

Swiss Private Banking – fully back in Business?

In our VIEWPOINT 10, published in March 2014, we have come to the conclusion that it might take another four years, until the new regulatory framework will be fully in place and there will be a return to a “new normal” for the Swiss Private Banking sector. However, recent signs of recovery are now obvious and visible even to pessimists. Opportunistic growth initiatives are again on the rise, both organically and through M & A. But it seems as if not everybody is equally participating in the recovery. The question is: are we back on track and is the recovery sustainable?

With 26% market share, Switzerland remains the world leader in cross-border wealth management and claims this place ahead of Singapore. To defend this position, it is now even more important, that the Swiss Wealth Management sector successfully continues its recovery from the forced regulatory change imposed during the past six years.

” *Financial Recovery does not stand for Competitive Edge* “

In our recently published survey *, we have taken a closer look at the Key Performance Indicators (Assets under Management, Net New Money, Cost Income Ratios) of the major Swiss Private Banking players, as well as their dynamic change. Most of the Swiss Private Banks with global reach are demonstrating substantial progress - they are able to increase their Asset base, attract Net New Money again and they seem to be the winners of the current recovery phase.

On the other side, many of the smaller, locally focused banks continue to suffer from the lack of critical mass; they are affected by the repatriation of assets due to regulatory change and – other than the players with global reach - cannot compensate the outflow with Net New Money from Emerging Markets. This analysis is also confirmed by a recent study published by KPMG (September 2014: Clarity on Performance of Swiss Private Banks): about one third of the analyzed banks are performing strongly, whereas one third is writing losses and/or is in continuous decline.

Despite of the good news and the improving results, the cost base is still a major source of concern to most of the banks and way off the better days prior to the financial crisis. In average, the Cost Income Ratios are still about 20% above the

levels of 2007, across the entire industry. Interestingly, our analysis reveals again that the Retail Banks in Switzerland (some of them also offering Private Banking Services) operate up to 40% more efficiently in terms of costs than the Pure Play Private Banking entities. They have streamlined their business model and exploited the outsourcing potential. Somewhat surprisingly, performance based compensation models have survived the crisis and have not really been subject to major cost cutting.

The recent recovery has also brought back a re-emerging interest in growth initiatives: against the improved results and the backdrop of better foreseeable regulatory risks, there is a returning interest (again) in the opportunistic hiring of Private Bankers. The surge in recent M & A activities also helps to accelerate market consolidation. Currently - according to an independent estimate - there are 20 to 25 additional M & A projects in the Swiss pipeline.

However, just looking at the short term recovery, which is also fueled by strong market performance, does not reveal the true, full picture of the Private Banking industry. Ongoing legacy resolution, continuous cost optimization and the design of the future business model (performance orientation, new media channels, service based offering etc.) will remain key priorities in the industry for the next few years.

As such, our response to the initial question is “yes, but...”: the return to old paradigms and the short-term recovery of financial results will not be sufficient to secure the competitive edge. Some banks are not able to benefit from the current recovery on their own, they will have to look for alliances and partnerships. We are not trying to impair the recent improvements, but innovation remains the key driver to secure the long term competitive edge.

* Our Survey of the Key Performance Indicators (AUM, NNM, CIR) is available for download on our website <http://tcpgroup.ch/en/publications.html>

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