

Onshore Switzerland: a really tough place to grow!

Despite of the home market advantage and decades of local presence, the onshore expansion by pure play private banks is falling short of their own ambitions. Several banks now counteract by stepping up their marketing activities and the solicitation of client advisors. What are the opportunities and risks?

After a strong emphasis on the development of emerging markets over the past decades, the development of the domestic client base is now regaining importance. The motives, that support the expansion of onshore private banking, are obvious: Switzerland has the world's highest density of millionaires, banks are close to the target group of clients, regulatory issues are comparatively low. Indeed, this looks like a fertile playground – so what are the reasons for the slow progress?

” *Swiss Clients are loyal – and resistant to change* “

To answer the question, let's take a look at the specific situation in Switzerland: most of the private banking clients are tied for decades to their "house bank", who serves them as their primary banking relationship with the full service chain: in addition to investment advice, they also offer mortgage lending, payment services, online banking. Three out of four Swiss private banking clients have just one or two custodian bank relationships *, which confirms that the spectrum of banking services is well covered.

With a market share of approximately 25%, onshore private banking is an important source of revenue. However, the proportion of pure play private banks only represents a small fraction: three out of four onshore private banking clients have their primary bank relationship with UBS AG, Credit Suisse or a Cantonal Bank * - this overwhelming dominance by large players - successfully positioned as primary banking institutions - as well as the high change resistance are difficult to penetrate by Pure Play private banks and international banks.

Swiss customers are much more closely tied to their primary institution than international clients, who often are closer to their long-standing relationship manager than to the banking institution. Clients have even remained loyal to their bank when their institution got into troubled waters. This loyalty is also supported by the fact, according to which four out of five Swiss private ban-

king clients are not interested to consider switching their primary banking relationship *.

Another significant factor is that Swiss clients might react negatively to aggressive acquisition efforts. Again, the large banks with a broader client base are at advantage as they can also internally develop and groom wealthy private banking clients out of their own premium- and affluent client base.

Differentiation must be visible to clients and prospects

Pure private banks must accept that their role in the onshore market is limited to the offering of services to their onshore clients as a secondary bank. Without innovation and clear differentiation, they will neither be able to change the rules of the game nor to significantly change the proportion of their small market share.

Does this mean that there is only "bad news" for private banks who aim for onshore growth? Not at all, because on one hand the analysis quoted in this report also leaves room for a client group that appears open to consider change, on the other hand Swiss customers are certainly open for more innovative consulting concepts. Such concepts are successful when the client is able to identify a clear added value in the services offered, creating the desire to enter an additional bank relationship.

Such an added value could for instance be created by a service model, that is more closely tied to life cycle of the client, enhancing the traditional "product only" investment advice. Furthermore, also the development of dedicated client target groups (e.g. women, affluent clients with trading affinity, etc.) could improve the perception and help to successfully position the bank in the highly competitive onshore market.

Last but not least there is an increasing price sensitivity in Switzerland - competitive advantage and acquisition success may also be supported through innovative pricing and discount structures.

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* Source: Swiss private banking clients, 2009 University of Zurich: we consider the statements in this study as still absolutely relevant.