

# Small deals becoming big business in Switzerland

*After a period of reorganisation that will continue over the coming two to three years, Swiss private banks and wealth managers will start to show their true value, believes Ray Soudah at MilleniumAssociates.*

Switzerland's private banks and wealth managers have been meeting their challenges head on over recent years, but these efforts are not yet being reflected in their valuations.

The end of this purgatory is in sight, however, as institutions clear out troublesome or unwanted accounts and otherwise right their ships, says Ray Soudah, founder and managing partner of Swiss and global mergers & acquisitions firm MilleniumAssociates.

Institutions that are looking for a bargain could do worse than consider entering the market now, as within two to three years valuations are likely to soar, he believes.

Current valuations are low not because banks' profits and revenues are under pressure, Soudah says, rather this is because of regulatory and reputational issues such as undeclared money, cross-border compliance problems and tax

investigations. "In fact, if you dissect the qualitative components of a private bank's clients or revenues today, or forecast them for the next six to 12 months, you can see [the data] is not actually that bad," says Soudah.

"The industry is rapidly moving towards a 100% clean and transparent environment, but this is not yet being reflected in valuations except for some of the listed institutions."

Indeed, he argues that this situation could mean those now looking to make acquisitions in the market could find themselves with a price advantage over peers. They are also benefiting from more supportive regulation.

"Acquirers are much more protected than they were a couple of years ago and if a vendor sells something that is uncompliant or contains legacy risks they would have to underwrite that," he explains. "It is possible to increase



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your status and position because of the huge potential advantages of the current situation, and in one or two years valuations are going to rise sharply

for private banks and wealth managers because their restructurings underway now will have been completed.” That said, Soudah believes the days of multi-billion dollar mega deals in wealth management and private banking are over in the Swiss and global wealth spaces, with the occasional notable exception like RBS’s recent sale of Coutts International to Union Bancaire Privée.

### SILENT M&A

“The big players are not going to sell,” he adds. “The French are not going to leave, the British, the Germans and the Dutch have mostly already left, and the Spanish and the Italians are not here in force, and what remains are very few foreigners [institutions].”

In addition to some transactions among this group of small players, the other story in Swiss banking deals is what

The choice of which accounts to transfer can be made according to a client’s home jurisdiction, as well as several other factors such as the degree of onshore market knowledge .

Soudah believes the “silent M&A” phenomenon will reach a peak in six to 18 months. His estimate is based on the time it takes institutions in the market to complete their reorganisations as to which markets to exit and the process of on-boarding a client when they move from one private bank to another.

### SERVICE INNOVATION

MilleniumAssociates is approaching both regular and “Silent M&A” via two distinct product service offerings. On the latter front, it offers the proprietary programme ‘CATCH’, a service that matches private banks which have clients they would like to disengage with

For an acquirer, the process begins with research, including an analysis of its requirements and organisational culture and drawing up a potential list of take-over candidates. MilleniumAssociates then helps the institutions determine the tactics and how best to approach their acquisition targets, which can include a closed auction.

After this it helps with calculating a valuation, advising on the bidding process, conducting due diligence and negotiating the contracts, including post-closing action plans.

It follows the same research process for sellers and prospective partners.

After the initial research stage, the deal process is different and adapted from the one used for acquisitions. It involves strategic advice, preparation of internal documents such as management presentations, plus process management and negotiation of the deal.

In addition to these M&A services and ‘CATCH’, MilleniumAssociates also offers clients pre-IPO and strategic advisory, as well as senior limited head-hunting. It also added a few years ago a global offering for private banks that have entered or are seeking to enter into the merchant banking space for their own entrepreneurial clients.

“We are now a corporate finance and M&A provider to clients of several dozen private banking entities worldwide. We work on a transaction basis, and execute the deal using our network of investors, enabling the private banks to retain their clients’ assets under management and earn fees,” Soudah explains. “Globally we are number one in this type of service exclusively dedicated to important private banks.” ■

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Soudah calls “Silent M&A”. This involves private banks choosing between the clients they want to keep, and those they would rather transfer to other players in the market, as he explains:

“The [post deal] client retention rate has fallen to just about slightly above 50% in many cases. Other than just close the accounts you do not want or market segments you don’t wish to or can’t cover anymore, the only option is to ask the client which provider they would like to go with.”

other institutions that would like to engage them. This methodology even has a fast track option enabling rapid movement of portfolios amongst private banks in a client-friendly fashion. The service is also increasingly being used by independent asset managers facing the same industry issues.

For more conventional deals, MilleniumAssociates offers advisory and execution services to help both prospective sellers and potential buyers in the Swiss and global wealth management markets.