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Big M&A is back in private banking

Wealth management assets are being increasingly divested by capital-starved banks as the backwash of the global financial crisis triggers what is shaping up to be a long-awaited bout of wealth industry consolidation.

Dutch bancassurer ING plans to sell off much of its private banking operations while Germany's largest independent private bank, Sal Oppenheim, is seeking help from Deutsche Bank. In addition, Commerzbank has sold several private banking units as a condition set by the EU in return for extensive state aid while Royal Bank of Scotland has sold a number of private banking operations in Asia to ANZ.

Financial market volatility, competition on fees and the move to the sidelines by shell-shocked investors, who have often switched into cash and government securities, are impacting on industry profitability. Swiss private banking is also seen as coming under pressure because of co-ordinated global action against tax havens.

Largest disposals since AEB in 2008

In the biggest prospective sale, ING has decided to seek buyers for its Swiss and Asian private banking operations in a divestment being arranged by JP Morgan. ING's private bank has about €55 billion ($77 billion) of private client assets under management, which would make this the biggest disposal since Standard Chartered paid $1.1 billion for American Express Bank in 2008.

ING, which received substantial Dutch state aid last year, has never been a large-scale private banking force and private bankers familiar with its operations say it had been underperforming in the past year, with an overall outflow of client assets. Assets under management at its Asian private banking division declined to €11 billion as of mid-year from €11.4 billion at the end of March, largely due to adverse currency movements. But the operation in Asia is believed to be subscale in several jurisdictions so it could prove difficult to integrate.

Julius Baer, the Swiss private banking which nowadays bills Asia as its "second home" after Switzerland, is understood to have held preliminary negotiations with ING.

Meanwhile, Deutsche Bank is supporting a €300 million capital-raising by Sal Oppenheim, an investment bank and wealth manager which has been caught up in the sharp German economic downturn and seen some of its investment holdings turn sour. The bank had €132 billion of assets under management at the end of 2008. Deutsche is negotiating a minority stake in Oppenheim, in a deal which should expand Deutsche's domestic wealth franchise. Frankfurt bankers say they would not be surprised if Deutsche eventually took full control of Oppenheim.

Commerzbank has agreed to sell its Swiss private banking arm, Commerzbank (Schweiz) AG to the Vontobel Group. The unit had about CHF4.5 billion ($4.2 billion) of assets under management at the end of last year. Commerzbank also sold Dresdner Bank (Switzerland) to the LGT banking group of Liechtenstein. LGT said that, after absorbing Dresdner, its combined Swiss subsidiary would manage client assets totalling almost CHF20 billion.

Commerz is also selling its Reuschel & Co German private banking subsidiary to Conrad Hinrich Donner Bank, a Hamburg-based private bank. The divestment price of these three disposals was not disclosed.

Commerzbank additionally wants to offload Kleinwort Benson, the London private bank, in a transaction which may come via a management buyout rather than straight sale. Sir John Bond, the chairman of Vodafone and Simon Robertson, the chairman of Rolls-Royce, are among a group of City heavyweights said to be backing a potential MBO for Kleinwort.

Swiss private banking is likely to be increasingly caught up in consolidation, as pressure on tax havens by the G20 makes a traditional Swiss-based offshore banking operation increasingly unattractive, M&A specialists say.

Ray Soudah, founder of Swiss-based mergers boutique Millenium Group says that falling prices for financial assets have impacted significantly on private banks' revenues and performance fees, causing difficulties for firms that rely on these fees to cover fixed costs.

Further Swiss deals likely

According to Millenium, there are currently around 330 banks as well as about 2,600 independent asset managers and wealth management firms in Switzerland– giving "substantial scope" for consolidation in the country.

Finally, RBS, another ailing bank involved in asset disposals, has sold a number of operations, including private banking in Asia to ANZ for $550 million. The Australian bank is buying RBS's retail, wealth management and commercial businesses in Taiwan, Singapore, Indonesia and Hong Kong, as well as the UK bank's institutional banking businesses in Taiwan, the Philippines and Vietnam.