The Banker

Two frontrunners emerge in German private landscape

By Michael Marray | Published: 30 December, 2009

Deutsche Bank's planned takeover of Sal Oppenheim will leave the German private banking sector dominated by two key players. However, Deutsche and Commerzbank are pursuing very different strategies. Writer Michael Marray

German private banking is the latest sector to have a major re-alignment triggered by the financial crisis, as Deutsche Bank moved in to buy Sal Oppenheim, in a deal that will close in the first quarter of 2010.

The takeover almost doubles Deutsche's assets under management, and in particular gives it greater access to ultra-high-net-worth private banking clients. It also pulls Deutsche yet further away from the merged Commerzbank/Dresdner Bank.

The new Commerzbank is strongly focused in Germany, whereas Deutsche is moving ahead as a global player in private banking and wealth management. Along with other banks that did relatively well in the global crisis, such as HSBC and JPMorgan Chase, Deutsche is viewed as a potential candidate to pick up other private banking assets in 2010, as they become available around the world.

Deutsche has a delicate task ahead of it this year as it brings Sal Oppenheim into its management structure. It must try to ensure that wealthy clients do not desert the specialist private bank for competitors, after suddenly finding themselves customers of a subsidiary of a mass retail bank such as Deutsche, which also controls Postbank.

Abrupt ending

Sal Oppenheim enjoyed proclaiming its status as being privately owned and independent since 1789, and towards the end of 2009 smaller private banks were already sniffing around some of the opportunities resulting from the Deutsche takeover, on the basis that some wealthy clients will be averse to any change in their existing relationships. "Other private banks are keen to hire away the relationship managers, hoping that their rich clients come with them," says one observer.

Management at Sal Oppenheim, which had been family run with personal liability, underestimated the severity of the global financial crisis, even as the bank ran into its first loss-making year since 1945, losing €117m in 2008.

Sal Oppenheim made a series of acquisitions at the top of the market, which left it exposed in the downturn. And a series of poor decisions included its involvement as lender and shareholder with tourism and retail group Arcandor, whose bankruptcy in June 2009 put added pressure on the bank.

At the earnings press conference in Luxembourg back in April 2009, Matthias Graf von Krockow, head of the executive team, had sounded optimistic. "Sal Oppenheim was unable to avoid the immense pressure that the financial market crisis exerted on the entire financial sector," he told the gathering. "However, thanks to the support of our owners, we are in a position to digest a loss of these proportions. And our equity ratio remains high at 12%."

But within months, the German Federal Financial Supervisory Authority (BaFin) was expressing concern about its capital base, and Deutsche was coming forward with a bridge loan to help the personally liable shareholders to put in more equity. And soon talks had developed about a Deutsche takeover. Analysts suggest that there was heavy pressure from BaFin on the private owners to shore up their position by finding a strong bank partner.

Ironically, Sal Oppenheim had moved its headquarters to Luxembourg in July 2007, and at the time executives publicly made it known their dissatisfaction with slow-moving German regulation, for example, the hurdles on approving new products for public distribution.

"Sal Oppenheim lost some friends in Germany when it moved its headquarters to Luxembourg," says one banker. It is unlikely, however, that remaining in Germany would have altered matters. Helping out such an elite institution, with a proliferation of titled board members and a super-wealthy clientele who typically need €5m to open an account, would have hardly appealed to German politicians sensitive to voter anger about bank bailouts.

Ray Soudah, founder of Switzerland-based Millenium Associates

Good deal for Deutsche

Sal Oppenheim looks like a good deal for Deutsche, with a low price tag of €1bn, subject to adjustments based on various risk factors. The old shareholders will have the possibility of taking a 20% stake in the German subsidiary Sal Oppenheim KGaA based in Cologne.

"When Deutsche bought a stake in Postbank it acquired a mass market brand, and the Sal Oppenheim takeover now gives it a strong brand for high-end private banking," says Michael Seufert, banking analyst at Nord/LB in Hannover.

"Deutsche was in a good position to negotiate an attractive purchase price for Sal Oppenheim, and the final amount can still be adjusted on the basis of various factors, including the sale price for the investment banking activities."

In addition to Graf von Krockow, the private owners who are selling up include Christopher Freiherr von Oppenheim, and Baron Georg von Ullmann, who are at the forefront of German titled old money. In October, an annual list of the 300 richest Germans featured a drop to joint-89th place from 28th a year before for both the von Oppenheim and Ullmann families. They are likely to be even further down the list next October.

As of June 2009, Sal Oppenheim had €135bn under management, and 4400 members of staff, so €1bn is a low exit price for the family owners. Last June, Deutsche had €171bn under management.

"The previous bottom of the market had been 2002, when there were lots of private banks and wealth management companies up for sale at low valuations, but valuations subsequently rose by up to 600% to the end of 2006 running into early 2007, when there was an abundance of buyers offering good prices and conditions," says Ray Soudah, founder of Switzerland-based Millenium Associates, a pan-European private banking and asset management mergers and acquisitions advisory specialist. Millenium's German transactions include the sale of the private client business of Landesbank Berlin to LBBW Luxembourg in October 2008.

"Most transactions during 2009 were done under pressure from regulators to increase capital and dispose of non-core businesses, regardless of low valuations that have often been 1% to 1.5% of assets under management versus 6% in 2006," says Mr Soudah. Added to that, the assets under management figures have themselves dropped dramatically since 2006.

Deutsche will not want to force the pace of change too fast, and will be anxious to keep it as an exclusive brand and not to disturb client relationships too much. That will also mean not being too aggressive in pushing investment products structured by Deutsche. In any case, most German private banks, including Deutsche's private wealth management unit, run fairly open platforms for product distribution.

"In the German-speaking area most banks offer their retail and high-net-worth private banking customers a wide range of products provided by third parties," says Martin Weithofer, managing director at Assenagon Asset Management in Munich, which specialises in arranging structured products such as the Assenagon Credit Basis fund, which arbitrages price differences in bonds and the related credit default swaps.

"Independent asset managers and niche product providers have the opportunity to sell products via the large bank distribution channels, and we work closely with them," says Mr Weithofer.

Brussels orders break-ups

The two big takeovers of Sal Oppenheim and Dresdner Bank have also triggered more deals at the margins. The investment banking activities of Sal Oppenheim are surplus to Deutsche's requirements, though talks with Mediobanca and Macquarie over a sale have so far failed to reach a conclusion.

Under pressure from Brussels, in October 2009 Commerzbank sold two Belgian private banking units, Dresdner Van Moer and the Belgian branch of Commerzbank International to members of management.

Also in October, Commerzbank announced the sale of its UK wealth management unit Kleinwort Benson to RHJ International, of Brussels, a private equity firm that had been one of the contenders to buy the Opel car company - eventually retained by General Motors.

Thorsten Reitmeyer, head of the wealth management division

Commerzbank goes local

Commerzbank appears calm about the prospect of competition from a larger Deutsche-Oppenheim combination, partly because it has a very different strategy to Deutsche. Following the takeover of Dresdner Bank, and with the German government owning a 25% stake, it is now strongly focused upon the German domestic market, as set out in its 'Roadmap 2012' strategy.

The new wealth management division has 60,000 clients in Germany, and €45bn-worth of assets under management. The bank has 600 advisors in 41 wealth management branch outlets, and because the commercial banking operations have a strong focus on the Mittelstand, it has access to a large pool of wealthy business owners.

"The new Commerzbank wealth management provides more value for clients through its dual advisory approach, its strong regional presence and its close interlock with the small and medium-sized enterprises business segment," says Thorsten Reitmeyer, head of the wealth management division.

"The dual advisory approach ensures continuity with a generalist relationship manager, who can call in specialists in areas such as succession planning, real estate management and investments," he adds.

"The takeover almost doubled the number of accounts in the private clients business segment, which includes retail banking and wealth management, to reach 11 million," Mr Reitmeyer explains.

"However, wealth management has especially profited from the Dresdner Bank takeover, since Dresdner had traditionally been strong in the high-net-worth-individual (HNWI) segment."

Analysts note that Dresdner was also strong on the structuring side, using derivatives to create structured products for distribution to HNWI business, and thus the takeover has added depth to Commerzbank's structuring capabilities.

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