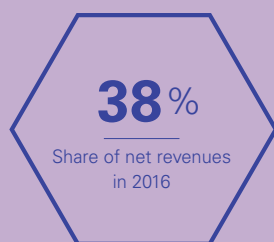


FINANCIAL SERVICES



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New business models required

Swiss providers of financial services are working hard to reposition themselves to prepare for the future in a rapidly changing environment. In light of current developments on the market and future trends, these efforts focus not only on implementing regulatory requirements but above all on considerations regarding fundamental transformations and new business models.

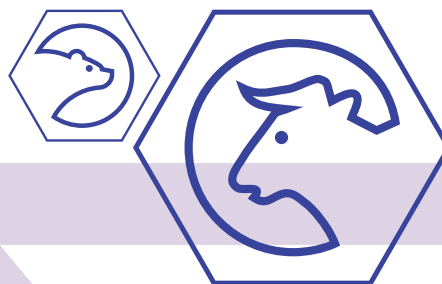
The state of the European financial system is fragile and that has an impact on the macroeconomic environment in Switzerland as well. With investment opportunities being constricted by negative and low-interest rate policies, bank clients are showing restraint. That, in turn, has led many private banks to resign themselves to extremely modest profits while also making them hesitant to take any decisive steps which could potentially remedy the situation. Despite the fact that some consolidation efforts are indeed underway, it is growing increasingly difficult to get buyers and sellers to sit down together at one table. And with the importance of combining size and agility on the rise, smaller banks are running out of time.

Repositioning among financial service providers

KPMG used several different business models to show its clients how they could respond to a variety of developments. One remarkable trend is that financial service providers in particular are broadening how they define their fields of

business and developing new products on an ongoing basis, some of which include cyber risk insurance, mortgage services and sounding out opportunities to collaborate with start-ups. Life insurance companies are working on restructuring their product portfolios. This area especially is suffering enormously under the current macroeconomic environment which is characterized by negative interest rates and a lack of long-term investment opportunities, not to mention the capital requirements of the Swiss Solvency Test.

Risks from the past are also ever-present: The launch of the automatic exchange of information is a development that affects all financial services providers. However the greatest challenge is still digitalization. Are virtual client consultations viable yet? Which opportunities does blockchain technology open up? Where can technology be harnessed to boost efficiency? How can a digitized value chain be managed? And which activities have to be relocated to lower-cost countries?



Increase in cyber risks

KPMG's business activities over the past year were shaped in equal measure by two main drivers: offshoring and nearshoring. Decisions whether to use these approaches take a blend of three factors into consideration, namely new business opportunities, compliance with regulatory requirements and risk management. Digitized processes are exposed to a number of different risks, most notably cyber risk which has risen enormously with targets including not just banks and insurance companies but also suppliers from the infrastructure, telecommunications and communications industries.

The response to the KPMG study on the performance of Swiss private banks, which provided insights into the sector's future business models, as well as to Regulatory Horizon, an online platform that addresses the most important regulatory topics in the financial industry, has been resounding. KPMG used these platforms to demonstrate its authority in these subject areas and succeeded in linking that leadership with the firm's practical experience in the industry, including its expertise in the realms of data privacy and cybersecurity. On the topic of insurance, KPMG has assembled an international Swiss and German team and significantly intensified its activities with cantonal banks in western Switzerland.

No growth in Switzerland

Looking ahead, two questions arise: What will drive global economic performance and which role will Switzerland and its businesses play in it? The underlying problem is a lack of growth. So where are all the future-oriented fields of business for the Swiss financial center? What can be done to restore clients' confidence in financial institutions?

The financial sector is increasingly technology-driven yet many of the technological innovations are still highly unpredictable. The major banks

are using blockchain technology in an effort to provide some financial services at a much lower cost. If it works, this will shake up the sector.

The urbanization of Switzerland as a place to work and the concentration currently in progress in the financial sector will continue unabated. The future will bring a streamlining of banks' branch networks, more digitally structured products and an increase in services that are provided virtually.

Greater employee flexibility required

KPMG is investing heavily in new technologies to accommodate changes in the way it advises and audits its clients. Yet this transformation also calls for a willingness on the part of each and every employee to actively help shape those changes. For this multidisciplinary approach to advance to the next level, they need a strong shared cultural understanding as well as an ability to communicate closely with one another.

One of KPMG's big challenges is finding the right talent. A high level of flexibility is essential, especially when working on temporary assignments. Take international experience, for example. It is becoming increasingly important to KPMG that its employees also gain valuable experience in other regions of the world to help them cultivate an understanding of different cultures.

Importance of private retirement planning on the rise

Financial services provided to the next generation of clients will be subject to an entirely different set of requirements. Which tasks will insurance companies still need to have performed by people? Which banking services will be requested? And via which channels will they be used? Social security and pensions will be dominant issues among financial service providers. Here, the importance of private retirement planning will continue to grow and open up new opportunities for financial service providers. The Swiss financial industry is ideally positioned to meet this challenge.