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Buyout fever sweeps the private banking business in 'fire sale' disposals

by: John Evans, International Editor 9 January 2012

The forced sale by hard-pressed banks in Europe of big slices of their operations and much of their booked assets is triggering a wave of interest in wealth management investment opportunities by major private equity players.

Plentiful soundings are taking place with senior management of wealth and asset management firms exploring the hiving off of their divisions as independent players, *thewealthnet* understands. Some specialists even liken the scale of disposals as potentially reaching a “fire sale.”

The pressure on capital among some banks is so great that private banking is increasingly considered to be a non-core operation and a marketable asset, given the expanding appetite among new players in Asia and elsewhere to break into big league international wealth management.

In the latest example of the MBO trend, the managing directors of Hoare Govett are considering teaming up with Oriel Securities to buy out the UK broker from parent Royal Bank of Scotland. Oriel’s chief executive, Simon Bragg, as well as its head of sales and head of equities all previously worked at Hoare Govett.

RBS chief executive Stephen Hester is looking to shrink the bank, which received the world’s biggest bailout in 2008 and is dismantling much of its investment banking operations, among other activities.

Deutsche Bank is also eyeing a major asset sale in the form of a disposal of its global asset management businesses. Potential buyers are now being asked to put in initial bids in a transaction which could be worth up to EUR 4 billion.

Private banking buyout opportunities could also arise from the needs of a range of other banks, such as Italy’s UniCredit and some French groups, to recapitalise, well-informed bankers say.

The state rescue of banks in Europe has already resulted in the extensive disposal of private banking franchises, particularly in the Benelux area. Dexia’s wealth operations in Luxembourg have just been sold for EUR 730 million to a vehicle of the Qatari royal family. Their company, Precision Capital, earlier bought KBL Investors, the wealth management business of the Belgium’s KBC Group.

Other flagging European banks have been disposing of parts of their wealth operations. ING for example sold its Asian private banking interests to Singapore’s OCBC banking group, which rebranded the acquisition as Bank of Singapore.

Back in Europe, recurrent talk concerns the future of Sarasin & Partners, the highly-regarded UK investment management and thematic investment arm of Bank Sarasin. It is understood that the senior management of the London firm, headed by Guy Monson, Jamie Black and colleagues have looked at the potential for a management buyout. They already own 40 percent of the firm, up from 25 percent, although it is understood no new deal is imminent. Parent Sarasin has just unloaded its controlling shareholder, the Netherlands’ Rabobank, in favour of Safra Group, the Brazilian-based private banking group.

A major buyout operation in London was attempted by Robert Taylor, then chief executive of Kleinwort Benson, when owner Commerzbank decided to divest it in order to satisfy regulators after extensive state help.

Mr Taylor's efforts proved unsuccessful, and his bank was subsequently bought for £225 million in 2010 by Belgium-based RHJ International, a private equity company headed by Leonhard Fischer, a former Dresdner Bank executive.

Meanwhile, EFG International, now in the middle of a downsizing exercise which has seen several operations and offices closed, is understood to be negotiating with some of its senior staff for the buyout of non-core operations, such as Indian wealth management.

Indeed, banks can often be faced with a dilemma when in making drastic economies, including curtailing private bankers' pay and bonuses and limiting their future career prospects. The overall jobs market for quality staff in Europe and Asia remains strong. If top staff leave en masse, it may be better to accept an MBO before the rate of defections leaves the particular operation with depreciated value, say specialists.

But what could govern the speed of disposal of private banking units is the question of price, a persistent log-jam in agreeing transactions in the past.

Ray Soudah, founder of Millenium Associates, the Swiss and UK-based wealth and asset management M&A specialist, said that there are temptations for sellers to engage in what are tantamount to "fire sales" amid the relatively low valuations for assets currently prevailing and which will prevail for some time.

So "patience should be exercised" by both sellers, who are instigating most of the disposal events, and potential buyers of wealth management businesses, Mr Soudah said. This will help ensure careful resolution of any disposal opportunities, taking into account the best interests of the underlying investor clients and then the contractual aspects which are very relevant at present, he asserted.