

## ARE BANKS TARGETING RIAs ONCE AGAIN FOR DEALS?

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Banks have been notably absent from the RIA M&A scene for years, with activity in the market peaking seven years ago.

But Citizens Financial, a \$160 billion bank based in Providence, Rhode Island, has gone against the tide, agreeing to buy Clarfeld Financial Advisors, a highly regarded Tarrytown, New York-based wealth management and multifamily office firm with over \$6 billion in AUM.

Soaring valuations, an influx of capital and an increasing number of determined buyers exceeding qualified sellers has resulted in an extremely competitive — and expensive — M&A market for buyers.

“Banks have not lost interest in RIA M&A opportunities, but are losing deals to more aggressive buyers with greater synergy opportunities,” says **Carolyn Armitage**, managing director of **ECHELON Partners**. “We have only seen banks exceed 10% of RIA M&A market share three times in the last 10 years.”

Nonetheless, Citizens thought it was worth taking the plunge into what John Bahnken, the bank’s CEO, concedes is “an aggressive market for RIAs right now.”

Citizens didn’t feel that its high-net-worth and ultra-high-net-worth businesses “were as competitive as we needed them to be,” Bahnken explained. “We thought it was in our best interest to speed the process up.”

Nor was the bank deterred by high valuations.

Bahnken notes that only 3,000 of the 70,000 high-net-worth customers who do business with the bank and less than 100 of its approximately 5,000 ultra-high-net-worth customers use Citizen’s private wealth management services.

“That’s a very big opportunity,” he says. “It’s important to remember that we’re not building wealth management for the next quarter. We’re looking to build out over the next three to five years.”

In fact, once the deal is completed at the end of the year, Citizens plans to merge the bank’s existing wealth management business into Clarfeld, which will operate under its current brand as a division of Citizens.

Robert Clarfeld, the RIA’s founder and CEO, will remain as CEO of the new division.

Liz Nesvold, managing partner of Silver Lane Advisors, the investment banker for Citizens, says it’s “highly atypical for a bank to turn over capabilities” to an acquired RIA.

As Bahnken put it, banks more typically put an acquired advisory firms “off to the side” and view the transaction as “buying a revenue stream and hoping to get referrals.”

But Nesvold thinks Citizens is making a smart, “highly strategic bet” to expand its service offering. She also thinks more banks will jump back into the M&A market.

"Banks can offer distribution, which no one else can," she says. "But they have to know their customer segmentation and if the clients will stack well [with an RIA]."

Although M&A activity is still on pace for record levels in 2018, banks are still expected to "remain less active M&A participants relative to strategic buyers and RIAs," **Armitage** says.

"Banks traditionally have more layers of approval needed for each transaction and this methodical approach to decision-making may temper their perceived aggressiveness in the M&A space," she says.

Terms of the Citizens-Clarfled deal were not disclosed.

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