Anticipated acquisition by Barclays Bank Plc of Gerrard Management Services Ltd

The OFT's Decision on reference under section 33 given on 12 December 2003

PARTIES

Barclays Bank PLC (Barclays) is part of the Barclays PLC group, one of the UK's largest financial services groups, and is engaged primarily in banking, investment banking and investment management. In the year to end December 2002, the Barclays group reported a UK turnover of £14.6 billion. **Gerrard Management Services Ltd** (Gerrard) is active in the provision of wealth management services to private clients focusing mainly on managed portfolio and 'dealing with advice' services. Gerrard is wholly owned by Old Mutual plc via subsidiary Central Capital Acquisitions Ltd. In the year to end December 2002, the UK turnover of the total business being acquired was £112.2 million.

TRANSACTION

Barclays Bank PLC has agreed to acquire the private client wealth management business of Old Mutual plc for a consideration of £210 million subject to regulatory approval from the OFT and Financial Services Authority (FSA). The transaction comprises an acquisition of 100 per cent of the issued share capital of Gerrard Management Services Ltd once Old Mutual has transferred all its private client wealth management businesses into Gerrard Management Services.

This is an anticipated transaction. It was announced on 27 October 2003. The merger was notified on 5 November 2003 and the 30 day statutory deadline is 16 December 2003.

JURISDICTION

As a result of this transaction Barclays and Gerrard will cease to be distinct. The UK turnover of Gerrard exceeds £70 million, so the turnover test in section 23(1)(b) of the Enterprise Act 2002 (the Act) is satisfied. A relevant merger situation is likely to be created.

RELEVANT MARKET

The parties overlap in the provision of wealth management services and execution-only services.

Product market

On the basis of data available from the 2003 Private Asset Managers survey and 2003 ComPeer report, the parties estimate that UK private clients held securities under management to the value of approximately £212 billion at the end of 2002. [Managed portfolios][i] were the largest element of assets under management totalling £178 billion. The remaining £34 billion was attributed to execution-only services.

Wealth management services include:

- discretionary managed portfolios where trades are executed on behalf of clients at the manager's discretion;
- advisory managed portfolios where the asset manager advises clients on suitable trades and strategies but requires consent for any trades;
- collectives which are pooled investments or funds that enable a client to buy a range of securities, stocks and shares through the purchase of one product; and
- 'dealing with advice' which includes advice to clients about investment opportunities and executing trades on their clients' behalf.

Within the wealth management segment, discretionary, advisory and 'dealing with advice' services are all relatively close substitutes to each other since they all provide day to day management and advisory services. According to the parties these services involve the same staff, unlike collectives which can be bought through a wide variety of means other than via a wealth management service provider.

Third parties have indicated that off-the-shelf financial products, such as unit trusts and ISAs, are less suitable for the larger asset portfolios that typify clients of wealth management providers, and contain no advisory or active management element with regard to individual clients' portfolios.

Although some third parties considered that Independent Financial Advisors (IFAs) form a demand-side substitute to wealth management services, the advisory element of services provided by IFAs is of a broader focus than the services offered by wealth managers. Furthermore, IFAs will often refer clients to a wealth management service provider as part of their service.

Execution-only services comprise a broker executing buy or sell instructions on behalf of a client without providing advice. Since execution-only services contain no advisory or management element, they are not considered to be a suitable alternative to wealth management services. Furthermore, third party responses indicate that while wealth management providers can switch relatively easily into the provision of execution-only services, it is more difficult for an execution-only provider to move into the provision of wealth management services.

As a result of the high degree of demand and supply-side substitutability between the various sub-segments within the wealth management sector, wealth management services are considered to form one frame of reference. Execution-only services exhibit only limited substitutability with wealth management and are therefore considered to be distinct.

Geographic market

Third parties have indicated that customer relationships are very important in the wealth management sector and consequently, a UK infrastructure and English speaking staff are essential to operate in the UK. It appears that most foreign firms do operate through a UK subsidiary. As a result, the relevant geographic frame of reference is considered to be the UK.

HORIZONTAL ISSUES

Market shares

Wealth management services

Post merger the parties will have a combined share of wealth management services of 9.9 per cent (increment 6.8 per cent) of assets under management based on 2002 values.[1] While the acquisition of Gerrard will make Barclays the second largest wealth management provider after Coutts (11 per cent), this is a fragmented sector where 32 per cent of services are accounted for by a fringe of small operators with individual shares of less than 2 per cent each. Furthermore, third parties have indicated that smaller specialist providers do not face a competitive disadvantage as there are no significant economies of scale to be gained from being a larger entity. As a result, all other firms in this sector are likely to be able to provide a strong competitive constraint on the merged entity.

One third party competitor expressed a concern that the merger would make Barclays a dominant player in the provision of wealth management services. Given the parties' combined share and the additional factors outlined above, however, this is unlikely to occur.

Execution-only services

In respect of execution-only services, the parties will have a combined share of 11.3 per cent of the volume of transactions conducted in the UK in 2002. The increment represented by Gerrard, however, is less than 1 per cent of the total number of trades. Furthermore, Gerrard does not market this service separately and only provides it as an addition to its wealth management service clients.

Some third parties expressed a concern that this transaction would strengthen Barclays' position as the leading player in this sector. It is, however, unlikely that on the basis of a small increment to share alone, this merger will result in a substantial lessening of competition in respect of execution-only services.

Barriers to entry and expansion

Wealth management services

[1] Source: PAM/ComPeer Survey

Fulfilment of licensing requirements, highly qualified staff, and a reputation for competence in wealth management in order to persuade IFA's and other professionals to refer new clients, are each considered essential for new entry. As a result of these requirements, third parties did not consider de novo entry into the wealth management sector to be feasible.

Entry is more likely to come from entrants active in other areas of the financial services industry who are able to secure new clients through cross referral from other service lines. The close client-manager relationship that is a feature of wealth management services often results in customers following a manager who moves between firms. Many third parties indicated that their wealth management clients had been with them for over 20 years and that the major cause of account loss was death. Consequently, the movement of teams between existing players in the market is relatively common although teams are unlikely to be easily persuaded to move to another firm that does not have an established reputation in wealth management. It also appears unlikely that a new entrant would be able to gain a viable customer base quickly by winning existing clients from incumbent firms.

The recruitment of teams from one player to another is the most likely route to expansion although, as has already been indicated, there are no significant economies of scale to be gained from expansion and smaller specialist providers face no competitive disadvantage.

Execution-only services

The main barriers to entry in the execution-only sector are the need for mass marketing to attract transactions and for a minimum number of transactions to make the business viable. It is also possible for potential entrants to use 'white label' providers of back office, call centre and website requirements. Consequently, barriers to entry in respect of execution-only services do not appear to be high.

Buyer power

Customers in both the wealth management and execution-only sectors are individuals and are therefore considered to be too disparate to have any countervailing buyer power.

VERTICAL ISSUES

This transaction does not give rise to any vertical issues.

THIRD PARTY VIEWS

Third party enquiries revealed two concerns which have been taken into account in the above assessment. Some third parties contacted considered that the proposed merger is an opportunity to acquire key staff and teams from Gerrard and so expand their businesses.

ASSESSMENT

The degree of fragmentation indicated by the existence of a large number of other operators in this sector, coupled with the lack of economies of scale, indicates that the parties' combined share of supply of 9.9 per cent is unlikely to raise any significant competition concerns with respect to wealth management services.

In respect of execution-only services, Barclays' low increment to share coupled with low barriers to entry indicate that there is little prospect of a substantial lessening of competition.

The OFT does not believe that it is or may be the case that the creation of the relevant merger situation may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services.

DECISION

This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.

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[i] For the avoidance of doubt, the term 'managed portfolios' means wealth management services.