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WealthBriefing

2 May 2014

EDITORIAL OPINION: Don't Expect Any Slowdown In Wealth M&A Yet; Slick Execution Is Vital

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And so the merger and acquisition show goes on. [tag|Morgan Stanley|]Morgan Stanley[/tag], which has already spun off its EMEA private banking business to [tag|Credit Suisse|]Credit Suisse [/tag], has found a buyer in the Alpine state for its Swiss private banking arm. The deal was announced this week with [tag|Bank J Safra Sarasin|]Bank J Safra Sarasin[/tag] for an undisclosed sum.

American banks such as Morgan Stanley and Bank of America have been spinning off their non-US wealth management business arms (with a few exceptions), in what appears to be a view that if they cannot achieve “critical mass” in these markets, there is no point in bothering.

The non-US part of Morgan Stanley’s wealth arm represented a single-digit percentage of that Wall Street firm’s annual revenue, but it probably accounted for a lot more in terms of time and management hassle. And with Swiss banking having its reputation hit due to bank secrecy laws and endless global political bellyaching about tax evasion, the case for calling it quits looks tempting.

But whenever a M&A deal is announced, the question always to ask is: What about the clients? And also: How many more of these deals can we expect?

Ray Soudah, founder of [tag|Millenium Associates|]Millenium Associates[/tag], a merger and acquisition and corporate advisor to global wealth managers, told this publication that he reckons that such moves will be attempted under the current market circumstances, which are likely to prevail for the next two or three years. Last month, Millenium Associates launched its “CATCH” programme. It is aimed at wealth managers and private banks based in Switzerland, Luxembourg, Liechtenstein and Monaco as well as surrounding onshore nations. It is now live. (To view more on CATCH, see here.)

And Soudah argues that with so much M&A and client re-segmentation going on, it is vital for firms in such deals to realise the risks of deals going awry without detailed preparation and liaison with clients.

Present-day regulations mean any bank taking on a new book of clients must consider the know-your-client issues, as well as their declared tax status. Also, if clients haven't consented in advance to being moved to a different bank as part of a M&A deal, this could lead to low retention rates of clients/RMs when a deal goes through, he said.

"Most seller banks wrongly assume that a bulk sale will solve their exit in one go and this is flawed given that many clients defect, due diligence is still needed client by client and furthermore some clients in the batch bought may not even be wanted by the buying bank," Soudah said.

"According to our calculations and market checking, selling banks offering their to-be exited clients a choice and asking prior consent before sending them on gets a near one hundred per cent retention rate – and a higher financial result for the seller [exiter] - whilst still providing a cheaper cost through actual time-based revenue sharing for the chosen receiving banks," he said.

"Receiving banks sometimes say its not interesting to buy only a few clients yet they acknowledge their requirement to conduct individual dd [due diligence] on each client whether he was bought or came off the street," Soudah added.

No surprise

Christopher Wheeler, analyst at [tag|Mediobanca|]Mediobanca[/tag], described Morgan Stanley's sale of its Swiss private banking business as "getting out of international and focusing on their leading US franchise....so no surprise".

"In terms of Swiss deals...the view on the ground is [that there is] more to come as the US tax investigations play out and the fines force players to find partners. But most of the chief financial officers make the point that they do not want to buy banks, but will buy books of business/financial advisors. They are worried about legacy litigation risk carried by a legal entity," he said, adding that this is a concern beyond wealth management...with all banks worried about legacy risk in M&A.

WealthBriefing understands that a number of Morgan Stanley senior employees, whose EMEA wealth business was sold to Credit Suisse early in 2013, have since left. There may, of course, be very different reasons for why managers leave a firm in the midst of an M&A deal – in some cases it may simply be that contract terms are nearing their end and a person wants to move on and start afresh. There is the inevitable coming and going of managers in this business.

But with all this M&A under way, clients and their managers are likely to face an unsettled period for some time, which is why it is crucial that new owners engage with clients as effectively, and regularly, as possible.