

RAY SOUDAH, MILLENIUM ASSOCIATES

## Lack of quality holds back bidders

There is a perception that there has been a lot of merger and acquisition activity recently in private banking, but this is not necessarily backed up by the facts.

The number of transactions are not in excess of normal levels, but people have become more aware of the deals because the names involved have been familiar – the likes of Kleinwort Benson or ING for example. These have largely been obligatory disposals by the owners.

Because of regulatory restructuring decisions by their domestic governments, this is almost without exception the case: the likes of Kleinwort Benson, Dresdner, ING and so-on. There are two primary factors which are preventing private banks taking advantage of cheap prices.

- **Capital constraints:** the majority of institutions are in the same situation, just about recovering from their own financial crisis, or having just repaid their government debts. They cannot be seen going around buying other banks so soon. Some banks are talking brazenly about making acquisitions, but in reality they are not yet in a position to do that because they are only just beginning their recoveries themselves.
- **Lack of quality acquisition targets:** there is no absolute financial attractiveness for many of the companies on offer. It is true, you can't go much below zero (in terms of goodwill relative to book value) to motivate potential buyers. But the quality of several of the objects put on the market do not reflect prized assets in the sense of pure play private banks. That does not mean they are full of fraud or corruption, but they do tend to have unquantifiable challenges of some kind or another.

In Switzerland there are acquisition risks; there is a banking secrecy crisis, and some banks contain unknown levels of undeclared funds. The whole world is attacking every offshore centre for a lack of transparency, so it does not make sense to pile up even more undeclared funds in your private bank.

Pure onshore, clean, highly profitable businesses – and this is not to denigrate the people that were running other banks – these types of banks are not those which have become available for sale.

That is why people have not been obtaining high prices for the sales. In domestic markets, the main consolidators are likely



to be other domestic businesses. Internationally, consolidators are likely to be the medium-sized banks that already have overseas operations – the likes of Julius Baer, Vontobel and some of the Swiss cantonal banks that are big enough to do it. But I would predict there will be fewer and fewer buyers for these businesses.

You hear big groups talking about making acquisitions and frankly I think it's premature. Many must have spent significant resources examining various files and looking at banks for sale but in the end it will be hard for them to explain to their shareholders why they are buying portfolios which potentially contain undeclared money in the current environment.

I think, yes, they talk like that and they are genuine. I think the buyers are themselves good banks, but doing something in the short term is pretty unlikely. There are a few local Swiss banks available on the market and they are sub-scale and are likely to be picked up by miscellaneous people – most likely newcomers or people who want an existing platform to save time applying for a licence.

So it is not yet a hugely commercially based consolidation-led M&A market. In the second round, when all of this government-inspired activity subsides and the banks have recovered, which I expect to happen in the next three to six months, more commercial reasons for sales will return. ■

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