Bank of NY to Quit Managed Accout Outsourcing

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The Bank of New York[1] will exit the managed account outsourcing business, becoming one of the first firms to bow out of a competitive field that insiders believe has become too crowded.

A company spokesman says the bank's outsourcing unit is "de-emphasizing" its separately managed account (SMA) business and realigning its focus on institutional clients.

The unit is working with ABN AMRO Investment Fund Services[2] and ING Managed Account Group[3]– its only two SMA clients - to help them make the transition to another outsourcer or an in-house operation, industry sources say.

ING and ABN AMRO officials could not be reached for comment. The bank spokesman declined to discuss client sensitive issues, citing confidentiality provisions, but confirmed that the firm was assisting a "small number of business clients" with the transition.

Outsourcing firms take on operations for investment managers who decide that they no longer want to run the back-office themselves. In the SMA space, operations are particularly cumbersome, and, after a slow start, managed account outsourcing has picked up steam with a total of 24 publicly announced deals to date, according to FUNDfire archives.

Bank of New York's imminent departure comes as no surprise to those who track outsourcing in the SMA space. After announcing two deals in 2003, the Bank of New York's pipeline went dry as business went to its competitors, which include Citigroup Global Transaction Services[4], PFPC[5], BISYS[6], JPMorgan[7], SEI Investments[8], State Street[9] and Mellon[10].

"Pulling back from a business that is not meeting key thresholds can often be the most prudent course of action," says Daniel Seivert, managing partner of strategic consulting firm and investment bank 3C Financial Partners[11] in Manhattan Beach, Calif.

"Year in and year out, you need to win a meaningful number of deals. They were not getting their share of new wins," he says of Bank of New York. "You need to have critical mass so you can cover your costs and make continual investment in the product solution and marketing. We think the number of deals is likely to double in the next four years, which implies approximately six to eight deals per year."

"There are six deals a year and there are eight vendors," Seivert adds. "If one vendor wins two or three deals, that can make it difficult on the other seven."

Matt Schott, senior analyst at Tower Group[12] in Needham, Mass., says it was a matter of time before one of the vendors left the managed account business.

"Even at the conferences, vendors in the space will admit or wonder whether the industry really needed eight or nine players," Schott says. "Even the competitors admitted that there were too many competitors." Additionally, some outsourcers had concerns about deals being won through competitive pricing, creating advantages for better-leveraged businesses, he says. "I don't think it is surprising to see one of the competitors drop out of the game," he adds.

Global Transaction Services, the Citigroup unit, has emerged as the industry's busiest deal maker as of late.

Last week, the unit announced a partnership with Federated Investment Counseling[13] of Pittsburgh that calls on it to administrate 6,000 accounts with $2 billion in assets under management. The deal followed a January agreement with Pacific Income Advisors[14] and deals last year with Lazard Asset Management[15], Janus Capital[16] and Vontobel Asset Management[17].

A Bank of New York spokesman says the firm's institutional outsourcing business is strong and will continue to be a priority for the firm.

"The pipeline is strong," he says, pointing to recent deals with Schroder Investment Management North America[18], RCM UK[19] and RCM US. The bank is also in exclusive due diligence discussions with Hermes Pensions Management[20].Bevin Crodian, CEO of Market Street Advisors[21], says the projected growth of the SMA industry should create enough opportunities for remaining outsourcers. The number of assets in SMAs is predicted to cross the $1.5 trillion threshold by 2011 if current growth levels continue.
"Can it get that big? I think many people think so," Crodian says. "Most people are in the business because it is a complement to their larger custody business."
CheckFree Investment Services[22] and Vestmark[23] are the two leading technology providers to third-party administrators of SMAs. Start-up Market Street Advisors of Edison, N.J. has emerged as a competitor to the two firms.

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