THE BANKER

Where's the exit?

After the recent euphoria, institutions involved in the global custody business are now heading for the door. Stephen Timewell reports

The long-expected shake-out in global custody has begun in earnest. Following a period where many institutions clamoured to get a foothold in the global securities services business, the tide has now turned and big players are looking for the exit.

The recent sale by the UK's National Westminster Bank and reports that the US' JP Morgan and Bank of America have put their global custody businesses up for sale have confirmed long-held views that the costs and risks would prove too great for some.

How many others will head for the door remains to be seen. But after the euphoria of the emerging markets splurge of the early 1990s, global custodians are now less sanguine about their prospects and are seriously reassessing their strategies.

The business that many banks thought they had to be in may not necessarily be as attractive today since strong competition has sliced margins. Fat fees, if they existed, have been countered by growing costs in a technology-intensive industry, which demands continuous upgrading and investment.

Like high-stakes poker, players have to spend millions on technology and systems to stay in the game, and many are finding the rewards do not match the costs and the inherent risks.

Why have big players, like JP Morgan, which has about $250 billion in custody assets world-wide, and NatWest, decided to pull out?

Not surprisingly the banks are maintaining a strict "no comment" on their moves, wary of upsetting eventual sales prices, but the motives behind their exits are not all the same.

The investment cycle