

# Eagle-eyed Barclays lands a deal-maker

The Observer - September 2006

Barclays' appointment of investment banking veteran Marcus Agius has set the City abuzz with speculation that it is about to make an acquisition, writes **Heather Connon**

**T**he appointment of company chairmen does not usually attract that much attention: after all, it is the chief executive who really runs the company and determines its strategic direction. But the recruitment of Marcus Agius as chairman at Barclays has caused a stir, in part because it was so unexpected.

His predecessor, Matt Barrett, fought a long campaign to persuade investors that he should be allowed to breach corporate governance guidelines and move from being the bank's chief executive to its chair, so it was surprising that he should give it up after just two years.

But Agius's appointment is also hitting the headlines because of where he comes from: a 34-year veteran of the investment banking group Lazards, he has a well-deserved reputation as one of the City's leading deal-makers. Barclays is already seen as the most likely of the British banks to make an acquisition and the recruitment of a man with Agius's investment banking skills to such a senior post has heightened the speculation.

Already one of the City's key concerns, it has been one of the key reasons for the poor performance of Barclays' shares over the past three months and explains why the rating of Barclays shares lags behind rivals such as HBOS and even LloydsTSB, by common consent the weakest of the main clearing banks.

Barclays acquisitions will be part of its strategy but, as Barclays chief executive, John Varley, is fond of saying, as 'a servant to the strategy rather than the other way round'. A spokesman interprets that as meaning: 'If we need to do [deals] to

support the strategy, we will. But they will not be transformational deals, only add-ons. They could be significant deals like Absa or Banco Zaragozano [acquisitions in South Africa and Spain]. But buying a big US bank is not on the menu.'

Agius's appointment is not the only one to lead investors to worry that such assurances cannot be trusted. Earlier this summer, Barclays recruited Frits Seegers, formerly head of Citigroup's global consumer group, to the rather grand title of chief executive, global retail and commercial banking.

Robin Down, banking analyst with HSBC, says: 'I can't believe [Seegers] would have accepted unless, behind the scenes, John Varley was saying that, ultimately, his empire was going to be fairly aggressively expanded.'

Banking acquisitions do not have a good record, particularly overseas ones. While the two transformational deals in the industry - Royal Bank of Scotland's acquisition of NatWest and Halifax's merger with Bank of Scotland - have been successful, competition commission rules means there is no chance of more market consolidation.

Barclays' own British acquisition of the Woolwich building society is viewed as having been poorly executed and inadequately integrated - indeed, part of Seegers' role will be to ensure that it starts to work more closely with Barclays branches - six years after it was bought. While Absa looks to be doing well so far, the deal was only completed last year, so it is too early to pronounce it a success. Too many banks have done ambitious cross-border deals only to unravel them when poor management

and cultural differences undermined performance.

The other worry is that, whatever Agius's investment banking skills, Barclays' finances are not robust enough to afford a sizable deal without an equity issue. And, asks Simon Maughan, senior analyst with independent research group Blue Oak Capital, 'would the other board members want to do that - especially if they are remunerated in options? The investment banking executives could consider that a bad idea, so there is a potential for conflict.'

Bob Diamond, chairman of Barclays Capital, would certainly be one of the biggest losers if Barclays' share price weakened substantially: he has options over more than 15 million shares, while half his long-term bonus package is likely to be paid in them. He could also point out that he has managed to grow Barclays Capital rapidly without resorting to acquisitions. The year before he joined, it made £201m; last year profits were nearly £1.3bn and the bank is one of the leading players in most of its markets. Of course, as Maughan points out: 'Barclays Capital has been a child of our times - the past five years have been a period of high liquidity, falling interest rates and surging bond markets. It has ridden the trend better than most.' But how will the business do when these trends become less favourable?

Seegers is intended to be Diamond's equivalent for the retail and commercial bank - and his salary package is almost as eye-popping, including £8.5m to buy out his previous package, and £1.6m in guaranteed bonuses. Improving the retail bank enough to justify that package will be hard unless there are big acquisitions - increasing the likelihood that Seegers will prefer deals to the nitty-gritty of fixing the retail bank.

An investment programme, including branch refurbishments and a renewed focus on mortgages for the retail bank, was unveiled in the summer. It will be a struggle: Barclaycard is already suffering from rising bad debts and the high-street bank is likely to follow suits over-indebted consumers struggle with their loans and overdrafts.

And, says Maughan: 'The question is do enough people on the board really care that the UK is a problem? At the results meetings, we always hear how wonderful Absa, Zaragozano, Barclays

From left, Barclays bigwigs John Varley, Deanna Oppenheimer, Bob Diamond and Frits Seegers.



Capital and BGI [its fund management business] are. Then they say there is a slight problem in UK retail.'

One reason for these problems is undoubtedly inconsistency: over the past five years, the retail bank has had five different bosses. It would not be surprising if the front-line staff were so fed up with the constant change that they had stopped listening, never mind reacting, to new initiatives. Robert Myatt

at Kaisen Consulting thinks that keeping employees informed about changes in senior management - including the appointment of new chairmen - is crucial, and something that is often ignored. 'The important question to answer is: "What's in it for me?,"' he says. 'What is good about the appointment, and what is his new vision for Barclays?'

Varley is accused of inconsistency in the mortgage market, the key area where

the bank has fallen behind. HSBC's Down points out that mortgages are now dominated by brokers, who advise on about 55 per cent of all deals. They want consistency from lenders, but: 'Every six months, Barclays has taken a different view. Varley seemed to take fright every time there was some negative news on the housing market.'

While it is now making an effort to win back market share, Down warns

A Barclays lifer, he became chief executive two years ago after stints across the group including finance director and head of its retail banking business. Cerebral and acerbic, he has surprised the City with the ruthless way in which he has dispatched or sidelined his rivals for the top job and unravelled much of predecessor Matt Barrett's legacy.

**Bob Diamond, chief executive, Barclays Capital**

His alternate title - president, Barclays plc - and huge salary (twice Varley's, even excluding his potential £15m 'retained incentive opportunity') underlines the fact that he and his division represent the group's real power base. An affable American, he joined Barclays from CS First Boston a decade ago and under his leadership BarCap profits have grown more than fivefold to more than the whole of the UK retail bank.

**Frits Seegers, chief executive, global retail and commercial banking**

Although born in the Netherlands, Seegers has spent most of his career in various international outposts of Citigroup, the giant US bank. Recruited just two months ago, he has yet to make his presence felt on the US business. Former colleagues describe him as 'tough and performance-oriented'; analysts wonder just how interested an international globetrotter he will be in the over-banked British high street.

**Deanna Oppenheimer, chief executive, UK retail banking**

One of at least five Americans in senior roles, Oppenheimer joined Barclays from Washington Mutual a year ago. Her experience in integrating acquisitions there is seen as key to sorting out the Woolwich business, acquired seven years ago but never properly assimilated. Famed in the US for gimmicks like giving away Barbie-type dolls modelled on counter staff and introducing children's play areas, her actions in the UK so far have been rather more low key.

**Paul Idzik, chief operating officer**

Yet another American, Idzik has been on the main board for two years, having spent the previous five in charge of risk management at Barclays Capital. Aggressive and intellectual, his style is unusually upfront for a UK company: he once jumped the turnstile at the bank's Canary Wharf HQ to test its security - and apparently jumps on anyone using anything other than official Barclays-logo stationery and equipment.

## Marcus Agius's in-tray

**KEY ISSUES FOR BARCLAYS' NEW CHAIRMAN:**

1. Should Barclays seek a merger with an international partner? Bank of America is the long-standing rumoured candidate.
2. Buy a foreign company to boost profits from international business?
3. Keep control of



the headlong expansion of Barclays Capital - and the ego of its chief executive Bob Diamond.

4. Managing the board relationships between the three foreigners - Frits Seegers, Paul Idzik and Diamond - and old British hands like Gary Hoffman and chief executive John Varley.
5. Revitalise the UK banking business, including controlling bad debts at Barclaycard.

that it will take two to three years for the brokers to take it seriously. By then, of course, the mortgage market could be less buoyant than it is now.

If Agius finds dealing with all these issues rather too taxing, however, he may be able to use his deal-making skills in the other direction. Barclays is not only tipped as the most likely acquirer of businesses, it is also the City's favourite banking bid target.