WealthBriefing

Expect A Big Private Bank Player To Vanish In Next 12 Months, Says MilleniumAssociates' Founder

Tom Burroughes, Group Editor , London, 2 October 2017

A senior figure in the world of wealth management and corporate advisory says more consolidation is on the industry menu in future, with a "big name" likely to disappear.

The next 12 months could see one of the big players in wealth management vanish as a result of industry consolidation - a trend that is far from complete - and cost-cutting will intensify, a prominent figure in the industry has argued.

Some of the harsh pressures have shifted but the demand for M&A expertise, particularly for an organisation not compromised by potential conflicts of interest, continues to be strong, argues Ray Soudah, founder of MilleniumAssociates in 2000. Soudah, in addition to his work at MA, has decades of experience in global financial services and is also a judge for this publication's Swiss awards programme.

"We are going to see in the next 12 months the disappearance of maybe one or two very large private banks or divisions of private banks," Soudah told this publication, without naming a specific name. "Cost-cutting will be a major deal; it is the only option for most people in trying to get improved profitability," he said. "We predict at least 10 per cent in overall cost cuts through one form or another," he said.

Wealth managers' cost/income ratios are likely to trend down towards the 60-65 per cent range, from where they have been in the mid-70s, Soudah continued.

Immediately after financial markets were rocked by the sub-prime mortgage blow-up, and as Swiss and other banks were targeted by governments desperate for revenue, there were a number of "shotgun marriage" M&A deals in Switzerland and elsewhere. Banks fearful that their business models were vulnerable because of fading bank secrecy laws joined hands with larger partners; rising regulatory burdens worldwide forced firms to meld together to obtain economies of scale.

In Switzerland alone, the number of banks has shrunk from 330 in 2007 to 261 as of last year (source: Swiss Bankers Association). Most recently, central bank data shows profits of the whole sector remaining under some pressure amid negative interest rates in the Alpine state.

If anything, the story of Swiss bank M&A has moved towards banks/wealth management firms looking to buy businesses rather than sell. "On anecdotal evidence, about 70 to 80 per cent of firms we have spoken to want to buy. There's appetite for acquisition in Switzerland, Luxembourg and

Monaco.....people are demanding rather than supplying transactions," he said. Reflecting on all this, Soudah argues that some of the shuffling of business caused by Swiss banks offloading operations because of tax compliance has largely run its course. That source of M&A action is now more or less over, he said.

Further afield, the UK, for example, has seen a range of private banking marriages, such as the coming together of Hambros and Kleinwort Benson; Schroders and part of the Cazenove business; and spin-off of C Hoare & Co's wealth arm.

Enquiry to buy UK wealth/private banking targets has risen since last June's Brexit vote; an issue however is that there aren't a great number of suitable targets in the country to choose from, Soudah said. With non-financial firms, meanwhile, such as in industry, the demand rose more clearly, encouraged by the weakening of the sterling exchange rate, he said.

One of the busiest areas for private banking M&A has been in Asia: Barclays has sold its local private banking business, a route also taken by ANZ, ABN AMRO, and Societe Generale. On the other hand, a few years ago Julius Baer snapped up the non-US wealth business of Bank of America Merrill Lynch. Lloyds Banking Group has shed its international private bank; Union Bancaire Privée has bought international private banking assets of Coutts, and Zurich-listed EFG International has bought the Swiss private banking group BSI.

M&A and corporate finance work in the financial services sector has risen at a "medium pace" in the past 12 months or so – up around 50 per cent in terms of mandates and transactions; as far as advice and work on the non-financial sector side, work has shot up by around 100 per cent, Soudah said.

Merchant banking MilleniumAssociates does far more these days than advise banks and wealth managers about takeovers, transactions and sales. It has branched out into offering merchant banking-style advice to sectors beyond finance, spanning a range of sectors such as retail, autos, real estate, healthcare, technology, sports, education, hospitality, agriculture and shipping.

Soudah also argues that because the big universal banks have downscaled some of their investment banking business to cut capital costs and reduce leverage, it creates an opening for independent players able to offer old-style merchant banking advice and link up clients with sources of capital. And MilleniumAssociates is now intensely working in this area, he said.

"We've entered an nearly empty space," Soudah continued. "Most of the demand we get is not for things such as corporate IPOs or underwriting, it is corporate advisory. That's advisory around the sale of a business, or capital raising. Much of this is not about the public markets," he said. About 90 per cent of the business his firm advises on is in the private, unquoted sector. If MillenniumAssociates works on an IPO it will partner with other organisations to handle it, working on behalf of clients to get the best terms.

"When I decided to do this [corporate advisory] business for clients of private banks, I did a survey of about 20 senior private bank CEOs around the world, and asked them if they wanted to provide corporate advisory services to clients, and if they did, what qualities they looked for. One answer was that such a service should be independent. The banks did not want to be a conversation where they were taking AuM from a client," he said.

With such trends in play, this multi-decade veteran of the financial world, and his colleagues, continue to be busy.

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