



# The Coming Shakeout in Trust and Corporate Services

Emerging leaders have made explicit strategic choices about where to play and how to market their services.

**By Tim Cochrane, Marc Lino and Lennert Spek**

**Tim Cochrane is a partner with Bain & Company's Financial Services and Private Equity practices, and is based in London. Marc Lino and Lennert Spek are partners with the Private Equity practice, and are based in Amsterdam.**

The Coming Shakeout in Trust and Corporate Services

The venerable trust and corporate service (T&CS) industry, long a fragmented group of small, local offices often spun out of law firms, now finds itself rapidly becoming professionalized. In recent years, the industry has undergone brisk consolidation through rollups by regional leaders, as well as acquisitions by private equity (PE) funds attracted to the stable revenues and the opportunities to inject more rigorous management methods. It also faces regulatory and media scrutiny in the wake of tax evasion scandals.

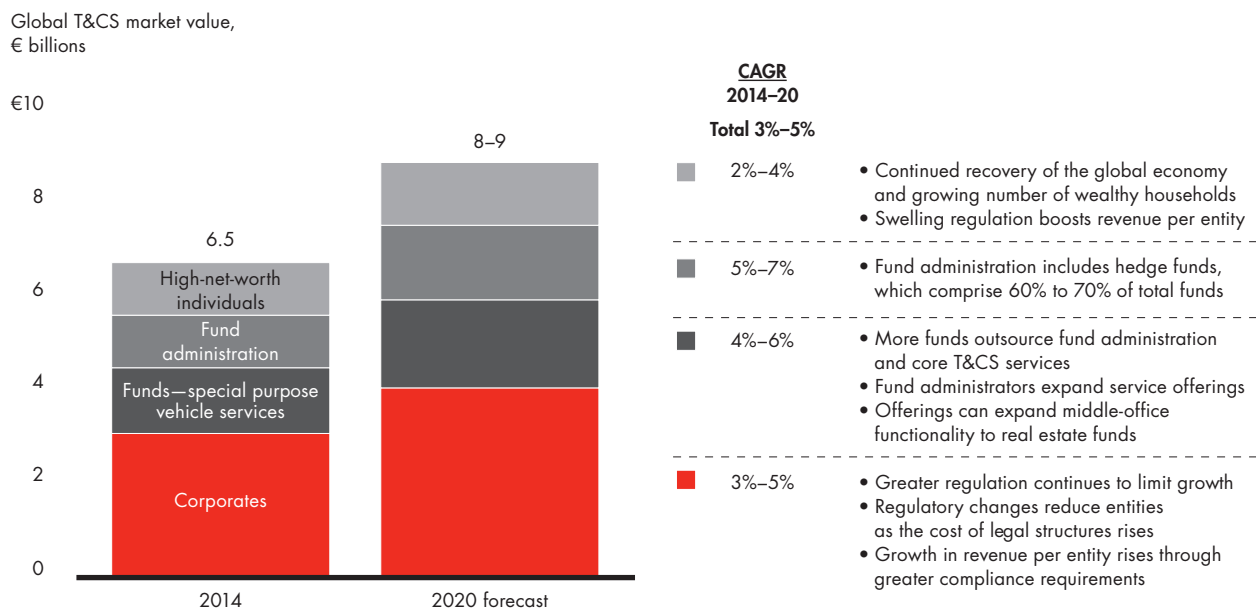
Based in select locales including Luxembourg, the Cayman Islands, the Channel Islands, Hong Kong and Singapore, these firms focus on setup, operational management and liquidation of legal entities for corporate, fund and private clients. The global market is likely to grow at a healthy 3% to 5% per year through 2020, Bain & Company estimates, on the back of rising household wealth and greater corporate and tax regulation, as well as more outsourcing of administrative services by PE and real estate funds (see Figure 1).

But not all firms will gain from the rising tide. A confluence of forces have put pressure on providers to make

explicit choices on a differentiated strategy, and to sharply improve their go-to-market approaches and their compliance processes. That marks a distinct change for the industry. Until recently, many providers barely paid heed to strategy or marketing. They relied on close-knit relationships and a few mergers and acquisitions (M&A). As a result, many remain subscale, relatively inefficient in operations and unproven at cross-selling.

New risks to the industry, moreover, emerged after the leak of millions of tax haven documents in the past several years, most prominently from a Panamanian law firm. The documents revealed international heads of state on the rolls of clandestine companies in tax havens and major banks facilitating tax avoidance through offshore enterprises. News reporters found that some of the shell corporations were used for fraud, tax evasion and evading international sanctions, and the media coverage triggered criminal investigations and audits in dozens of countries. These revelations about a couple of providers created a cloud over the entire industry. Leading T&CS firms have been taking actions to ensure that they have sterling compliance processes and an impeccable customer base.

Figure 1: Burgeoning wealth and regulation are boosting demand for global trust and corporate services



Note: Special purpose vehicle services exclude hedge funds  
 Source: Bain & Company interviews with industry executives and experts

## Strategy choices around where to play

Bain recently reviewed the financials of many T&CS firms and conducted extensive interviews with industry executives and clients. Based on that analysis, combined with our experience working with those groups, we see three prevalent strategies emerging around where to play in terms of geography, products and customer segments (see Figure 2).

**The global platform.** Companies pursuing this strategy aim to differentiate by building global scale and providing services to multiple customer segments across many jurisdictions. M&A often helps to achieve global scale, though it requires excellent integration of the acquired firms.

Intertrust, for example, has thrived by identifying its most profitable customers and building an integrated service offering and salesforce around their priorities. Starting as the market leader in the Netherlands, it has built a sizable share in other countries, both organically and through M&A. The firm focuses on PE and real estate funds, multinational corporations and financial institutions, which




often seek a one-stop shop with an extensive geographic footprint and an integrated offering. Intertrust has enjoyed a 22% compound annual growth rate (CAGR) in revenue from 2011 through 2016 and an EBITDA margin of 37.5% in 2016.

**The regional specialist.** Firms choosing this strategy concentrate on expertise in local regulation. They develop a full array of services for customer segments within a single jurisdiction or region. Many Asian markets look attractive because of the strong underlying economic growth.

One firm benefiting from that trend, Tricor, has concentrated on growing its business in Hong Kong and Singapore, serving subsidiaries of multinationals and regional public and private companies. Tricor’s expertise in local regulation and law has underpinned its growth, especially in corporate services, and the geographic focus has afforded opportunities for cross-selling. Tricor had a revenue CAGR of 5% from 2011 to 2016 and an operating profit margin of 29% in 2016.

**The customer segment or product specialist.** This strategy involves building a distinctive business through deep

Figure 2: Three prevalent strategies have emerged

		Elements of success	Examples
Global platform		<ul style="list-style-type: none"> <li>• Global scale and ability to serve multiple customer segments across jurisdictions</li> <li>• Acquisitions and excellent integration</li> </ul>	<ul style="list-style-type: none"> <li>• Intertrust</li> <li>• TMF Group</li> <li>• Citco</li> <li>• Vistra</li> </ul>
Regional/ jurisdiction specialist		<ul style="list-style-type: none"> <li>• Local regulatory expertise</li> <li>• Full array of services for numerous segments within a jurisdiction or region</li> </ul>	<ul style="list-style-type: none"> <li>• Eterra</li> <li>• Tricor</li> <li>• CT</li> <li>• CSC</li> <li>• Local firms</li> </ul>
Customer/ segment/ product specialist		<ul style="list-style-type: none"> <li>• Knowledge of customer needs, deep relationships and specialist service expertise</li> <li>• Expansion into adjacencies such as fund administration</li> </ul>	<ul style="list-style-type: none"> <li>• Alter Domus</li> <li>• State Street</li> <li>• Aztec Group</li> <li>• Banks, law firms, accountancies</li> </ul>

Source: Bain & Company

knowledge of customers' needs and priorities and specialist service expertise for a specific customer segment or asset class.

One attractive segment, PE and real estate funds, should see strong demand for services because of their industry's growth and the increasingly complex reporting requirements that spur outsourcing of fund services. Alter Domus has focused on underserved PE and real estate funds, offering them a vertically integrated proposition. The firm is the clear market leader in Luxembourg, from which it has built a strong presence in key European and Asian markets. It recently moved into the US market, where outsourcing has picked up steam. As one of the few vertically integrated providers, Alter Domus can offer solutions that reduce overall cost and administrative burden for clients. The firm's revenues rose at a 13% CAGR from 2011 through 2014, rising to roughly 20% in 2015 and 2016, and it secured a significant minority stake from the investment firm Permira.

Other strategies may emerge, of course, and no single strategy is inherently better than another. The key for a firm is to make explicit choices and invest to excel in the capabilities that are critical to supporting the chosen strategy. Muddling along a middle course, by contrast, no longer seems a viable option.

### Further choices around how to win

Deciding where to play will not be sufficient to thrive in the coming years; success also hinges on making choices about how to win. Excelling through a global platform, for example, requires robust systems and processes that enable a T&CS firm to provide a single point of contact for multinational clients. For a regional specialist, critical capabilities include understanding the full spectrum of potential clients for that jurisdiction and who the key intermediaries are.

Perhaps the most important capabilities, which span all of the strategies, consist of marketing, sales and compliance.

Even in this specialized industry, prospective customers and intermediaries often make use of online searches as part of their due diligence. Establishing a strong online marketing presence thus has become more important

just to be considered. Winning clients at the initial stage is crucial, as it is very difficult to persuade them to change their current provider. Our survey found that 80% of clients hardly ever change their provider before liquidation of the entity, in some cases because the client would need to go back to regulators to explain why it switched (*see Figure 3*). "If you're getting good service, you're loath to leave," a managing director for investor administration at an alternative investment manager told us. "Moving a thousand entities can often create more problems than it solves."

In the sales arena, given that about half of new client business still originates via intermediaries such as lawyers, bankers and accountants, maintaining strong ties with the right intermediaries helps to promote healthy flow of clients. Such ties are especially effective to reach individuals and small businesses, or to break into new jurisdictions or customer segments. Few trust companies, however, have realized the potential of these relationships. A more disciplined approach would identify promising intermediaries for each customer type, service and geography, then segment the list by size and the intermediaries' own priorities.

Besides going through intermediaries, firms may need to field a direct salesforce for large clients with complex, well-defined needs. Vistra takes this approach, and its salesforce helped with the acquisition of Thomson Reuters' intellectual property and science business by Baring Private Equity and Onex Partners.

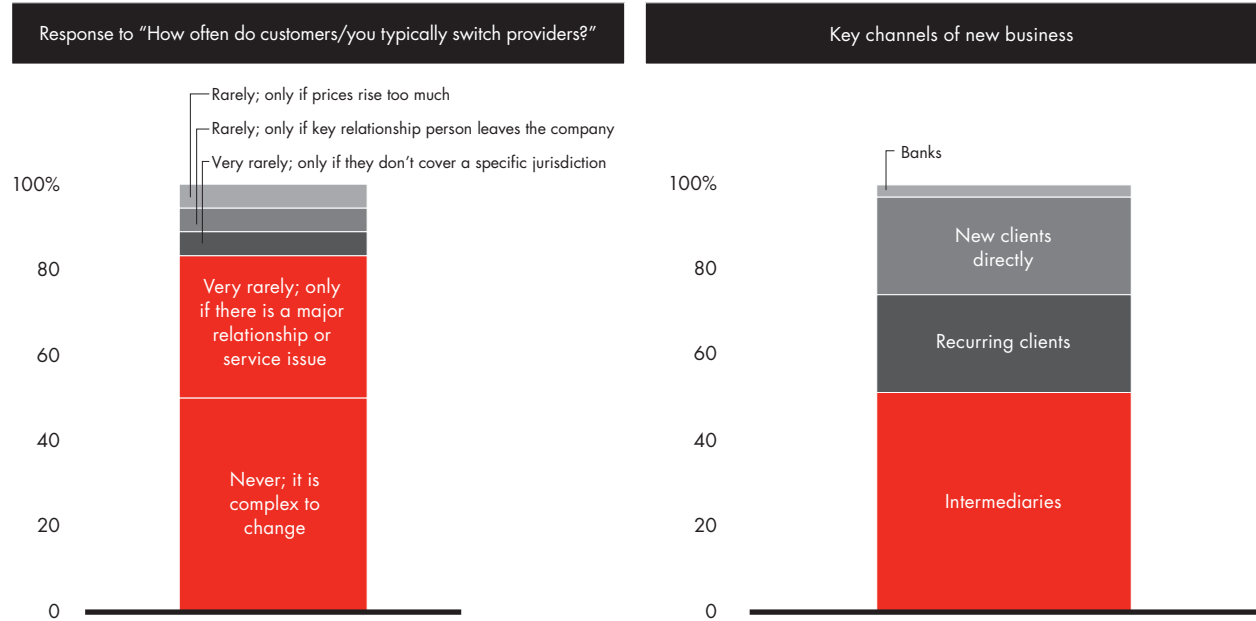
Finally, mounting regulatory requirements highlight the importance of strong compliance systems that can be tailored to local market requirements. Technology is replacing many aspects of manual oversight of such systems, and T&CS clients often include a technology diligence as part of their vendor selection.

### Who will survive?

We expect consolidation to pick up over the next decade, with the lion's share of the global market controlled by the top 10 firms. To become one of the leaders, T&CS executives should spend time now addressing a set of key questions.

The Coming Shakeout in Trust and Corporate Services

Figure 3: Customers usually are acquired at the initial stage, and most customers come through intermediaries



Source: Bain & Company interviews with providers, clients and industry experts

Around market position:

- Where have we historically earned our money— what segments, services and jurisdictions?
- Given our range in those areas, what should be our overall strategy and positioning?
- How do we differentiate from our key competitors? What is our recent win/loss ratio against them?
- What is our historical performance in terms of organic growth and stability of margins?

Around quality of clients:

- What are our main sources for new clients? How strong are relationships with clients and key intermediaries?
- What share of wallet do we have with clients, and has that share risen or fallen?
- What is our mix of clients, and what is their quality— in particular for high-net-worth individuals?

Around employees and processes:

- Do we have the right mix of talent and capabilities to pursue our chosen strategy?
- Have we experienced low morale or an uptick in employee churn?
- Do we have processes to ensure teaming across jurisdictions and key account management?
- How strong are our regulatory and compliance processes?
- Do we have high-caliber support operations in IT, HR and Legal?

As the overall T&CS market grows, firms that make explicit choices to pursue a distinct strategy and hone their go-to-market approach stand to outperform the rest of the pack and widen their lead through further acquisitions and premium pricing. Those that remain stuck in the middle will flounder and struggle to stay relevant with ever more demanding clients and regulators.

## *Shared Ambition, True Results*

**Bain & Company is the management consulting firm that the world's business leaders come to when they want results.**

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 55 offices in 36 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

### **What sets us apart**

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.



## Key contacts in Bain's Financial Services and Private Equity practices

**Americas**                      **Justin Miller** in New York (*justin.miller@bain.com*)

**Asia-Pacific**                      **Sebastien Lamy** in Singapore (*sebastien.lamy@bain.com*)

**Europe,**                      **Tim Cochrane** in London (*tim.cochrane@bain.com*)

**Middle East**                      **Marc Lino** in Amsterdam (*marc.lino@bain.com*)

**and Africa**                      **Lennert Spek** in Amsterdam (*lennert.spek@bain.com*)

For more information, visit [www.bain.com](http://www.bain.com)

AMSTERDAM • ATLANTA • BANGKOK • BEIJING • BENGALURU • BOSTON • BRUSSELS • BUENOS AIRES • CHICAGO • COPENHAGEN • DALLAS • DOHA • DUBAI  
DÜSSELDORF • FRANKFURT • HELSINKI • HONG KONG • HOUSTON • ISTANBUL • JAKARTA • JOHANNESBURG • KUALA LUMPUR • KYIV • LAGOS • LONDON  
LOS ANGELES • MADRID • MELBOURNE • MEXICO CITY • MILAN • MOSCOW • MUMBAI • MUNICH • NEW DELHI • NEW YORK • OSLO • PALO ALTO • PARIS • PERTH  
RIO DE JANEIRO • RIYADH • ROME • SAN FRANCISCO • SANTIAGO • SÃO PAULO • SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY • TOKYO • TORONTO  
WARSAW • WASHINGTON, D.C. • ZURICH