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VIEWPOINT Private Banking

"Only when the tide goes out do you discover who's been swimming naked."

Quote Warren Buffet

Positive and negative market cycles have a direct impact on the progress of the consolidation in the Swiss Private Banking landscape. In the current downturn, the known problems reappear: many institutions suffer from low Net New Money and high costs. The gap between "winners" and consolidation candidates is increasing again.

The M & A volume triggered by consolidation is far behind previous estimates: although a total of 49 mostly smaller banks were merged or closed in the past decade, the expected acceleration of transactions over the last 2 years has not materialized.

Nothing has changed in the landscape of Private Banking: on one side there is a small group of "healthy" banks, which is always open to growth opportunities (globally active banks with AuM of CHF 80 billion as well as smaller, well-capitalized or specialized banks) - on the other side are the mainly smaller banks and subsidiaries, which continue their fight for survival. According to KPMG (consolidation in the Swiss Private Banking sector, 2015) one third of the remaining institutions may be affected, forming a group of over 40 potential M & A candidates. But not all of these institutions will find a suitable partner.

The Stock Market Performance directly affects Consolidation

One reason for the slower than expected consolidation lies in the windfall support through market growth, within the critical period between 2010 and 2014: the banks were able to partially absorb the negative effects of the transformation due to the growth of Assets under Management by an average of 24% - but only a third of the asset increase relates to Net New Money (source: zeb schierenbeck / Private Banking Study 2015). In the same period, gross revenues per employee declined by almost one third and many institutions fell below CHF 400k per employee, which is considered as the threshold to defend a Cost Income Ratio of 80% (KPMG and HSG / consolidation in the Swiss Private Banking Sector, 2015). This negative trend is also confirmed by our own analysis (KPI Survey Private Banking 2015 - Development of AuM and Cost Income Ratio, www.tcpgroup.ch/en/publications.html).

Since the fourth quarter 2015, income is falling sharply and in contrast to the positive effect in previous years, the poor performance of the stock markets in 2016 leaves deep marks in the Assets under Management. The pressure increases in particular for those banks which neither were able to adapt their business model in recent years to fit the new regulatory requirements, nor considerably increase their efficiency. The introduction of tough measures may no longer be postponed in these cases as the gap between successful institutions and banks at risk of losing their independence is widening.

The strong Players will continue to benefit from Opportunities

The weights in the market are not only shifting due to mergers and acquisitions, but also due to aggressive competition for Net New Money.

Net New Money may not be generated overnight, in particular in the absence of differentiation factors or a well-established niche strategy (for example, dedicated offerings to the entrepreneur segment, UHNWI clients, onshore market). Lethargic behavior and lack of innovation are also obstructing organic growth, in particular in mature markets.

Against this backdrop, the short term motivated recruiting of client advisors with a business case has gained importance despite of the attached risks. The anticipated Net New Money, which is generated through the hiring of Private Bankers, helps to counteract the lack of organic growth and volatility in the reported AuM. The recruitment of entire team structures is currently the norm rather than the exception. Such aggressive recruitment projects, that are attached to high initial investments, may only be absorbed by "healthy" banks offering a well-developed platform, flawless reputation, perseverance and willingness to invest. As a result, the hiring pipeline becomes an important indicator to measure the success of the institution.

The initiative for changing employers is not always triggered by "aggressive" banks, but frequently directly initiated by bankers who seek to take their faith in their own hands as they are getting dissatisfied with the positioning of their current employer.

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