Clampdown on bank secrecy fuels drive to consolidate

By Haig Simonian in Zurich

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Disinclined to discuss their affairs in public, Switzerland's private bankers are acknowledging among themselves that the intensifying pressure on bank secrecy could trigger consolidation.

The probability of deals has spiralled after last week's G20 summit, when the world's leading industrialised and developing nations made bank secrecy a prime target

But while the climate has reinforced the chances of banks divesting wealth management operations, investment bankers say the conditions could tease out buyers, as well as sellers. In February, **AIG** started the ball rolling with the sale of its Zurich-based private bank.

The credit crisis initially prompted owners anxious to raise capital to reassess private banking subsidiaries. That is particularly relevant for non-Swiss banks obliged to take government money, via direct shareholdings or through government-backed asset transfer schemes.

"Government-owned, or related, financial institutions in Europe are expected to consider divesting their offshore private banking operations as part of their recapitalisation process," says Marco Illy, head of investment banking for **Credit Suisse** in German speaking Europe. "The recent debate around banking secrecy is increasing the political pressure on European banks to review their offshore private banking business."

Bankers put poss ble disposal candidates into two groups. First are banks in financial difficulties that are keen to sell peripheral assets. These include ABN Amro, **Fortis** or Dexia. While some operations are modest, others – notably Coutts, the private banking arm of **Royal Bank of Scotland** – are coveted and would attract high buyer interest. RBS has denied sale plans; the others declined to comment.

The chances of divestments are reinforced because many owner banks come from countries whose governments have taken a hard line on bank secrecy. "That would make owners all the more inclined to distance themselves from Swiss private banking subsidiaries, where not all clients may be fully tax compliant," says one prominent lawyer, who asks not to be named.

The second category of vendors includes banks, such as Germany's **Commerzbank** or some French counterparts, that are not as wobbly financially, but remain vulnerable to the new political mood. The likelihood of Commerzbank selling is all the higher as its Swiss private bank has yet to be merged with Dresdner Bank's local operation.

"It is rational to assume there should be sales," says Ray Soudah, founder of Millenium Associates, a Switzerland-based independent private banking advisory boutique.

Potential buyers, meanwhile, fall into three categories. First are Swiss cantonal banks, many state guaranteed, flush with money from former depositors of private sector rivals, such as **UBS**, seeking a safer home.

The second category comprises established Swiss private banks, such as **Sarasin**, **Vontobel** or **Julius Baer**, some of which have acknowledged their interest in acquisitions.

Finally come a handful of international banks that, though bruised by the credit crisis, have emerged relatively unscathed and have the resources and management to buy. They include Credit Suisse, **Deutsche Bank**, HSBC and poss bly Barclays. Credit Suisse executives have acknowledged their interest in deals – notably Coutts; others have declined to comment.

There remain important constraints on transactions. Mr Soudah doubts deals will come soon, as prices are depressed and the proceeds would be modest compared with most vendors' needs.

He also thinks purchasers are cautious. "The priority is to rebuild balance sheets before embarking on acquisitions." **EFG International**, the Switzerland-based private banking group, last month paid the price of suggesting a potential "transformational acquisition" as investors hammered its shares fearing a rights issue.

Much depends on the asset concerned. "No one is interested in anything involving US clients," notes the lawyer, referring to UBS's problems with its former Switzerland-based offshore business for wealthy Americans.

"Buyers' interest is there, as the offshore private banking market is significant, and is seen as a gateway to clients," says Mr Illy.

"It also presents new market entrants with critical mass and the opportunity to migrate offshore assets to the onshore markets."

So while "legacy" undeclared accounts are a disincentive, there is confidence such holdings could be made tax compliant via amnesties or limited penalty procedures designed to encourage depositors to come clean.

"Our advice is for banks to ensure full OECD tax compliance, lower their cost-income ratios, improve their product transparency and investment performance and be ready to pounce – not only in Switzerland, but also other core centres, l ke London, Singapore and Hong Kong, as such locations will always attract business," adds Mr Soudah.