EFG shows clear conviction for scale

Despite recent damage to BSI's reputation, EFG International sees a lot of value in bringing together complementary businesses to drive scale. And the pure-play Swiss bank is acting swiftly and decisively to realise this opportunity.

It might seem an under-statement to say that EFG International's integration of the BSI business is coming at an especially challenging time. But the firm's senior management is just as convinced about the move as it always was.

The deal, announced in February 2016, was driven by an ambition to combine the two private banks into a top-five Swiss firm of a size and scale sufficient to thrive in an era of costly regulation, stiff competition and uncertain global financial markets.

Eyeing the CHF170 billion (USD174 billion) in combined AUM, those running the show remain excited about the business prospects.

"With each [of the organisations] having a strong focus on private banking, the two banks have a lot in common, and by joining forces, we will be able to make an attractive value proposition to clients, employees and shareholders," explains Joachim Straehle, chief executive officer of EFG International.

MATCHING OF MINDS

It doesn't matter to Straehle that this deal sees the 140-year old-plus BSI tying up with a bank which only launched in 1995. His confidence in the cultural fit is based on what he sees as both banks being client-focused, solution-driven and entrepreneurial.

More fundamentally to Straehle as a driver for the merger, the high cost-income ratios and challenging environment – in terms of regulation, financial markets, staff retention and other areas of private banking – shows the scale required to do private banking in a profitable way today.

This is becoming clearer to see in the wake of the consolidation which has been underway over the past couple of years – in terms of banks downsizing in certain markets, closing operations completely in some locations, and even selling their businesses altogether. For those institutions which are not pure-play private banks, they are increas-

JOACHIM STRAEHLE
EFG International

ALBERT CHIU
EFG Bank

ingly aware of the seemingly disproportionate risks of providing a private banking offering compared with the value it brings overall.

"It is not valid anymore for some firms to do this type of business," adds Straehle, who says he expects to see fewer private banks going forward. But those which survive will be more focused on what they do best.

Yet this creates a good opportunity for banks with a differentiated business model, adds Albert Chiu, head of the Asia region for EFG. "The merger with BSI will allow us to move to a different league and also be in a position to benefit from the consolidation happening in the market."

The merger also makes sense when looking at a world map.

The two banks are complementary geographically – giving each other access to new markets, such as in Switzerland, and across Europe, Latin America and Asia.

In Asia more specifically, EFG brings 320 staff, including 100 client relationship officers (CROs) to the table, compared with 300 staff and 70 relationship managers at BSI. In terms of AUM, as of the end of 2015, EFG counted CHF16.2 billion, and BSI CHF12.4 billion.

In fact, in each region of the world, besides the UK, the combined bank will have at least CHF25 billion in AUM, which Straehle sees as a key number when it comes to size.

NO ROOM FOR DOUBT

To some observers, the crackdown and enforcement action on BSI in Singapore (SGD13.3 million in fines) and Switzerland (CHF95 million in penalties) in May and June 2016 might seem too much for anyone to bear.

But EFG certainly went into the deal with its eyes wide open.

"What has happened [to BSI] shows why we have indemnifications in place up to the purchase price, plus a large amount of shares in escrow," says Straehle.

More specifically, it was agreed in the share purchase agreement that the indemnity will be backed by a material Swiss escrow account which, at closing, will contain 51 million EFG shares issued to BTG Pactual as consideration, with shares locked up for two years.

The fine and the penalty will result in a reduction in the purchase price. The indemnities and escrow account remain unchanged.

From EFG's perspective, it believes that a line has now been drawn – from a Swiss and Singaporean regulatory standpoint – in connection with this matter.

As a result, it should constitute another important step to remove related regulatory uncertainty for clients, employees, investors and other stakeholders, says the bank.

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EFG International also received approval in late May 2016 from the Swiss Financial Market Supervisory Authority, FINMA, for the proposed acquisition of BSI. This was granted on condition that BSI is fully integrated and legally dissolved within 12 months.

With a view to a swift and orderly closing, the process for obtaining the other regulatory approvals for the transaction is also on track, says Straehle.

"With the many employees that display professionalism, knowledge and integrity every day at both banks, I'm con-

vinced we have a successful future ahead of us," he adds. "We will work with BSI to ensure a smooth transfer of clients and employees."

It is expected to complete at the latest in the fourth quarter of 2016, as originally announced.

CREATING STABILITY

The integrated nature of the deal is reflected in the July 2016 appointments to the executive committee and a new management structure for the combined EFG and BSI business – which includes five executives from BSI: Renato Cohn, Reto Kunz, Maurizio Moranzoni, Gerald Robert, and Renato Santi. This will become effective as of the date of the closing of the transaction.

"This should help to provide stability and reduce any insecurity in relation to the merger," says Straehle.

Adds Chiu: "There has been a lot of emotion around what has happened to BSI in Singapore, but the EFG management has worked hard to quickly outline our plans in terms of transferring BSI staff, clients and the business as soon as possible."

Another stabilising factor has been EFG's commitment to taking as many staff as it can as part of the integration with BSI.

This is important for Chiu, in particular, given his expectations that the business will significantly grow in line with opportunities in the region.

And going forward, the bank will screen clients from BSI and enforce compliance standards as it integrates the newly-acquired assets worldwide.

From a technology perspective, meanwhile, the integration is expected to be relatively smooth. For example, rather than many different legacy systems, both banks have just one – Temenos for EFG, and Avaloq for BSI. They will consolidate the platform using EFG's existing platform.

Where there is still work to be done, however, is in working to combine various personnel strengths as part of a team, to bring together individuals in a focused way.

"We do not want to continue in the old ways of having CROs specialised in different areas," says Straehle.

At the same time, the EFG model might also help ensure that the bank doesn't inherit BSI's problems. Given that it looks to only hire senior and experienced private bankers, they should have an understanding of the long-term nature of their business.

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CLEAR VISION

Straehle wants to enjoy a "fresh start" after integrating the platform. "We want to be seen as a bank which focuses on offering private banking services, with a global network in the regions we consider to be important, especially in Asia."

In line with this, he is determined to ensure the offering remains advice driven, albeit making it clear that the bank can still offer clients the asset management capability. "It is always important to be in the top quartile in terms of performance," he adds, "to demonstrate to clients we can do the asset management also."

And by focusing on what it does best, EFG should be well-placed with its know-how and bankers to service the types of clients that its offering is most suited to – those individual and families with USD10 million or more in net worth and who have an international portfolio and lifestyle. "For these clients, we have much bigger advantage than local banks," says Straehle.

Ultimately, he doesn't see any real difficulties in maintaining the EFG model and value proposition once the BSI acquisition is complete.

While various aspects of how the banks operate need to ironed out in order to find a middle ground, the broader objectives seem reasonably well aligned. "Both banks see the importance of the client being at the centre, and we want to give them advice," says Straehle. "This is a business model we are very specific and clear about maintaining." ■