of the introduction of new EU standards. M&A activity is currently low although we expect an increase in the number of transactions as the regulatory environment becomes tougher, with more complex legal requirements.

France

The market remains dynamic, with a 5% growth rate of assets under management between 2014 and 2015[3]. However, it has reached an important turning point where the major players have to rethink their business models in the wake of continued low interest rates, new regulations and changing consumer preferences.

Young wealth management clients are increasingly important and the average investor is becoming more and more autonomous and less inclined to remain with their historical wealth management advisers.

Market growth and the IT revolution have also attracted numerous new advisers, while a lot of pure players have entered the market such as BforBank and Boursorama.

Most of the new regulations are expected to severely restrict the actions of wealth management companies, while the generalisation of automatic exchange of financial account information, adopted by the OECD, is likely to bring important compliance expenses.

The adoption of MIFID II by the European Commission will further lead to important changes, although the market should profit from the effects of the 2015 Macron law which introduces some major innovations to French competition law.

Denmark

The market is divided between traditional banks and more specialised wealth management companies. Classic assets such as stocks and bonds remain popular, but in the low interest rate climate appetite for more niche assets such as solar, wind and property is rising. A high single digit return in ten years or more, based on fixed energy prices or attractive properties, becomes an appealing investment opportunity.

For the industry these niche assets are a new way of expanding classical wealth management services and it is an area that is less likely to be hit by increasing digitalisation.

Looking ahead we expect to see increasing M&A activity, driven by financial acquirers and strategic investors which can exploit rising regulatory costs and the digital trends that are increasing the complexity of the business model. Financial acquirers will in particular see attractive buy-and-build opportunities in the market.

[1] Scorpio Partnership Consultancy

[2] Let's talk payments

[3] French Asset Management Association

Recent M&A activity in the wealth management sector

Date	Target	Country	Description	Purchaser	Deal Value (€m)	Target - Assets under management / Assets under advice (€bn)
Sep 2016	Bouvier Gestion	France	Investment manager	Conseil Plus Gestion (CPG)	-	-
Jul 2016	Jones Sheridan Financial Consulting Ltd	UK	Financial advisory for personal and corporate clients	Standard Life (1825)	-	0.35
Jun 2016	Kleinwort Benson Group	UK	Private banking and financial advisory	Société Générale	-	6.7
May 2016	KBI Global Investors Dublin (87.5% stake)	Ireland	Investment manager	Amundi	-	7.6
May 2016	AXA Elevate	UK	Investment platform	Standard Life	~65	12.4
Apr 2016	Fairstone (majority stake)	UK	Independent financial adviser	Synova	32	-
Apr 2016	Munro Partnership	UK	Financial planning and wealth management	Standard Life (1825)	-	0.6
Apr 2016	Baigrie Davies & Co Ltd	UK	Financial planning and wealth management	Standard Life (1825)	-	0.4
Apr 2016	Towry	UK	Financial planning and wealth management	Tilney Bestinvest	750	11.2
Mar 2016	Vestra Wealth (75% stake)	UK	Investment manager	LGT	-	7.2
Feb 2016	DFM Adviser Solutions business	UK	Investment manager	Momentum	-	0.2
Feb 2016	Ingenious Asset Management	UK	Investment manager	Tilney Bestinvest	-	2.3
Jan 2016	True Potential (minority stake)	UK	Online financial advisory platform	FTV	-	-
Jan 2016	Avidus Scott Lang	UK	Independent financial adviser	Fairstone	-	0.4
Dec 2015	BHF Kleinwort Benson	Belgium	Private banking and financial advisory	Oddo & Cie	-	-
Nov 2015	Karakoram	France	Investment manager	Allegra Finance	-	-
Sep 2015	Taylor Patterson Group	UK	Financial planning and wealth management	Mattioli Woods	11.4	0.1
Jun 2015	Boyd Coughlan Ltd	UK	Financial planning and wealth management	Mattioli Woods	9.8	-
Apr 2015	Primonial Group	France	Financial planning and wealth management	BlackFin et Latour Capital	-	-
Apr 2015	Meriten Investment Management	Germany	Investment manager	Oddo & Cie	-	24.8
Mar 2015	Ashcourt Rowan	UK	Financial planning and wealth management	Towry	161	7.0
Feb 2015	DNCA Finance (71.2% stake)	France	Investment manager	Natixis Global Asset Management	550	16.5
Feb 2015	Pearson Jones	UK	Financial planning and wealth management	Standard Life (1825)	-	-

Conclusion

Technological advances are transforming the wealth management industry, creating both exciting opportunities for new players and considerable challenges for traditional advisers.

Against this backdrop, the challenges of both standardising yet also personalising advice becomes acute, while increasing omni-channel delivery only further complicates the picture.

The winners of tomorrow will need to support a broad range of financial products yet also maintain consistent experiences for customers across different regulatory environments. As such, we expect to see continued consolidation as leading players take advantage of these dynamics to grow their businesses further.

Deal highlights

Some of our recent deals

IS Inkasso

Leading debt collection company

Clearwater International advised HANNOVER Finanz and the management on the sale of IS Inkasso Service to Lowell GFKL Group

IGF Invoice Finance

Leading independent commercial finance provider

Clearwater International advised Greater London Enterprise Group on the disposal of its subsidiary IGF Invoice Finance, backed by Spring Ventures

mediafinanz AG

Leading debt and risk management company

Clearwater International advised shareholders on the sale of mediafinanz AG to Tesch Inkasso GmbH

bfinance

Independent and privately owned, global financial services firm

Clearwater International advised on the MBO. The transaction was funded by debt provider BMS Finance

Direct Group

Outsourced insurance services provider

Clearwater International advised LDC on the sale of Direct Group to Ryan Specialty Group

Meridia Capital Partners

Spanish private equity group

Clearwater International advised Meridia Capital Partners on a debt raise to purchase real estate in Spain

Meet the team

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