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ANALYSIS: Psssst-wanna set up your own private banking advisory?

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After the plunge in financial markets and decimation of the equity and balance-sheets at many banks, growing numbers of private banking and wealth operations are being steadily put up for sale.

It’s a trend that Ray Soudah, founder at Millenium Associates AG, the independent Swiss-based M&A boutique sees as likely to gain pace as banks determine, in their new straitened circumstances, what exactly constitutes their core operations.

Experts like Soudah believe, that with a dearth of buyers and a drive for more independence among asset management firms, this class of players could be increasingly owned by their key managements.

The list of available purchases in the wealth sector internationally is growing steadily. In the US, First Republic Bank, a well-regarded wealth player, is being put up for disposal by Bank of America as it wrestles with the integration of Merrill Lynch.

Other properties which BoA may consider selling include U.S. Trust, which it bought from brokerage giant Charles Schwab three years ago but is now considering to be non-core as it has the Merrill wealth and brokerage operations.

Merrill bought First Republic for $1.8 billion late in 2007, in a bid to diversify its funding and deposit-taking activities. The last available separate financial numbers for the unit were in 2006, when it reported net interest income totalling $290.7 million while non-interest income was $87.3 million.

First Republic will probably appeal as a deal primarily to a US buyer, such as Goldman Sachs or Morgan Stanley, which have both converted themselves into bank holding companies, New York bankers suggest. US Trust, with a blue-chip high-end clientele, could attract a foreign bidder, however.

BoA may also be prepared to sell its Columbia Management unit, an investment management business with $470 billion in assets under management.

In Europe, the merged Commerzbank and Dresdner banks are also looking to rationalise their operations and overlaps. Commerz may be prepared to divest Reuschel & Co, a private bank acquired as part of Dresdner Bank from insurer Allianz in January.

Commerzbank is also reportedly in talks with a number of prospective buyers over the sale of its $900 million fund of hedge funds manager Comas. It is negotiating with rival funds of hedge funds and several wealthy families' private investment offices over a deal.

Luxembourg-based private bank Sal. Oppenheim is considering selling its German BHF Bank arm and is already in informal talks with possible bidders. Spain’s Santander and BBVA are reportedly in contact over the sale.

Oppenheim bought BHF, which provides asset management and corporate finance services, for about EUR600 million in 2004.

Millenium’s Soudah feels that the disposals currently being contemplated by many financial groups are being conducted at the worst possible time at it’s the low point in the valuation cycle, coupled with the ever decreasing number of plausible buyers capable of executing any significant acquisitions.

”We strongly advised numerous banks and asset management companies to sell their business during 2006 and 2007 when demand was high and valuations at peak levels, but to our amazement most firms wanted to carry on acquiring despite the clear over pricing in the market” he recalls.

In Britain, Qatar National Bank is still looking for a buyer for its private banking arm, Ansbacher. This firm’s investment management unit saw the exit of its key investment management team, led by chief investment officer Mike Hollings, to the Matrix Group.

Elsewhere, speculation has again surfaced over the future of the British banking interests of National Australia Bank. Its two units, Clydesdale and Yorkshire banks have been targeted at more affluent investors.

In Switzerland, talk suggests that the private banking industry is due to move towards rationalisation – spurred by plunging markets, the blows to the funds of funds sector and the latest attacks on the country’s banking secrecy.

Mergers between long-established banking partnerships in centres like Geneva are forecast by some bankers, along with deals on the lines of the purchase by the well-capitalised Rabobank of a majority stake in Bank Sarasin.

The hedge fund industry is also heading for sweeping contraction, with some forecasts suggesting that as investors flee these alternatives, the number of the outstanding 9,000 funds and funds of funds could fall by 40 percent in the next two years,
Where M&A transactions are also expected to be intense is in the

ailing asset management industry in North America, Europe and Asia.

The asset management sector is in for more consolidation, but deals this year will likely involve complex structures and have a distressed flavour rather than transactions done for strategic reasons, according to new analysis by investment bankers Putnam Lovell.

Transactions that include arrangements such as asset swaps, joint ventures and complex earn-out provisions will become more common and stock will be used more often than cash, it forecast.

Banks and insurers, historically active buyers of asset management businesses will become sellers as they reassess their business models.

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Banks and insurers, historically active buyers of asset management businesses will become sellers as they reassess their business models or are forced into capital raising, albeit at the worst possible terms for their shareholders.

But Millenium’s Soudah remains pessimistic over how many transactions will actually be concluded.

”While a large number of institutional asset management business were recently put up for sale, only a few transactions will occur. In fact, the majority of firms for sale will not be able to be divested despite the solid valuation logic for acquiring these,” he warns.

The few transactions that will be finalised will likely include arrangements such as asset swaps, joint ventures and complex earn-out provisions will become more common and stock will be used more often than cash, it is suggested.

Jefferies analysts believe that “pure-play asset managers, acting alone and in concert with private equity firms, will increasingly take advantage of this unique situation as commercial banks and insurance companies shed non-core investment businesses to raise capital.”

In the longer term, Soudah foresees that the credit crunch will bring significant change to the ownership structure of the fund management business.

He believes that “asset management firms should be untied and totally independent of their parent banks or insurance companies and even better still at least partially owned by their key investment managers.”