Credit Suisse punts its private banking business to Wells Fargo

by Brooke Southall

Henny "take my wife … please" Youngman would be proud of the deal Credit Suisse just made to offload what is left of its U.S. private bank on Wells Fargo.

Under the arrangement disclosed today, Credit Suisse Group AG gives Wells Fargo the exclusive right to rampage its cadre of wealth managers with the idea of situating willing Credit Suisse brokers by 2016.

The Zurich-based firm informed employees of Credit Suisse Private Banking in a memo, obtained by Reuters' Jed Horowitz, saying that their unit could not "sustainably" compete without being acquired or bolstered with investment — neither of which eventuality was apparently forthcoming.

For Credit Suisse, the deal seems to allow it to eke out a few dollars and show its employees some good faith. For Wells Fargo, it is a shot to bolster its presence in the ultrahigh-net-worth market. See: Wells Fargo targets tempting but treacherous UHNW market with Abbot Downing launch.

High-Calibre pedigree

The change comes three months after Credit Suisse CEO Tidjane Thiam took the helm in July. Yesterday, Tuesday, Thiam added that his firm plans to raise $6.3 billion in capital through "both a rights offering and private placement," according to a Wall Street Journal article

Wells Fargo's last big UHNW move was in 2012 when it combined Wells' Lowry Hill Investment Advisors Inc., a legacy private-asset-management firm in Minneapolis dating back to the 1986 spinout of Norwest Bank's trust unit, and Wells Fargo Family Wealth, itself a legacy successor to Wachovia's prestigious Calibre family office, which also targeted ultrawealthy families. See: Giant Indiana RIA is the latest to take a bite out of Wells Fargo's UHNW unit. See: Giant Indiana RIA is the latest to take a bite out of Wells Fargo's UHNW unit.

Abbot Downing started life with $33 billion in client assets. Credit Suisse Private Banking employs about 275 brokers in 13 U.S. offices.

Mind the stampede

Dave Carroll: We look forward to welcoming U.S. Private Banking relationship managers from Credit Suisse and are committed to strengthening their relationships with their clients.

Despite the Abbott Downing edge that Wells brings, Joseph J Piazza, chairman and CEO of Robertson Stephens LLC, says this poaching deal seems unlikely to succeed.

"I think it will quickly devolve into a Barclays experience," he said when contacted in San Francisco today. "Many advisors will not wait around for the deal to close and just leave. Others will sit tight to see what happens. If Wells does not offer an attractive retention package, do not get in the way of the stampede."

Indeed, Barclays completed a similar deal with Stifel but it appears that most advisors will choose their own landing place — including RIAs like Summit Trail. See: How exactly five ex-Barclays advisors and one analyst across three time zones combined to make a $3 billion RIA.

Welcome to Wells

On the contrary, says David Carroll, head of Wealth and Investment Management for Wells Fargo & Co., his firm has the chops to make a home for these elite brokers.

"Today, Wells Fargo operates the third-largest brokerage and is the fourth-largest wealth management provider in the U.S.," he said in a release "Our growth is fueled by our unwavering commitment to do what's best for our clients, which we believe will be attractive to these talented relationship managers. We look forward to welcoming U.S. Private Banking relationship managers from Credit Suisse and are committed to strengthening their relationships with their clients."

The deal may in fact have merit, according to John Furey, principal of Advisor Growth Strategies of Phoenix, Ariz., who says he has heard "rumblings" of this deal coming for weeks.

"I like this deal as they are essentially transitioning advisors with an incentive and I would imagine Credit Suisse gets some consideration if they have transition success," he wrote in an email. "It's a good deal for advisors too as they are free to go where they wish."

Jeff Spears, CEO of Sanctuary Wealth Services says that indeed the rumblings have lasted long enough that the more poachable Credit Suisse advisors have already moved on.

“The 200 remaining advisors are the ones who couldn’t find another firm that would hire them so they waited around to see who bought the firm and what retention deal they offered,” he says. See: Pershing, Dynasty and Envestnet gang-tackle Credit Suisse and jolt loose $1 billion duo.

Rob Shafir, head of private banking and wealth management and CEO of the Americas region for Credit Suisse, weighed in as well in the statement: “Credit Suisse remains committed to continuing to provide ultrahigh-net-worth U.S. clients with a strong investment banking and asset management institutional offering.”

Back to banking

One way that Wells can make Credit Suisse advisors comfortable is with Credit Suisse investment banking services: Wells Fargo and Credit Suisse expect to strategically expand their relationship to make additional Credit Suisse Investment Banking and Asset Management offerings available to the Wells Fargo distribution network.

John Furey: Global banks are coming to the conclusion that the model is broken and divesting is the best alternative.

But with firms like Barclays and Credit Suisse unilaterally disarming themselves of retail brokerage forces, there is an obvious conclusion to draw, according to Furey.

“Global banks are coming to the conclusion that the model is broken and divesting is the best alternative.”

Credit Suisse yesterday reported a 31% decline in pretax profit at its private banking and wealth management unit.
Swiss banking troubles

Though Credit Suisse came through the 2008-2009 banking crisis relatively unscathed, Germany, Brazil, and the United States, from 2008 to 2012, began investigations into the people’s use of Credit Suisse accounts to evade taxes. In May 2014, the company pleaded guilty and agreed to pay $2.6 billion in fines. See: A Swiss RIA advisor reports on a Zurich event aimed at shaping, saving Swiss wealth management in the wake of purging American clients.

Credit Suisse can presumably absorb these blows given that its revenues, for instance, in 2013 were more than $25 billion with about $2.3 billion falling to the bottom line. The bank employs about 45,000 globally.