KPMG

Clarity on Performance of Swiss Private Banks

Crisis as a catalyst for change

We recently published our annual edition of Clarity on Performance of Swiss Private Banks, as usual at this time of year. 2020 has been anything but usual, however. As well as our take on the trends and KPIs that we regularly monitor, we therefore included a special focus on how the industry has been impacted by COVID-19 – based on interviews with 27 senior private banking executives.

COVID-19 has been a terrible event that has proved disastrous for many businesses and communities. We do not need to point out its hugely negative consequences for sectors such as hospitality and travel, or in fact the personal cost it has represented to families and friends around the world. Yet, some industries have the potential to emerge stronger from the crisis. Obvious candidates include online retail. Another, perhaps less obvious, candidate is private banking.

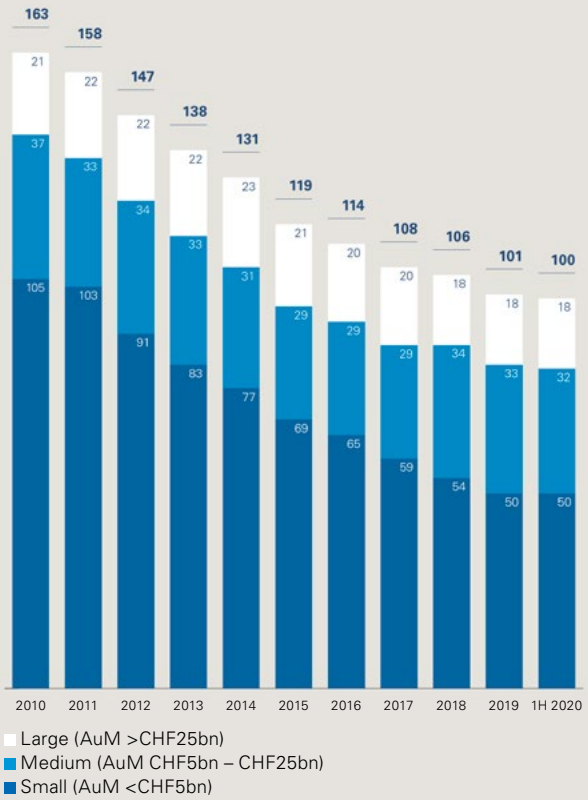
Our 2020 study identified various positive developments among Switzerland's private banks, including a significant increase in net new money (NNM), which shows that many banks – supported by Switzerland's role as a global financial center – were able to attract more new clients following years of weak inflows and, in some cases, outflows.

Some of the key findings from our analysis

The number of banks has stabilized as consolidation is interrupted

There were exactly 100 Swiss private banks as at 30 June 2020. This is only a small fall from the previous year, due to consolidation plans being put on hold as a result of reduced financial pressure and the COVID-19 crisis. The need for consolidation has not gone away, though, as the number of poorly-performing banks remains high. CEOs note a greater openness to discussing possible mergers, with two announced in July 2020 reaffirming the trend even among well performing banks.

Number of Swiss private banks by AuM
2010 – 1H 2020



AuM growth has become critical to success

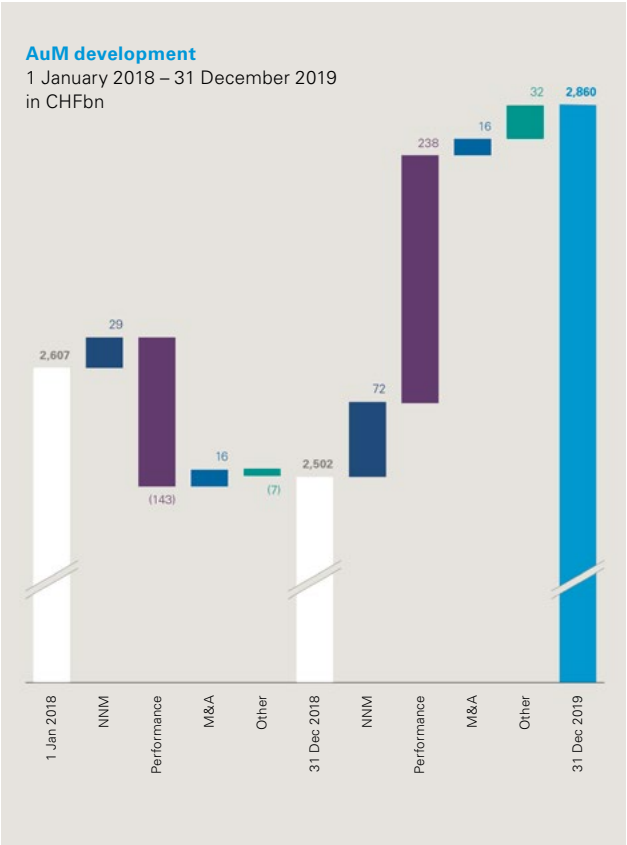
Successful banks and those that perform poorly can often be distinguished by variations in growth rates. Banks are able to improve their cost-income ratios and RoEs by attracting new clients and delivering superior returns. In fact, our analysis of the past five years shows that a 10% rise in gross AuM translates into a bank improving its chances of survival by 6%.

Competitive advantage is being built through superior client returns

It is notable how banks that provided the highest returns on client assets were also the best at attracting new clients. This is no coincidence, as client returns have emerged as a key differentiator. Stark contrasts between the returns offered by different banks remain, and it is increasingly clear that higher returns and an ability to offer unique investment opportunities will further build competitive advantage.

NNM and AuM reach new highs, but costs must be better controlled

Overall industry performance is mixed, with gross profit and net profit falling and RoE remaining low as weak banks become even weaker. Yet, NNM, AuM and annual AuM growth are higher than at any point in the past ten years. This is positive news, but better cost management is needed if recent improvements are not to be sacrificed.



How CEOs view the impacts of COVID-19

All of this is good news. But we cannot overlook the dominant theme of 2020: COVID-19. To this end, we complemented our own insights with thoughts and opinions from industry players.

We interviewed 27 senior executives – mainly CEOs – of private banks in Switzerland to get their view on how their bank, and their industry more broadly, is being impacted by COVID-19. The outputs of these interviews can be summarized as follows:

Client relationships have intensified

Partly on the back of home working benefits, interviewees cited improvements in client relationships. Video conferencing is a key part of this, enabling colleagues to stay in touch with clients more easily and at the client's convenience, and reducing the need to schedule face-to-face meetings. Clients have generally been easier to reach due to they themselves being at home, and constructive and frequent conversations have enabled banks to increase their share-of-wallet.

The flip side of being at home is that it is proving more difficult to win new clients, who are typically secured by meeting in person. The interviewees considered that this may negatively impact NNM in the second half of 2020.

Banks are ahead of budget and prior year performance in 1H 2020

Markets were naturally volatile when COVID-19 began to spread. This delivered exceptionally high trading volumes, with some banks seeing two or three times normal volumes in the first quarter of 2020. This slowed down considerably in the second quarter.

Higher NNM at some banks was seen, with those offering online client on-boarding being at an advantage. Banks expect to continue suffering from margin pressure on commissions and near-zero interest rates going forward, and those with commercial or mortgage loans may incur credit losses. Some interviewees expressed caution due to the chance of a severe global economic downturn.

> “People now understand and accept that decentralized working is possible. This was unthinkable six months ago.”

Senior private banking executive

Unforeseen benefits of working from home

Banks generally managed to implement home working swiftly, with minimal disruption to client service. In fact, more than 90 percent of staff began working from home within one week at many banks. Most banks cited operations running smoothly and largely interrupted.

Out of this situation, most interviewees noted how home working has enhanced efficiency as well as leading to a better work-life balance and increased employee satisfaction. Fueling these positive developments were the fact that employees were able to concentrate on clients due to having fewer physical meetings, more efficient approval processes, and a lack of commuting.

Strategic reflection is underway

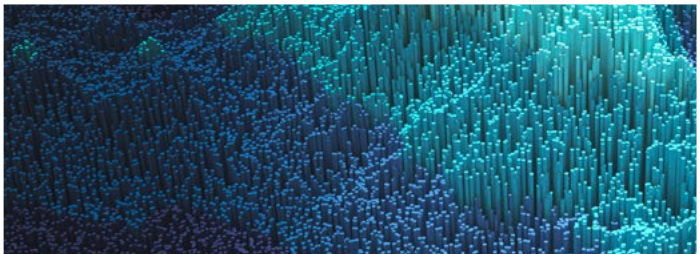
Unsurprisingly, interviewees noted how COVID-19 has caused them to rethink aspects of their business. Notably, that banks will be encouraged to accelerate their efforts to deal with long-term industry trends, especially the move towards digital transformation. Investment in other areas such as ESG and impact investing are also likely to become more relevant.

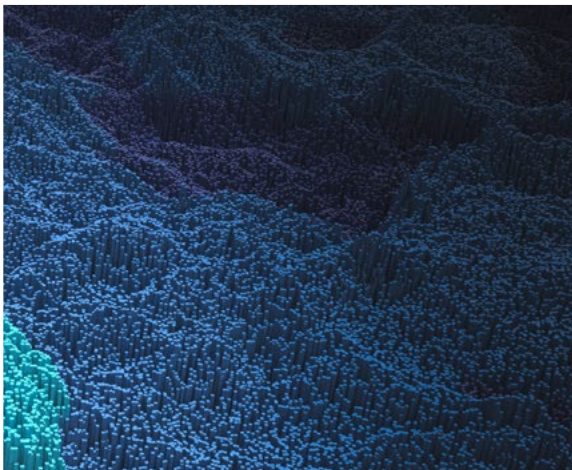
As they reflect on future initiatives and change, banks recognize that they cannot build all the necessary competences in-house, and are therefore looking to rely on their ecosystems to help them deliver the necessary transformations.

Interestingly, COVID-19 had caused only a handful of banks to launch cost reduction programs. While on the revenue side, new streams such as cryptocurrency and lower-wealth client segments, and higher-margin asset classes such as private debt/equity, are expected to feature more prominently in banks’ propositions.

While the crisis’s financial impact on private banks has so far been generally positive, the industry recognizes that the potential downside is likely to be far greater than the upside they have already begun to experience. This is especially the case given the industry’s current operating and business model, which makes it vulnerable to a downturn. Transformation has been too slow in recent years, and profitability and other KPIs at many banks remain at very low levels.

COVID-19 has demonstrated to many management teams exactly what is possible and how quickly change can be introduced – as well as reinforcing the potential of more digital business models and new ways of working.





The role of the Board

Seize the imperative to accelerate transformation efforts

It is now up to Boards to ensure that changes are implemented as quickly as possible. Put simply, the transformation of Swiss private banking must accelerate if banks are to become stronger, improve their financial performance, and be ready for any challenging times ahead.

By encouraging and accelerating these existing trends, private banks may well be able to come out of this crisis stronger than before. If there is a silver lining, it is that an extraordinary situation such as this can often make people realize that change is not only needed but also possible.

Boards should pay particular attention to the following areas of focus:

- Move to more digital business models, which can reduce cost bases and improve quality of service.
- Adopt new ways of working including retaining an element of home working and a greater use of technology.
- Consider how the bank's M&A strategy can support development, including in the context of continued consolidation.
- Adjust service offerings to include those that increasingly appeal to clients who are looking for more purpose in their investments.

For more detailed information about the performance of Swiss private banks see kpmg.ch/pb

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This article is part of the KPMG Board Leadership News. To receive this newsletter for board members three times a year, you can register here.

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