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More state-supported banks head for the private banking exits

More than €100 billion ($147 billion) of private banking assets are coming up for disposal as more troubled banks in Europe seek to sell off wealth management operations to repay state support. But these planned disposals are resulting in a sudden over-supply of private banking properties onto the M&A market, amid the most depressed valuations for wealth deals in several years.

Some analysts believe that in the coming months values could drop below the 2 percent mark for assets under management. That compares with levels of up to 5 to 6 percent for prime acquisitions in recent years.

Buyers are becoming more discerning and supply is outstripping demand, contends Sebastian Dovey, head of the Scorpio Partnership wealth consultancy.

Ray Soudah, founder of Millenium Associates, a Swiss-based financial services advisory, says that valuations for private banks have fallen to “near zero goodwill levels, making it one of the least sensible points in the cycle to benefit financially from disposals.”

In addition, the sale of assets like Kleinwort Benson and ING have been prompted by political rather than business pressures.

“Ownership banks have been obliged to undertake EU-approved restructuring programmes and have chosen to include, untimely as it may be, private banking and wealth management disposals at the bottom of the market.”

The latest developments

In latest developments, Dexia is reviewing the future of its BIL wealth arm in Luxembourg as part of a reorganisation plan to be submitted to the European Union. Dexia, the largest lender to municipal governments in France and Belgium, received €6 billion in state bailouts last year. Its BIL unit has €15 billion in client assets.

Dexia will be emulating KBC, Belgium’s largest bank, which has decided to sell its KBL European Private Bankers subsidiary, along with it

Under instruction from the EU, Commerz has made various disposals, including the sale of London's Kleinwort Benson to RHJ International, a diversified investment holding company based in Belgium, for £225 million ($367 million) in cash.

While banks like Credit Suisse, EFG International, Barclays and Société Générale have previously signalled that they are in the market for acquisitions, there is as yet no sign of potential bidders for BIL and KBC European Private Bankers.

The most likely suitor may prove to be Société Générale whose largest rival, BNP Paribas, earlier this year became the biggest private bank in the Eurozone after its €10.4 billion acquisition of Benelux banking group Fortis. In addition, both Dexia and KBC are Francophone-area banks, reducing their potential attraction to banks from outside the region. Still, that may not deter Barclays, with a traditional strong brand in France, from a deal to expand its continental European footprint.

Meanwhile, analysts are reluctant to describe these disposals as heralding the long-awaited consolidation of the wealth management industry, as weaker banks seek to retreat as the cost of servicing high net worth clients rises sharply. In latest analysis, Booz and Company say that private banking revenues in Britain fell by 30 to 40 percent in the last two years as assets under management declined and trading and investing volumes plunged, with consequent pressure on industry margins (see A strong second half for UK industry)