WealthBriefing.com
Exclusive Global Wealth Management Intelligence

February 4, 2008

Wealth Management M&A Not Affected by Market Downturn

Alison Ebbage

The latest figures from *WealthBriefing* suggest that the sub-prime crisis is having a minimal impact on M&A activity in the booming wealth management industry. The research shows that structural changes within the UK market, one of the world's largest, are driving the pace of M&A activity. Elsewhere booming growth in the numbers of high net worth individuals looking for wealth management services will keep M&A activity afloat as major players seek to beef up their offerings through acquisitions.

The research, based on an analysis of *WealthBriefing's* database of deals, shows that the total activity was up by 16 deals from 107 in 2006 to 123 in 2007. In percentage terms this represents an increase of 14 per cent.

More impressive, however, were the figures for the UK and US. In the UK the number of deals shot up from 26 to 38, a percentage change of 48. Activity in the UK in the second half of 2007 also showed a marked upswing from 10 to 28 deals (180 per cent). Figures for the US meanwhile stood at 51 for 2007 compared to 30 for 2006, a year-on-year percentage change of 70 per cent. The figures also include, for the first time, the number of cross border deals, which stood at 15 and 24 for the first and second half of 2007 respectively.

Ray Soudah, founder of Millennium Associates comments: "Going into 2008 we think that activity will continue however its structure will be different. Wealth managers and private banks have not, in themselves, been affected by the sub prime crisis. Private banks run client's money according to portfolio management and risk management mandates.

"Any exposure to sub prime would have firstly been the clients' not the private bank's own balance sheet and secondly the risk management structures in place would have ensured that only a small percentage of a portfolio would ever be invested in any single asset," he says.

"But this is not the case for large banks that were trading off their own balance sheets and often had very large exposures to the sub prime market. So although in principle wealth managers have been shielded from the effects, many of them are part of larger institutions who have been affected."

For the first half of 2008, the industry forecast is for figures to remain static. Ian Woodhouse, director at Ernst &Young says: "In the first three quarters of 2007 the markets were good and then came the sub prime crisis. So in the fourth quarter we entered a phase of risk and volatility and as a result of this tail end pressure deals have slowed."

But growth through acquisition is still going to be a major feature in the market. Mr Woodhouse says that the long-term trend is for wealth managers to accelerate growth and product knowledge, making growth through acquisition a good bet. The wealth management arena is one of the only areas in financial services showing really strong growth. Risk adjusted returns are good and thus even though the cost of borrowing is high the financing is available.

The UK is a key case in point. Structural changes in the way that business is done will make for a surge in activity as independent financial advisors and private banks alike seek to acquire each other's skills and experience.

The Financial Services Authority's Retail Distribution Review will push IFAs towards fee-based businesses rather than commissions. This will make them a good target for private banks looking to extend their remit either in terms of products or in terms of geography. EFG is one bank that has made several such well publicized acquisitions recently.

In addition the UK, previously dogged by a lack of appropriate targets, will see many of its baby boomer generation financial advisors retire and seek to sell their business to larger institutions.

Structural change will also prevail in the US for similar reasons. But unlike the UK, which may see its institutions targeted by foreign entities looking to gain a toehold there, the US is more difficult for foreign buyers.

Mr Woodhouse explains: “This is partly because in the US even a minimal scale operation requires significant outlay at a time of change- which also costs money. Secondly the cost of compliance with the US authorities is very high compared to compliance issues elsewhere.”

The survey includes for the first time cross border deals which reflects the degree to which globalisation has its grip on firms who now recognize the need for a substantial geographic footprint if they are to succeed. In the past this has been directed from West to East and the Asia Pacific region in particular. But the next few years may see a reversal of this trend as regulations in places such as India are relaxed allowing home grown entities to look to expand elsewhere.

Mr Soudah comments: “Countries in the process of wealth creation, such as India, China and regions such as the Middle East are looking to boost their private banking and wealth management capabilities. Although this is in its infancy at present with only a handful of deals, I expect this to grow.”

That said, interest in acquisitions in places like Asia Pacific from Western firms continues. There has been a massive upsurge in wealth from a relatively small base, it’s a compelling business case,” says Mr Woodhouse.

In Switzerland, meanwhile, the number of deals year-on-year was static at 15 and this reflect the maturity of the consolidation phase that the market has gone through. “The Swiss wealth management arena is now left with a number of strong mid-sized firms who are now very well placed for organic growth,” says Mr Soudah.