thewealthnet
Essential wealth management information

The private bank which finally broke the curse of Madoff

07/04/2015 by: John Evans, International Editor

In acquiring the international business of Coutts, Union Bancaire Privée has symbolically finally laid to rest the grisly spectre of Bernard L Madoff, the multi-billion dollar scamster in whose $65 billion Ponzi empire UBP was deeply embroiled.

To add to this, the clever UBP banking family of De Picciottos appears to have picked up the CHF 32.6 billion of Coutts client assets, and its international network for a song. Privately, UBP people say they didn't pay a premium – contrary to the claim by seller RBS. The latter does concede that it will take a £200 million hit for goodwill and the like on the transaction – which is understood to include safeguards for potential fines the Coutts business could suffer from the US and German authorities for any tax evasion misdeeds.

The deal wins praise from Ray Soudah, chairman of Millenium Associates, an independent advisory firm in Zurich which specialises in the wealth management industry. He says: "Since few larger size disposals can be expected in the next few years, UBP took the right decision to go for the RBS opportunity in a buyer's market."

Mr Soudah argues that in the future institutional asset management rather than large private banking deals "will dominate the landscape as private banks expand their investment management arms while attempting to persistently describe themselves as independent advisory firms".

The Coutts deal is UBP's first sizable acquisition since it bought Lloyds Banking Group's international private banking arm in 2013 for £100 million. The Geneva-based bank calls it a milestone as it continues to rebuild its asset base which almost halved through the 2008 financial crisis and the Madoff affair.

Overall, UBP joins the lead pack of Geneva private banks which are rapidly discarding the old Swiss private banking model, and its fast-diminishing secrecy attractions, and instead becoming more transparent players relying on competitive portfolio management, financial planning and other private banking skills in order to flourish at home, and in Asia and elsewhere.

Back when the Madoff scandal erupted in 2008, UBP looked very vulnerable with one of its feeder funds holding $700 million in Madoff-related investments through its funds of funds and client portfolios. It also ranked as one of the world's biggest fund of funds managers. Subsequently, it settled with the trustee for the Madoff business for up to

$500 million.

To UBP's credit, it also unveiled a goodwill gesture in the form of a loyalty incentive scheme for five years aimed at compensating clients - considered a key step in reassuring investors back to the bank in subsequent years. Even so, the bank did see a rapid haemorrhage of business, with assets under management falling by a quarter to CHF 75 billion in 2008 alone.

Patriarch of the UBP dynasty is Edgar de Picciotto, a contemporary of Edmond Safra who sold his own private banking empire to HSBC back in the late 1990s. Like Safra, the UBP founder originates in Lebanon's Syrian-Jewish community whose members steadily left the country because of Middle East upheavals and then the Lebanese civil wars. The de Picciottos themselves settled in Switzerland in 1969.

There's another link with the Safras. The forerunner of UBP was Compagnie de Banque et d'Investissements (CBI) which went on to make several acquisitions, including the purchase of Morgan Grenfell Securities and then, in 1990, Geneva-based Trade Development Bank from American Express in 1990. TDB was originally Edmond Safra's private bank - and the foundation for his fortune - before he sold it to Amex in 1983.

When the de Picciottos and Safra first arrived as entrants to Swiss private banking, the Geneva private banking establishment, consisting mainly of old guard protestants in the Groupement des Banquiers Prives, was rather hostile, one veteran banker recalls.

"They used to sniff at his (Picciottos) limited liability status in comparison to their unlimited liability as real partners, with unlimited personal liability and secret balance sheet and accounts," he adds. "But times are changing and Swiss banks will have increasing transparency thrust on their reporting." Several have also now discarded unlimited liability as the risks of doing business steadily grow.

The road back for UBP started in 2009, with a radical switch in strategy to diversify out of increasingly-regulated offshore Swiss private banking. After Edgar became chairman, son Guy took over as chief executive. Family members Anne Rotman de Picciotto and Daniel de Picciotto are on the board.

The heavyweight Michel Longhini, UBP head of private banking, joined the company in 2010 with a mandate to grow in new markets in Asia and elsewhere - as like a number of its peers, the bank decided to shift from its beleaguered Swiss homeland. This highly-regarded banker was formerly international head of wealth management at BNP Paribas.

Now, the Coutts buy gives UBP significant new momentum.

As Guy de Picciotto says: "This acquisition confirms our commitment in further developing our wealth management business and represents a significant milestone in our growth strategy. This is particularly true for high-potential markets such as Asia, where the international business of

Coutts has built long-standing relationships with high net worth clients."

Guy is considered a chip off the old de Picciotto block, as a tough, dedicated private banking chief with his father's drive (even though Guy's first love was yacht design – and he remains a fanatical sailing competitor).

The UBP chief executive has had a lot to live up to; his father famously once said: "To make money, you must love it more than love itself."

"Guy is a class act and his father is super-connected," a banker who has worked with the family says (Edgar is on the advisory board of George Soros' Quantum Fund).

He adds: "It's often said by those that work there that one year working at UBP is like two or three years working elsewhere. The family are a close-knit group but they recognise merit. They're a pleasure to work for and are very loyal and committed."

In choosing UBP, RBS and its advisers must have been mindful of the smooth integration by UBP of the Lloyds business and also ABN AMRO's Swiss bank in 2011. The benefits of the Lloyds private banking integration operation started to flow through last year.

If UBP hangs on to the full Coutts client base, then its asset under management will climb towards the CHF 130 billion level – ranking with banks like J Safra Sarasin and putting it clearly among those Swiss private banks which are successful in overcoming the regulatory Götterdämmerung which has been devastating traditional Swiss-based offshore banking in recent years.

Ultimately, UBP may expand to challenge Julius Baer, the biggest of the Swiss independent banks with about CHF 291 billion under management, a total helped by the latter's acquisition of the international business of Merrill Lynch.

Meanwhile, succession at UBP is considered secure, with several members of the family working at UBP including the extremely capable Anne Rotman de Picciotto.

At one point, the family may decide to take their bank public and so generate even more acquisition capital, some Geneva bankers suggest.

Interestingly, UBP has already said it could be interested in joint ventures and alliances, particularly in Asia. People speculate that the family could well explore cooperation with DBS and the latter's partner, Societe Generale - the two made a joint bid for the Coutts business.

Some observers don't discount more contact with RBS, particularly if the Edinburgh bank becomes persuaded it doesn't want to stay in the UK domestic private banking sector and thus divests itself entirely of Coutts.