

Swiss private banking in clinch with high cost level

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For the international wealth management industry, 2012 was a more benign year than the harsh 2011. Due to favorable stock and bond markets the volumes of managed funds increased, though not returning to pre-crisis levels. In addition, most banks managed to attract new funds. Nevertheless, the biggest wealth managers lost some market share to medium-sized competitors. Post-crisis low turnover and low interest rates still put pressure on returns, while cost levels remained sticky. The cost/income ratio remains critical even though gross margins on managed assets stabilized from 2011 to 2012. This is particularly true for Swiss banks and, after a significant deterioration over the last few years, for Liechtenstein banks.

Swiss banks: business models for tax-compliant and performance-sensitive clients

International initiatives against tax evasion and pressure on offshore oriented private banking centers have hit Switzerland hard. Bank data theft, the fear of involuntary disclosure and various tax amnesties have led to the loss of profitable client mandates for [banks](#). The Federal Court ruling to limit commission fees is another challenge to the Swiss wealth management business model. "The traditional offshore model servicing mainly price-insensitive clients is making way for new strategies, this time directed at tax-compliant and performance-sensitive clients," says Prof. Urs Birchler, the lead author of the study.

Despite a challenging international political environment, Swiss financial institutions managed to increase their assets under management from 2011 compared to 2012, due to favorable market conditions, including stabilized USD and EUR exchange rates, on the one hand and successful efforts to attract new money on the other. Five banks dominate the Swiss private banking market with a [market share](#) of 72%, among them the international leaders UBS and Credit Suisse with a joint market share of 56%.

Likely consolidation of smaller Swiss banks in the foreseeable future

The erosion of gross margins observed since 2006 has come to a halt, with smaller banks performing slightly better than bigger ones. In revenue-per-employee figures and in cost/income ratios, though, the more labor-intensive smaller banks are falling behind their bigger competitors. "For all Swiss wealth managers, the cost levels remain high, but for some smaller banks, costs may be too high in the long run," warns Urs Birchler. "Consolidation seems unavoidable. In the future, additional costs imposed on the banks by increased international regulation may considerably change the face of the industry and in turn threaten the survival of a number of long-established Swiss private banks."

Positive net new money figures over the last three years and slightly improved cost-income ratios in 2012 suggest that the banks are rising to their challenges. "Be that as it may, many banks still have some potential for further cost optimization through careful choice of out- and in-sourcing services," states co-author Christian Bühler. According to the authors, Swiss banks that are already strong in asset management might improve even further if two factors were to change: the abolition of the Swiss stamp duty and gaining full access to the European markets.

"Swiss wealth managers are thus challenged on two counts: for one, to revise their business models in the light of tax-compliant and performance-sensitive clients, and second, to cope with the ever present cost pressure," concludes Christian Bühler.

More information: International Private Banking Study 2013, Urs Birchler, Christian Bühler, René Hegglin, Lukas Meier, and Florian Reeh, October 23, 2013.

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