WEALTH MANAGER

Regulation can't stop wealth start-ups

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Recent months have seen a number of new wealth management boutiques launched, calling into question the notion that the regulatory burden is stifling start-ups.

The age-old debate about the relative merits of being small and nimble or large and rich will continue, but this new generation suggests the challenges of going it alone are not insurmountable.

Jonathan Fry, who recently left the eponymous firm he founded in 1984 to set up a multi-family office, Fry Family Office, says the pressures of setting up a business should not be underestimated. However, he believes there is still sufficient demand from clients to ensure the survival of boutiques.

'A key issue will be the extent to which the individuals involved are sufficiently multi-skilled and experienced to be able to cope with the different job roles they will find themselves having to fulfil in a way they might not have done if they worked for a large company in the past,' Fry said.

'Going into an independent business that they run themselves, they are going to have many more demands on their time and abilities and that challenge is not to be underestimated.'

He says demand from clients for a close personal relationship that does not revolve around the sale of financial products or homogenised investment management factors are driving recent launches. Another is individuals seeking more autonomy.

'At the end of the day, large companies cannot really provide that level of personal relationship long term, and opportunities for advisers to fulfil their potential. Despite the fact that it is difficult, I think people are willing to embrace the challenges for the positive benefits it brings,' Fry said.

One of the newcomers to the boutique world is Brighton Capital Management, led by ex-Brewin director David Pegler.

Pegler said that although regulation proved to be an initial barrier, partnering with Raymond James Investment Services took the pressure off. 'Having a larger partner that provides you with FCA permissions and compliance functions and the security of client assets is a big help,' he said.

'When you have a boutique business there are so many distractions, it can mean that you end up focusing on them,' he added.

'You have to be prepared to do the IT, the training, the compliance and they are some of the challenges with any small business, but you tend to be more passionate about doing it.'

Pegler also feels it is beneficial to start out with a clean slate and no legacy issues. He notes many larger firms that have grown into 'beasts' with hundreds of thousands of clients are struggling with systems that need updating.

'It is important to think in advance about where the regulator wants to go. All firms are moving there, but an advantage of a boutique is that it is much easier to do it from the start when you set up a business, and think about what is coming over the hill,' he said.

David Scott, founding partner at Vestra Wealth, agrees that starting fresh is preferable but admits there are more challenges now.

Scott set up Vestra Wealth in 2008 in what was a different time for regulation. He said if he was setting out now, he would still do it, but that it would take a lot more determination and belief in what he was doing. He would also look to outsource back office systems and compliance.

'I think it is a lot more difficult to launch now. If you are launching as a small firm with a multi-family office, that is still relatively easy to do. If you are launching a full service offering running discretionary and client assets, that is virtually impossible,' he said.

'You need to have scale or get to scale quite quickly to pay for the infrastructure to support it. The compliance issues are complex but they are not insurmountable.'

Milena Ivanova, co-founder and CEO of Monogram, which launched last year, said the firm faced a number of challenges getting started, not least spending months obtaining permissions and getting to grips with new regulations, such as Fatca.

Monogram has 20% of its staff dedicated to compliance as well as a third party compliance consultant. Ivanova said these resources could have been invested in a sales person to help grow the business, but compliance requires serious commitment.

'I believe that along the way there are hurdles and one just needs to overcome them. If it were easy, everybody would be doing it. You just need people who will focus on the target,' she said.