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VIEWPOINT Private Banking

Private Banking 2012 – 2016: growing Assets at any Price?

The global assets managed by the 80 most important banks operating in and out of Switzerland have been growing at an average rate of 15% from 2012 to 2016. Overall, this is a very respectable result, but are the sources of growth sustainable? We take a closer look:

Over the past five years, banks have partially adopted risky, non-organic strategies to oppose the negative trend resulting from outflows, to name a few: aggressive hiring of Private Bankers continues to be a potentially costly approach, often resulting in disappointing Net New Money. Only a small number of banks had the resources to capture asset acquisition opportunities (M & A). Some banks grew assets by focusing on institutional clients, despite of the anticipated negative impact of Mifid II rules (Retrocessions). For affluent clients, assets have been boosted by rapidly expanding mortgage credits. But all these initiatives may not substitute the capability to grow assets and clients organically, which remains the true benchmark of value creation in Wealth Management.

> ***"Organic Growth is the true Benchmark of Value Creation"***

We have recently analysed the global asset growth of the 80 most important banks operating in and out of Switzerland from 2012 - 2016. We separately analysed the clusters of (two) big Banks, Swiss Private Banking Entities, Foreign Banks and Retail Banks. Let us share some of the findings relevant to Wealth Management:

Representing a quarter of the market in terms of global Assets under Management (AuM), the cluster of **Swiss Private Banking Entities *** has achieved an impressive, global asset growth rate of 25% over the past five years. Nine banks have been able to take advantage of acquisition opportunities (total AuM-volume of more than CHF 200 bio), leading to a massive asset growth among these banks of more than 50% on average - they have strongly outperformed the remaining banks who were just depending on organic growth. These banks achieved an average growth rate of just 8% over the same period – and this includes market performance (SMI plus 20%). This weak result confirms, that stagnating banks with limited market share and -access continue to face substantial difficulties in counteracting the negative trend in attracting new clients.

Resulting from these shifts, a large gap has been forming within the cluster of Swiss Private Banking Entities - there are no more "medium sized" banks between AuM of CHF 50 bio and 100 bio..

* Swiss Private Banking Entities: Banks headquartered in Switzerland. Foreign Banking Entities: CH-assets of subsidiaries of banks headquartered outside Switzerland (survey limited to banks publishing comparable AuM and CIR). Percentual values are based on global assets (except Foreign Banks: assets booked in Switzerland)

A completely different picture presents itself among the **Foreign Banking Entities *** operating in Switzerland, with a small market share of just 6%. Over the past five years, they suffered a strong decline of 30% in their Swiss business: partially due to outflows from consequent de-risking of their Swiss assets (-45%), but also due to reducing exposure to Switzerland by selling assets mainly to Swiss Private Banks (-55%). Up to now, they have not been able to reverse the negative trend by attracting fresh Net New Money.

UBS AG and Credit Suisse have a joint market share in terms of assets of well over 50%. UBS AG has been strongly outperforming Credit Suisse over the past five years, organically growing at a total rate of more than 25% (and 33% in Global Wealth Management). In strong contrast, Credit Suisse suffered from market exits (i.e. US market) and restructuring, resulting in a decline of -3.3% in Wealth Management from 2012 - 2016. The wealth management assets of Credit Suisse are now less than a third of UBS AG.

UBS AG alone contributed 60% to the entire asset growth of all observed banks from 2012 – 2016. Just this UBS-growth alone compares to 80% of the current assets of Credit Suisse or 1.75 times the size of Julius Bär. But neither of the two big banks has yet been able to leverage their critical mass and global reach into an advantage of cost efficiency.

Quality Growth remains the key to future Success

While reaching critical mass is the key issue to maintain operating costs at an acceptable level, only the capability to grow assets on a truly organic basis confirms the balanced approach of the business model. Banks have to revitalise both existing- and new client relationships with a convincing, competitive client offering and value proposition that leads to "healthy" organic growth, in order to secure the long-term growth, future and independence.

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