U.S. Brokerages Under Pressure From Holistic Firms

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The growth rate of assets held by high-net-worth individuals is slowing, but the low rate for professional management of those assets gives wealth managers substantial opportunities for growth in their own right, says a new study by the New York-based management consultancy Oliver Wyman. That is, provided they go about it the right way.

Individuals with $1-million or more in net worth owned assets totally $50 trillion in 2007, according to *The Future of Private Banking: A Wealth of Opportunity?* Oliver Wyman sees this figure growing to $75 trillion in 2012, despite an annual growth rate of 9% through that year compared with the 11% annual increase in high-net-worth assets that prevailed over the last five years.

Around half of this huge pool of assets isn't professionally managed, however, giving wealth advisors of all stripes scope to increase high-net-worth wallet share.

Cracks in the plaster

But with opportunity, the Oliver Wyman study notes, comes competition -- and nowhere is the rivalry between wealth-management firms and wealth-management channels likely to be more intense than in the U.S.

For one thing, it's an attractive market. The U.S. and Canada accounted for around $20 trillion, or 40%, of the world's high-net-worth assets in 2007, with Oliver Wyman seeing an 8% annual increase in that figure to $29 trillion in 2012.

And then there's the sense -- Oliver Wyman would call it a fact -- that the biggest players in U.S. wealth-management are still sorting out how to tackle a big, complex and highly fragmented market.

From the shareholder's perspective, European-style private banks -- characterized by an end-to-end approach to wealth management, independence of advice and transparency as well as comparatively low rates of client turnover and, by industry standards, low rates of relationship-manager compensation -- throw off more value per client than any other channel in the wealth-management industry.

At a recent industry conference, Frank Campanale, head of Chicago-based Advanced Equities' Wealth Management division, said that the average client relationship of a UBS private-bank client in Europe is 40 years. In the U.S., private clients stay with wirehouses for an average of seven years, adds Campanale, who used to head Smith Barney's fee-based Consulting Group.

So in the U.S., where high-client-turnover, high-payout retail brokerages hold sway over the wealth-management space, private banks and entities that resemble them stand to make inroads, according to the Oliver Wyman report.

In fact, adds Oliver Wyman, the ball is already rolling. The first evidence of this is in the convergence of brokerages and banks as big-name institutions bundle capabilities in the name -- frequently stated -- of providing holistic services.

The second indicator of growing disenchantment with the brokerage model is the sharp rise of RIAs, whose collective assets under management doubled to around $2.1 trillion in the five years through 2005 and easily outran all other channels in terms of asset growth, according to Oliver Wyman.

Up to a point

"Traditional securities firms will maintain a dominant position in the U.S. wealth-management landscape, [but] we believe that a modified version of the advisory model will continue to take market share," says John Colas, head of Oliver Wyman's North American retail- and business-banking practice. "Retail banks and brokers must note, however, that no traditional financial organization has proven to be consistently superior to the pure-play private banking model in terms of overall profitability."

But **Dan Seivert**, CEO of the Los Angeles-based investment-banking and consulting firm **Echelon Partners**, thinks the success of independent advisory firms in the U.S. is as much an indictment of private banks and depositary trust companies as it an indication that brokerages, including retail-bank brokerages, are in for a comeuppance.

"RIAs are enjoying a period of re-invigoration because things have gotten so complex with the brokerages," says Seivert. "It's sort of refreshing to have a portfolio manager picking stocks instead of having to choose from 50 managers and a whole array of services [the client] doesn't understand."

But it makes as much sense to view what's going on in U.S. wealth management as a case of big brokerages and nimble RIAs together gaining assets at the expense of private banks. Seivert says that North American private banks saw their share of high-net-worth investors' professionally managed assets decline from around 86% in 1995 to 38% percent at the end of 2004. By 2010, he adds, private banks could be managing just 29% of those assets.

"Private banks can simply be places where well-heeled people get depositary and trust services and meet with someone in a nice suit they can feel good about," says Seivert. "There doesn't have to be any wealth management going on."

In other words, the extent to which private banks are in a position to pressure brokerages depends on the services they're offering and -- by immediate implication -- the sort and size of wealthy client they're chasing.

Oliver Wyman is a subsidiary of Marsh & McLennan. -FWR

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