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NEWS RELEASE

PRIVATE BANKS HAND OVER MANAGEMENT TO EXTERNAL MONEY MANAGERS

BANKS YIELDING TO MANAGED ACCOUNT PITCH

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Miami - Banks are slowly but surely handing over management of their assets to external money managers. That marks a huge opportunity for managed account firms, as between \$1 trillion and \$3 trillion globally is expected to be outsourced to external money managers by 2010, according to a presentation at Financial Research Associates' *Managed Account Technology & Operations Summit* here last week.

Banks have traditionally been resistant to outsourcing investment management, preferring to rely on in-house investment products. However, increasing competition in the wealth management market is forcing banks to overcome their cultural objections to external money management.

"The market is forcing them to make difficult decisions," said Peter Green, a senior v.p. in the managed accounts consulting group at Prudential Investments, who was a panelist discussing the bank market. "A lot [of banks] are implementing [external investment management] as a defensive measure," Green continued.

Daniel Seivert, managing director of 3C Financial Partners, a merchant bank and consultancy, agreed that private banks will struggle if they continue with "business as usual."

"Private banks are defying one of the basic laws of marketing – segmenting," Seivert said. "Instead, they've offered one platform of mostly proprietary products for every tier, and that has been their Achilles heel in terms of competition." The proprietary platform "does not have enough cachet for the high-end, is a strong fit with the mid-tier with \$5 million to \$30 million, and is a weak fit for the lower tier, because it's too high touch," Seivert explained. "By using third-party platforms, they can enhance product value and service value, and even proprietary asset management value, because getting a smaller piece of a bigger pie means more assets under management."

Seivert presented 3C's forecast of the opportunity for managers, based on an estimated \$44 trillion in global high-net-worth assets by 2010. Of that, 70%, or \$30 trillion, will be professionally managed, according to 3C, with the remaining 30% held in individual issues. Of that \$30 trillion, private banks will professionally manage \$10.3 trillion. And of that, 3C estimates 10% to 30% will be handled by third-party platforms, which amounts to a \$1 trillion to \$3 trillion opportunity.

The challenge for firms targeting the bank market is persuading them of the value of third-party money management. Getting the buy-in from senior executives at the bank is vital, said Kelly Thomas Coughlin, another panelist and CEO of GlobalBridge, a third-party managed account platform that focuses on banks. "We look for indications of buy-in, such as whether they have a new leadership, or we look for those who are rebranding as wealth management groups instead of trust departments."

Prudential's Green agreed. "It's not the 'Field of Dreams,' where if you build it they will come," he said, referring to the Kevin Costner movie. "You need senior management to embrace it to drive assets in."

Convincing the banks to move away from a proprietary platform is one of the hardest parts of the sell. "The single thing they have to acknowledge is that if they have fourth quartile performance in proprietary product, it puts them in the penalty box," Coughlin noted. "They may not lose accounts, but in terms of winning new business it's tough. Relationship managers are looking for better numbers to sell."

"You need to get the message across that it will drive more assets to them," Green agreed. "And you can tell them it may expand distribution outside the bank if they have a good product and can go through due diligence and get on the platform themselves." It's also important to retrain internal investment staff to think of their job as helping to select managers rather than picking stocks, he added.

Providing examples of real-life cases is also helpful. "Banks are so used to losing in a competitive situation, so forecasts that show successful growth can help build the case," Coughlin noted. Green said third party platforms should point to successful relationships that exist already, and show prospective clients how proprietary assets grow in tandem with external assets. "Banks that have implemented open architecture have seen their asset base grow substantially. We're seeing more and more banks focus on core competencies."

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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