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Banks expect end to fragmentation

Analysts say the credit crisis will result in a wave of consolidation, writes David Bain

CORBIS

Coming together: renewed confidence and low valuations expected to drive a period of M&A across Europe

Switzerland has more than 150 private banking businesses, Germany can boast at least 40 wealth managers and the UK has at least 30. Despite years of talk of consolidation, the wealth management sector remains by far the most fragmented part of the financial services industry.

But that might be about to change. Private bankers and analysts believe the forces unleashed by the credit crisis will drive acquisitions and mergers across the European wealth management industry in the next few years.

Ray Soudah, managing partner of wealth management M&A boutique MilleniumAssociates, said: "The acquisition trend over the next 12 months is likely to accelerate. Buyers can be smart and be selective as valuations have dropped to 2002 levels."

Soudah's views are supported by those working in the sector, with three quarters of private bankers polled in a survey by accountancy firm KPMG saying acquisitions are worth making in the current environment.

Big-name wealth managers

Acquisitions in wealth management

Rank of likelihood	Potential acquirers	Potential sellers
1	Barclays Wealth	Kleinwort Benson
2	Credit Suisse	RBS Coutts 3 (Switzerland)
3	BNY Mellon	St James's Place
4	SG Private Bank	Lloyds TSB (Switzerland)
5	Bank Julius Baer	Citibank (Switzerland)
6	JP Morgan	Dexia Private Bank (Switzerland)
7	EFG International	Clariden Leu
8	Schroders	Union Bancaire Privée
9	Sal. Oppenheim	-

Source: Dow Jones Wealth Bulletin

such as Walter Berchtold, head of private banking at Credit Suisse, and Tom Kalaris, his equivalent at Barclays Wealth, are buoyed by their success at riding out the credit crisis. They have gone on record saying they are looking for deals. Both banks believe they will act as big consolidators in the sector.

Schroders is also interested in acquisitions, as is Bank of New York Mellon, keen to use its competitive edge in computer-driven administration. A BNY Mellon spokeswoman said: "We are interested in organic and inorganic opportunities to develop our wealth management business. Our wealth assets under management are $130bn, with the majority in the US."

Since the beginning of the year acquisitions in the sector have been conspicuously absent, with only two of any size. One involved BNP Paribas Wealth Management buying a majority stake in Bank Insinger de Beaufort and American International Group's sale of AIG Private Bank to Aabar Investments, based in Abu Dhabi.

Soudah said: "The reason for a lack of acquisitions in the first half is simple – most institutions lacked confidence to do anything given the unprecedented financial crisis."

He predicts a revival of confidence, coupled with restructuring pressures, will drive M&A activity in the sector. Soudah said: "The real reason for the rush of disposals of private banking subsidiaries of European and American banks is the restructuring pressures following home country government capital assistance into their parent banks."

UK wealth manager Kleinwort Benson is first on the list from a restructuring point of view, with the bank's parent Commerzbank announcing its intention to sell the firm in May. The German bank has been pressured by the European Commission to restructure and sell businesses after receiving a bailout from the German Government last year.

The Royal Bank of Scotland, majority owned by the UK Government, has a sizeable wealth management business, which has as its core private bank Coutts. RBS has denied it plans to sell Coutts, but it might want to dispose of the private bank's offshore business in Switzerland as part of its restructuring efforts.

RBS Coutts in Switzerland, better known by its previous name Coutts Bank von Ernst, has Sfr54bn (€35bn) of assets under management, making it one of the top 20 wealth managers in the country – and a tasty target for those looking to acquire.

Other likely candidates using the restructuring criteria include UK wealth adviser St James's Place and Lloyds Private Bank in Switzerland, both owned by Lloyds Banking Group, which in turn is 43% owned by the UK Government.

Other Swiss private banking subsidiaries of international banks might also be up for sale. High on the list, say analysts, include Citibank (Switzerland), Dexia Private Bank (Switzerland) and ING Bank (Switzerland). The parent companies of these banks deny they plan to sell their Swiss subsidiaries. Dow Jones Wealth Bulletin survey entitled Wealth Management After the Crunch demonstrated the breakdown in trust between client and adviser. The fraud committed by Bernard Madoff has suggested to many that the word of individuals cannot be trusted.

Wealth managers have come under pressure to improve their computer-driven systems to enhance the levels of data made available to clients. Efforts to ensure the elimination of fraud will also drive expert systems expenditure. This will push up costs for wealth managers at a time when wealth creation remains subdued, although the growing financial literacy of the first generation wealthy means they will be prepared to carry out more research themselves.

Sebastian Dovey, managing partner at the wealth management consultancy Scorpio Partnership, believes costs will be critical in driving acquisitions in the sector. He said: "Cost-income ratios are rising for many wealth managers and this might prompt some to sell." He also thinks some of these deals could be big. "There's likely to be at least one trophy brand which will come up for sale in the next year."

Nevertheless, some analysts play down the likelihood of cross-border acquisitions. A PricewaterhouseCoopers survey in global wealth management found few respondents envisaged acquisitions across borders.

It said: "In the new era of tightened regulations, the fly in/fly out model increasingly appears questionable. Cross-border expansion could also expose wealth managers to additional regulatory and tax risks." It agreed acquisitions were likely to increase. Managers with an edge in administration could play a big part in the process.

Dovey was less convinced that buyers would be interested in smaller wealth managers. He said: "The queue isn't big for smaller banks. For example, banks managing less than Sfr10bn in Switzerland – unless they have a banking licence – aren't as saleable as might be expected."