Clarity on Swiss Private Banks

Prepared for challenging times to come

A reshaped industry proves able to adapt

Institute of Management & Strategy
University of St.Gallen

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Photo by Geertjan van Beusekom

Securing a reshaped industry's future

2022 is proving to be an challenging time for the Swiss private banking industry. Following years of excellent market conditions and performances, the economic environment is deteriorating quickly. 2022 marks the start of a new era characterized by rapidly rising inflation, increasing interest rates, and significant geopolitical and macroeconomic concerns.

Around half of Switzerland's private banks are entering this new period from a position of strength. They have spent years investing successfully in strategic and operational improvements, repositioning themselves in the aftermath of new regulations, dilution of banking secrecy, tax transparency, and automatic exchange of information. These banks have emerged very strong, generating high levels of Net New Money, healthy profitability, and extremely good performances for their clients.

Weaker banks by contrast continue to struggle and their options are narrowing. Smaller banks in particular are being eclipsed by large Independent Asset Managers who are growing quickly and appear to be taking over the smaller end of the wealth management business.

This publication sets out how banks have performed over recent years, what strong banks are doing better than their weaker counterparts, and how the industry continues to reshape itself. A fascinating interview with Prof. Dr. Klaus W. Wellershoff, former chief economist of UBS, adds his insightful perspective on how banks must differentiate themselves going forward. This is especially important given tougher times are on their way where Net New Money, revenues and profitability will be hit hard.

Whether you are seeking ways to improve further, or rethinking your strategy more generally, we would be happy to discuss how to handle the challenges of the harsh new environment that is coming.

Philipp Rickert
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Different trajectories reinforce the divide

It was clear in 2015 that the industry would continue to fundamentally change, with banks needing to take tough strategic decisions to survive. Stronger banks seized the challenge and delivered results. They achieved high AuM growth from NNM and performance, realized economies of scale, significantly lowered their cost-income ratios, and stabilized their income margins.

The weaker half of the industry proved unable to define and implement a successful strategy to adapt to the new environment, with many having disappeared since. The number of loss-making banks rose sharply in the past three years, exacerbating the divide. The gap will widen in the coming years with a much more challenging environment.

Half of Swiss banks form a strong core

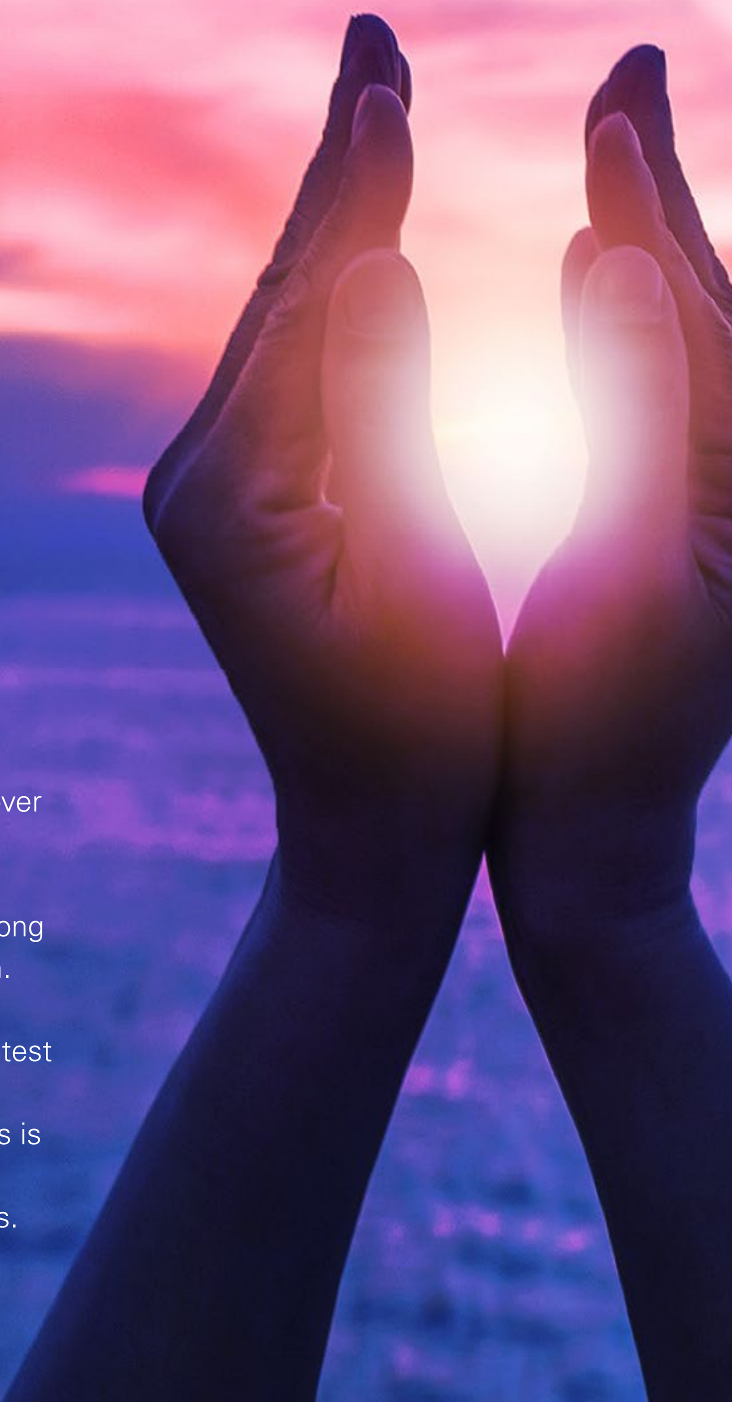
Seventy-one Swiss private banks have disappeared since we launched this publication 12 years ago. The past six years have been tough for many more. After years of restructuring and investment, however, a robust cadre of Swiss banks has emerged. These strong performers have achieved significant strategic and operational improvements and now represent around half of Swiss banks.

The gross profit of the 76 banks analyzed in this report rose from CHF 3.8bn in 2015 to CHF 5.8bn in 2021. This is evidence that Switzerland is back on its feet and actively defending its status as leading global wealth management center – though the robustness of the industry will be put to the test in the harsh economic conditions that 2022 is bringing.

A golden year for AuM growth

AuM hit a record high of CHF 3.3tn in 2021, up 12.9% over the prior year and up 47% since 2015. NNM was a key contributor, reaching a new high of CHF 131bn last year. 2021 was the third year in a row that banks produced strong and increasing NNM following years of weak generation.

Driven by the high AuM growth, gross profit grew the fastest for six years, coupled with a 3.2 percentage point improvement in the cost-income ratio in 2021 alone. This is on the back of banks' successful performances, strong financial markets, and positive foreign exchange markets.

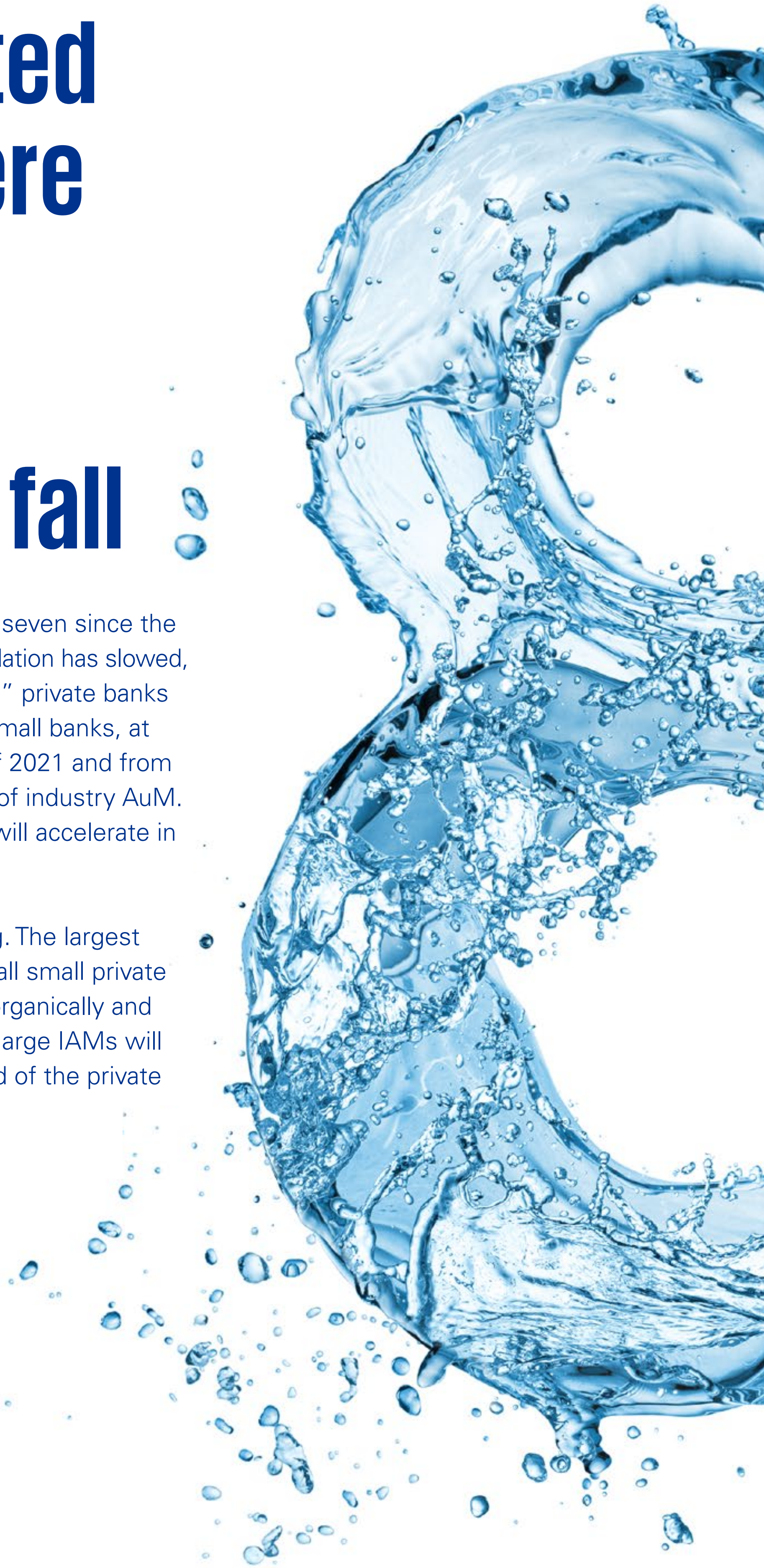


M&A limited mainly to optimizing business models

2021 was a very busy year in wealth management M&A globally. For Swiss banks, transactions were primarily large banks optimizing their international set-ups. The vast majority of these deals did not represent big strategic moves, aiming instead to enhance banks' profitability.

We will see in the very different macroeconomic environment in the coming years whether large-scale M&A will return to banks' agendas and if the availability of targets will increase as markets become more challenging and there is less organic growth potential available.

A concentrated industry where the number of banks continues to fall



The number of Swiss private banks fell by seven since the start of 2021 to 92 banks. Although consolidation has slowed, the industry is concentrating as the "Big 8" private banks represent almost 80% of industry AuM. Small banks, at 38, are down from 46 banks at the start of 2021 and from 104 in 2010. They now represent only 2% of industry AuM. We anticipate that the exit of such banks will accelerate in the upcoming challenging times.

At the same time, large IAMs are growing. The largest IAMs have a greater combined AuM than all small private banks together. They continue to expand organically and through strategic M&A. It is possible that large IAMs will dominate what is currently the smaller end of the private banking market.

Prepared to weather the storm

Many years of increasing asset prices and ten years of negative interest rates are giving way to a new reality: inflation is back and interest rates are rising. Geopolitical tensions are also on the up, with an energy crisis and war in Europe. Stronger banks have shown they are able to handle major challenges, while weaker ones enter this new era in a poorer starting position.

We are likely to see an even tighter core at the Swiss financial center amid a new wave of exits and greater consolidation. This core – which will represent the future of Swiss private banking – is far more successful at acquiring and retaining clients and gaining remuneration for high-quality service. They provide comprehensive offerings and superior performances, and their client success gives them the means to invest even further in developing and continually adapting their business.

The number of Swiss private banks continues to fall

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Fifteen M&A transactions announced in 2021 were followed by ten in the first quarter of 2022. This strong deal momentum stalled, however, due to uncertainty arising from the Russia-Ukraine war, rising inflation and interest rates, and fear of a looming recession. The result was a sluggish M&A market in the second quarter of 2022.

The number of private banks in Switzerland dropped from 99 at the end of 2020 to 92 by June 2022.

Large banks drive strong M&A activity
Large banks were involved in 22 of the 27 M&A deals since January 2021 as they sought to streamline their global operations. The remaining transactions were mostly consolidation deals among smaller players.

UBS was particularly active in the past 18 months. It announced four cross-border and one domestic transaction, exiting selected markets and consolidating ownership. The largest acquisition was of Wealthfront Inc., a US-based Fintech offering automated investment services and managing AuM of CHF 27bn. Divestments included UBS's Spanish wealth management business of around CHF 15bn AuM to Warburg Pincus-backed Singular Bank, and an SEC-licensed investment advisor with around CHF 7bn AUM servicing US clients booked in Switzerland, which was sold to Vontobel.

The past 18 months also saw a rare transaction for the past decade – a foreign acquirer buying a Swiss private bank – when Gibraltar-based Trusted Novus Bank announced the purchase of Kaleido Privatbank.

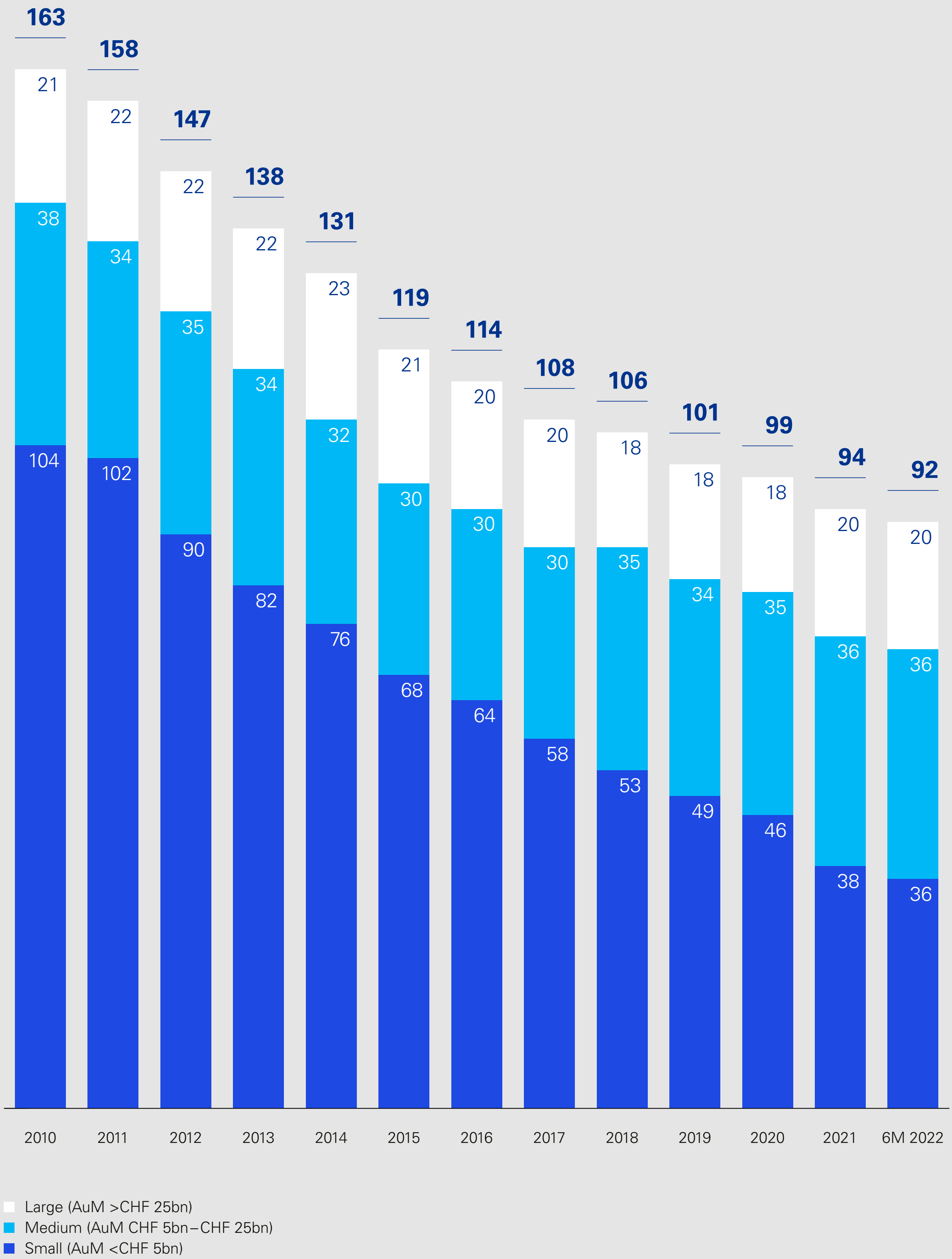
Number of banks declines further
The number of private banks in Switzerland fell to 94 by the end of 2021 and to 92 by the end of June 2022.

The number of large banks grew by two in 2021. Rothschild & Co. passed the CHF 25bn threshold thanks to its acquisition of Banque Paris Bertrand, as did Citibank.

A new banking license was granted to Cité Gestion, a large independent asset manager in Geneva with AuM of CHF 7bn in June 2022.

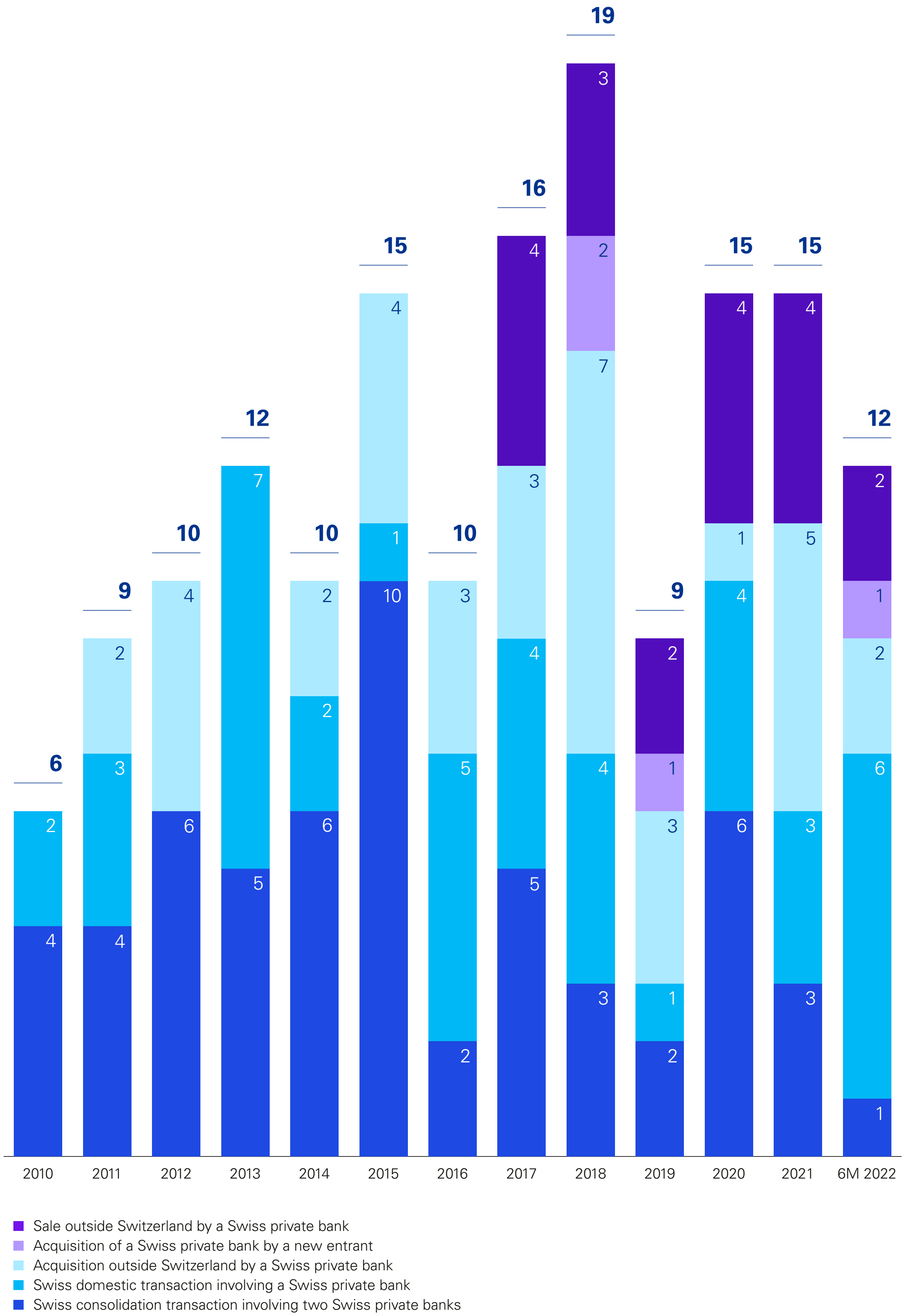
More deals involving independent asset managers
Swiss private banks were also involved in transactions with independent asset managers. These were Syz's acquisition of BHA Partners, Cornèr's acquisition of a 30 percent stake in Finpromotion, Reyl's acquisition of a 40 percent stake in 1875 Finance – one of the largest IAMs in Switzerland with AuM of more than CHF 11bn – and two management buy-outs of independent wealth managers owned by Julius Baer, Wergen & Partner Wealth Management and Fransad Gestion.

Number of Swiss private banks by AuM size
2010 – 6M 2022



Number of announced M&A deals (buyer, target or seller is a Swiss private bank)

2010 – 6M 2022



Seven deals see large banks expand abroad

There were seven acquisitions abroad since the beginning of 2021; mainly large private banks expanding their business abroad through M&A.

Union Bancaire Privée, UBP, acquired Danske Bank's Luxembourg-based international wealth management business via an asset deal, EFG International acquired the remaining shares in Australia-based Shaw and Partners, J. Safra Sarasin acquired Bank of Montreal's Hong Kong and Singapore-based private banking business, and Edmond de Rothschild acquired a 43 percent stake in British Hottinger Group.

Six exits abroad as banks focus on key markets

Swiss private banks that are globally active divested several foreign activities that were deemed non-core.

Credit Suisse entered into two referral agreements, one transferring its Austrian client book to Liechtensteinische Landesbank, and one transferring clients from nine sub-Saharan countries to Barclays.

EFG International completed its footprint rationalization by selling its French wealth manager Oudart to Cholet Dupont, and exiting the Spanish market by selling its remaining shares in Spanish private bank Asesores y Gestores Financiaros to the firm's management. Finally, Julius Baer Group sold a majority stake in its Mexican subsidiary NSC Asesores to Stratos Wealth Partner, a US-based investment advisor.

Outlook

Limited M&A activity in 2022 amid global uncertainty
The current uncertainties caused by the war in Ukraine, rising inflation and interest rates, global supply chain interruptions and recurring COVID-19 local lockdowns are causing widespread concern about an economic downturn. In this environment, M&A deal activity has remained low since March 2022 and is expected to stay below average for the rest of the year.

We believe a slowing economy will increase the need for consolidation among Switzerland's weaker private banks. While banks were able to profit from a record-long bull market with high performance contribution, economic stagnation or a recession will intensify the pressure on weaker banks to act.

Swiss private banking transactions (excluding asset management deals)
6M 2022

Announced date	Target	Bidder	Seller	AuM (CHF bn)	Deal type
6M 2022					
Jun 22	UBP Investment Advisors S.A.	Ameliora Wealth Management AG	Union Bancaire Privée, UBP SA	1.0	Asset deal
Jun 22	Fransad Gestion S.A.	Management of Fransad Gestion S.A.	Julius Baer Group Ltd.	1.5	Share deal
Mar 22	UBS Securities LLC. (16%)	UBS Group AG	Guangdong Provincial Transportation Group (14%) & CLP Holdings Limited (2%)	n/d	Share deal
Mar 22	Finpromotion Société de Promotion Financière SA (30% stake)	Cornèr Bank Ltd	n/d	n/d	Share deal
Feb 22	NSC Asesores, S.C. (Mexico) (sale of 50.1% of its 70% stake)	Stratos Wealth Partners Ltd	Julius Baer Group Ltd.	4.0	Share deal
Feb 22	bank zweiplus ag (42.5%)	J. Safra Sarasin Group	Aabar Trading S.à.r.l, Luxembourg	7.1	Share deal
Feb 22	Credit Suisse (Wealth management in nine Sub-Saharan countries)	Barclays PLC	Credit Suisse Group AG	2.5	Referral deal
Jan 22	Wealthfront Inc.	UBS Group AG	n/a	27.0	Share deal
Jan 22	Banque Degroof Petercam (Suisse) SA	Gonet & Cie SA	Banque Degroof Petercam SA, Belgium	0.8	Share deal
Jan 22	Kaleido Privatbank AG	Trusted Novus Bank Limited, Gibraltar	AS Citadele banka, Latvia	n/d	Share deal
Jan 22	BHA Partners AG	Banque Syz SA	n/a	1.0	Share deal
Jan 22	Wergen & Partner Wealth Management Ltd	Management of Wergen & Partner Wealth Management Ltd	Julius Baer Group Ltd.	1.2	Share deal

- Sale outside Switzerland by a Swiss private bank
- Acquisition of a Swiss private bank by a new entrant
- Acquisition outside Switzerland by a Swiss private bank
- Swiss domestic transaction involving a Swiss private bank
- Swiss consolidation transaction involving two Swiss private banks

Swiss private banking transactions (excluding asset management deals)

2021

Announced date	Target	Bidder	Seller	AuM (CHF bn)	Deal type
2021					
Dec 21	Quintet Private Bank (Schweiz) AG (Private Banking business)	PKB Privatbank SA	Quintet Group	1.0	Referral deal
Dec 21	UBS Swiss Financial Advisers AG	Vontobel Holding AG	UBS AG	7.2	Share deal
Nov 21	Shaw and Partners Ltd. (Australia) (39%)	EFG International AG	Shaw and Partners Limited	19.7	Share deal
Oct 21	Hottinger Group (42.5%)	Group Edmond de Rothschild	n/a	0.6	Share deal
Oct 21	UBS Spain (Wealth Management Business)	Singular Bank S.A.U.	UBS Group AG	14.9	Asset deal
Aug 21	1875 Finance Holding SA (40.0%)	Reyl & Cie SA	Olivier Bizon, Paul Kohler, Aksel Azrac, Jacques-Antoine Ormond	11.0	Share deal
Jul 21	Danske Bank International S.A. wealth management business	Union Bancaire Privée, UBP SA	Danske Bank International S.A.	5.6	Asset deal
Jun 21	Millennium Banque Privée - BCP (Suisse) SA	Union Bancaire Privée, UBP SA	Banco Comercial Português, S.A.	3.8	Share deal
Jun 21	Oudart SA	Cholet Dupont S.A.	EFG International AG	1.5	Share deal
Apr 21	Consenso Investimentos Ltda. (40%)	UBS Group AG	Consenso Investimentos Ltda.	n/d	Share deal
Apr 21	Asesores y Gestores Financieros, S.A (40.5%)	Management of Asesores y Gestores Financiaros	EFG International AG	13.1	Share deal
Mar 21	HNW clients of Austrian branch of Credit Suisse (Luxembourg) S.A.	Liechtensteinische Landesbank (Österreich) AG	Credit Suisse (Luxembourg) S.A.	0.8	Referral deal
Feb 21	Heritage & Partners SA	n/d	Banque Heritage SA	n/d	Share deal
Jan 21	United Mizrahi Bank (Switzerland) AG	Hyposwiss Private Bank Geneva S.A.	Mizrahi-Tefahot Bank Ltd, Israel	0.4	Share deal
Jan 21	Bank of Montreal (Hong Kong and Singapore PB Business)	J. Safra Sarasin Group	Bank of Montreal	n/d	Asset deal

- Sale outside Switzerland by a Swiss private bank
- Acquisition of a Swiss private bank by a new entrant
- Acquisition outside Switzerland by a Swiss private bank
- Swiss domestic transaction involving a Swiss private bank
- Swiss consolidation transaction involving two Swiss private banks

Large IAMs are a rapidly growing force

Switzerland's largest Independent Asset Managers (IAMs) are becoming a growing force in the Swiss wealth management market.

We expect the IAM market to continue to change significantly, as only a minority has received a FINMA portfolio managers licence ahead of the deadline of the end of 2022.

Large IAMs manage more AuM than all small banks
More than CHF 100bn AuM is managed by 37 of the largest IAMs which are members of the "Alliance of Swiss Wealth Managers". This exceeds the combined CHF 69bn of the 29 small private banks in this publication's scope.

A fundamental transformation is underway
Switzerland's IAM sector is undergoing a major upheaval due to greater regulatory requirements, growing interest from foreign private equity investors, and an aging advisor base that is nearing retirement. The extent of the changes makes it meaningful to dedicate a section of this publication to what is happening in the sector.

Looking at the regulatory aspects alone, the introduction of the Swiss Financial Institutions Act poses new challenges for IAMs. It increases regulatory requirements and makes it mandatory to submit a FINMA license application by the end of 2022. As of the end of July 2022, only about 400 IAMs out of 2,100 had received a license.

An uptick in M&A and growing private equity interest
Most IAMs are very small firms that under the current time pressure may have to sell their business rather than apply for the license. This could lead to a significant rise in M&A activity or the disappearance of many small players.

While there is little transparency around smaller transactions that often involve one-person businesses, we observe an uptick in the number of deals between larger IAMs that have more than CHF 1bn of AuM.

As we have seen for a number of years in Anglo-Saxon markets, private equity investment in Switzerland has increased among houses deploying buy-and-build strategies. This has sparked a number of acquisitions of IAMs, though private equity consolidators face local competition from private banks and larger IAMs. Local acquirers are seeking revenue and cost synergies by integrating firms into their established platforms.

Outlook

As the FINMA license deadline approaches, we expect M&A activity to grow in the second half of 2022. This includes the acquisition of smaller unlicensed firms by IAMs that have already gained their license (including private equity-backed firms) and by private banks. Various consolidators – some of them backed by private equity – will try to build larger groups. We also expect many small IAMs where advisors are nearing retirement to cease business.

As large IAMs continue to be successful, it will be interesting to see whether the IAM or the private bank model will prove more suitable for wealth managers with AuM of under CHF 5bn.

Major IAM transactions in Switzerland
2021 – 6M 2022

Announced date	Target	Bidder	Seller	AuM (CHF bn)	Deal type
6M 2022					
Jun 22	ZEST SA	LFG Holding SA	n/d	2.5	Merger
Jun 22	UBP Investment Advisors S.A.	Ameliora Wealth Management AG	Union Bancaire Privée, UBP SA	1.0	Asset deal
Jun 22	Fransad Gestion S.A.	Management of Fransad Gestion SA	Julius Baer Group Ltd.	1.5	Share deal
May 22	Investarit AG	Diem Client Partner AG	n/d	n/d	Share deal
Apr 22	Octogone Holding SA	Focus Financial Partners Inc.	n/d	5.3	Share deal
Mar 22	Finpromotion Société de Promotion Financière SA (30% stake)	Cornèr Bank Ltd	n/d	n/d	Share deal
Jan 22	Pentagram Wealth Management SA	Woodman Asset Management AG	n/d	3.5	Merger
Jan 22	Artorius Wealth Switzerland AG	Decisive Capital Management SA	Artorius Wealth Management Ltd	n/d	Asset deal
Jan 22	Diem Client Partner AG	Quaestor Coach AG	n/d	n/d	Share deal
Jan 22	BHA Partners AG	Banque Syz SA	n/d	1.0	Share deal
Jan 22	Wergen & Partner Vermögensverwaltungs AG	Management of Wergen Partner	Julius Baer Group Ltd.	1.2	Share deal
2021					
Dec 21	UBS Swiss Financial Advisers AG	Vontobel Holding AG	UBS AG	7.2	Share deal
Aug 21	PLEION SA	Probus Holding SA	n/d	4.0	Merger
Aug 21	1875 Finance SA (40.0% stake)	REYL & Cie SA	Management of 1875 Finance	11.0	Share deal
Feb 21	Limmat Wealth AG	FERI (Schweiz) AG	n/d	0.8	Share deal
Feb 21	Heritage & Partners SA	n/d	Banque Heritage SA	n/d	Share deal

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Industry performance

We have analyzed the Swiss private banking industry as a whole, based on our sample of 76 private banks.

The industry financial statements presented are the aggregate of the financial statements of the 76 private banks. It should be noted that the 17 large banks have the biggest weighting in these figures, representing 89% of industry AuM.

We also group the banks into four performance clusters, sharing our insights into their characteristics.

Finally, we look at how banks have responded differently to the fundamental industry transformation since 2015.

AuM hits a record high

A golden year for AuM growth among the 76 banks in our analysis, 2021 ended on a new high of CHF 3,263bn. Positive equity and foreign exchange markets combined with record NNM to generate a 12.9% rise in industry AuM – over four times that of 2020.

Extremely encouraging for Switzerland's private banking industry, 2021 was the third consecutive year of increasing NNM. Three out of four banks saw NNM grow, with industry-wide NNM reaching a record CHF 131bn, being 4.5% of the year's opening AuM.

AuM in 2021 was boosted by NNM and supercharged by performance
The combined AuM of the 76 banks grew by CHF 373bn or 12.9% to CHF 3,263bn last year. This was driven by NNM of CHF 131bn (4.5% of the year's opening AuM), supercharged by CHF 234bn in performance (8.1% of opening AuM) on the back of favorable equity and foreign exchange markets.

AuM rose at 91% of banks in 2021, with median bank AuM growth hitting a record 13.7%.

AuM grew by 47% over the past six years
Industry AuM has grown from CHF 2,220bn to CHF 3,263bn – or CHF 1,043bn – over the past six years, which is a healthy 47.0% (annual rate of 6.6%). This growth was driven by CHF 583bn performance from robust equity markets; CHF 330bn NNM, of which 68% was in the past two years; and CHF 141bn from acquisitions.

NNM grew 38% in 2021 to a record CHF 131bn
2021 was the third consecutive year with very strong and increasing NNM. Banks achieved record NNM growth with a median bank NNM growth of 4.3% of opening AuM. The number of banks with positive NNM growth rose to a record 74%.

We believe this outstanding organic growth is a vote of confidence in Swiss private banking by the world's wealthiest.

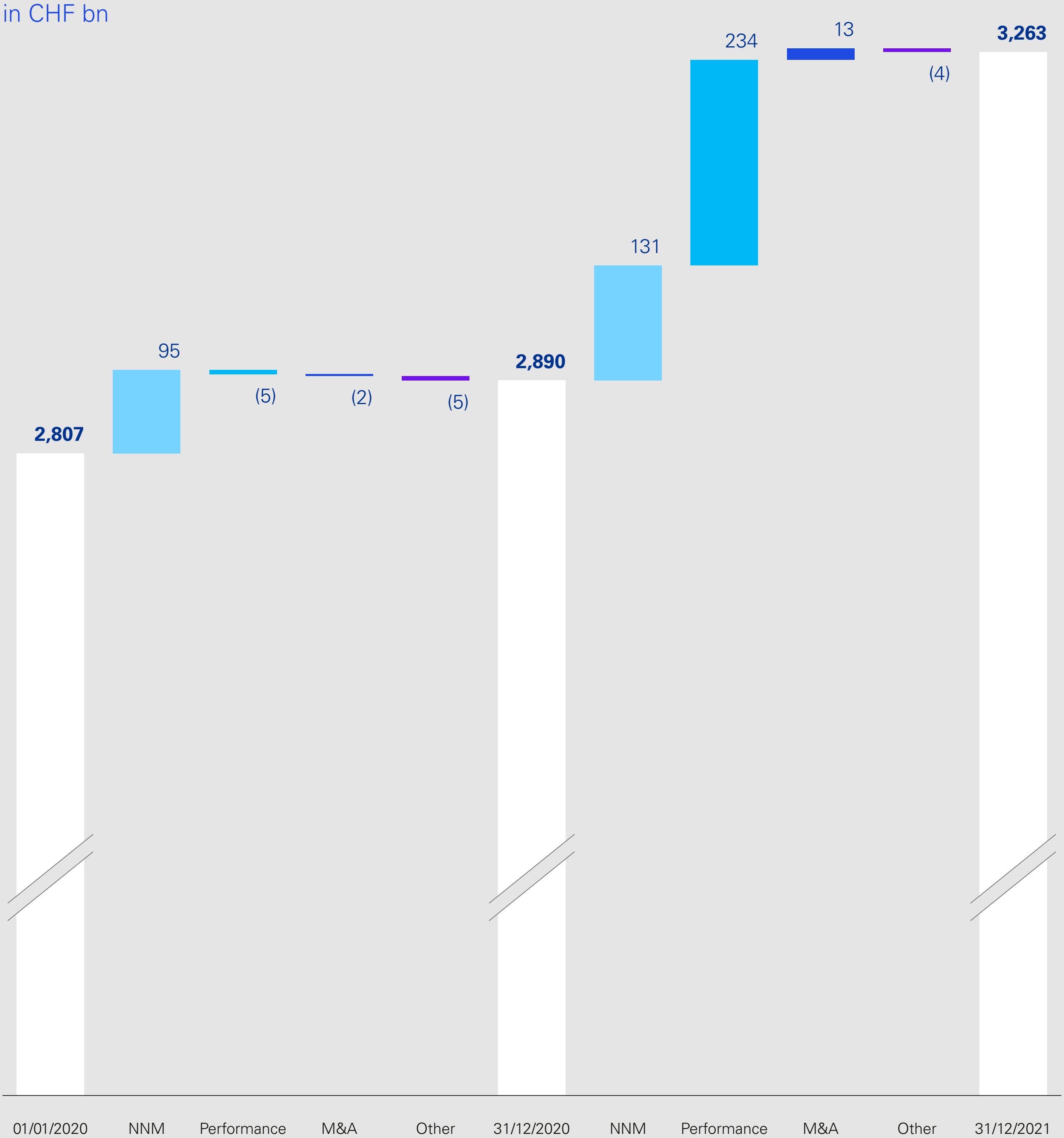
Equity and foreign exchange markets drove 2021 performance
AuM performance benefited from the rare simultaneous occurrence of strongly rising equity markets and USD/CHF strength to grow by CHF 234bn in 2021. These forces produced compound industry performance growth of 8.1% on opening AuM. They enabled 96% of banks to increase AuM from performance.

With around 50% of the industry's AuM denominated in USD, AuM is impacted by foreign exchange fluctuations regarding the CHF. The 9% USD/CHF weakness in 2020 negated equity market gains. In 2021, however, USD/CHF strength provided a performance boost.

Smaller M&A transactions led to little 2021 AuM growth
Considerable M&A activity last year yielded a net increase of only CHF 13bn AuM. The largest deal that closed in 2021 was Rothschild & Co Bank's acquisition of Banque Pâris Bertrand, which added CHF 7bn in AuM.

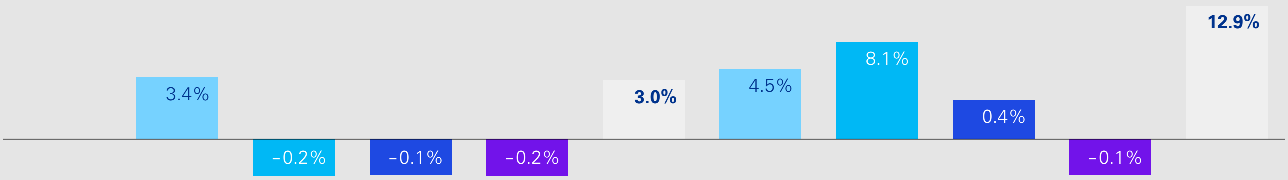
AuM development

1 January 2020 – 31 December 2021
in CHF bn



AuM development

1 January 2020 – 31 December 2021
Change in %



Profitability improves significantly

Gross profit rose by its fastest level for the past six years in 2021, growing 23% to CHF 5.8bn, or 55% since 2015. This was driven by AuM growth.

Cost-income (C/I) also improved significantly. This was driven by AuM growth and economies of scale.

Highest single-year gross profit and C/I improvement
2021 saw the highest single-year gross profit increase (23%) and C/I ratio decrease (3.2 percentage points) in the past six years, driven by high AuM growth.

The fall in the 2021 operating expense margin was due to two main factors:

- Operating expense leverage which reduces the operating expense margin as AuM volume grows; and
- The retention of pandemic-related cost reductions from 2020, which saw the largest operating expense margin decrease in the past six years.

Explosive profit and volume growth since 2015
Over the past six years, gross profit grew by 55% to CHF 5.8bn and the C/I ratio improved by 4.9 percentage points to 70.5% on the back of high AuM growth and FTE efficiency.

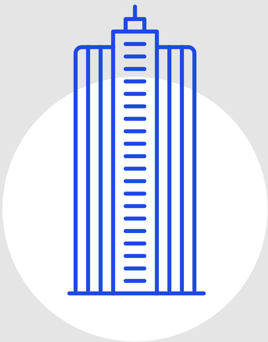
The AuM growth of CHF 1,403bn was driven by performance of CHF 583bn from robust equity markets, and NNM of CHF 330bn, of which 68% came in the last two years. Operating income overall grew 29% to CHF 19.7bn.

Improved cost efficiency is reflected in a slow increase in the numbers of FTEs (15%) than the large rises in AuM (47%) and operating income (29%), resulting in disproportionately high gross profit growth (55%).

Direct IT costs grew by 51% over the past six years, reflecting more spend on technology and digitalization.

Industry
76 banks

CHF m	2015	2020	2021	Change 2021 vs. 2020	Change 2021 vs. 2015
Operating income	15,274	18,042	19,737	9.4%	29.2%
Operating expenses	(11,512)	(13,301)	(13,905)	4.5%	20.8%
Gross profit	**3,762**	**4,741**	**5,832**	**23.0%**	**55.0%**
KPIs					
AuM (year-end in CHFbn)	2,220	2,890	3,263	12.9%	47.0%
FTEs (year-end)	32,374	36,285	37,110	2.3%	14.6%
Cost-income ratio	75.4%	73.7%	70.5%	(3.2)pp	(4.9)pp



Large banks (AuM > CHF 25bn)

Higher profit from AuM growth and operating expense leverage
As large banks represent 89% of Industry AuM, their performance trends largely mirror those of the Industry.

AuM growth combined with operating expense leverage to produce gross profit growth of 23% and a C/I improvement of 3.5 percentage points to 68.4%. Both of these are six-year bests.

12.6% AuM growth drove the 12.8% rise in net commission income, the largest operating income component.

Large banks enjoy significant operating leverage from their fixed-cost bases. Accordingly, operating expenses grew by only 4% against higher operating income growth of 9%. This resulted in even greater gross profit growth of 23%.

Large banks (17)
89% of Industry AuM

CHF m	2020	2021	Change
Net interest income	2,190	2,158	(1.4)%
Net commission income	10,547	11,895	12.8%
Net trading income	2,477	2,566	3.6%
Net other income	325	349	7.6%
Operating income	**15,538**	**16,968**	**9.2%**
Personnel expenses	(7,985)	(8,318)	4.2%
General and administrative expenses	(3,183)	(3,287)	3.3%
Operating expenses	**(11,168)**	**(11,605)**	**3.9%**
Gross profit	**4,370**	**5,364**	**22.7%**
KPIs			
AuM (year-end in CHFbn)	2,575	2,899	12.6%
FTEs (year-end)	30,008	30,642	2.1%
Cost-income ratio	71.9%	68.4%	(3.5)pp

Medium banks (AuM CHF 5bn–CHF 25bn)

Exceptional income supports profit growth
Exceptional items at two banks drove the significant increases in net interest income and net trading income in 2021. Excluding these items, gross profit would have fallen by CHF 18m (–4%) rather than rising by CHF 83m (+24%).

Higher AuM of 16% was mainly from NNM growth that was greater than that of either large or small banks. This drove a 12% increase in net commission income. Despite income growth, however, normalized gross profit growth was negative excluding the exceptional items.

Medium banks (30)
9% of Industry AuM

CHF m	2020	2021	Change
Net interest income	357	408	14.3%
Net commission income	1,241	1,384	11.5%
Net trading income	181	238	31.2%
Net other income	202	173	(14.5)%
Operating income	**1,982**	**2,203**	**11.1%**
Personnel expenses	(1,114)	(1,210)	8.6%
General and administrative expenses	(520)	(562)	8.0%
Operating expenses	**(1,635)**	**(1,772)**	**8.4%**
Gross profit	**347**	**431**	**24.0%**
KPIs			
AuM (year-end in CHFbn)	255	295	15.7%
FTEs (year-end)	4,799	4,950	3.2%
Cost-income ratio	82.5%	80.5%	(2.0)pp

Small banks (AuM <CHF 5bn)

AuM and net commission income margin growth drive profit
Small banks were made up of two performance segments in 2021:

- Loss-making – 10 banks with an aggregate operating loss of CHF 50m and a median C/I of 112%; and
- Profit-making – 19 banks with aggregate gross profit of CHF 88m and a median C/I of 78%.

The 61% gross profit growth and 2.1 percentage points reduction in the C/I ratio were driven by the 16% AuM growth which helped net commission income rise by 14% against a lower operating expense increase of 6%.

Small banks (29)
2% of Industry AuM

CHF m	2020	2021	Change
Net interest income	98	100	1.9%
Net commission income	335	383	14.3%
Net trading income	74	73	(1.5)%
Net other income	14	10	(29.1)%
Operating income	**521**	**566**	**8.6%**
Personnel expenses	(322)	(340)	5.9%
General and administrative expenses	(176)	(188)	6.6%
Operating expenses	**(498)**	**(528)**	**6.1%**
Gross profit	**23**	**37**	**60.9%**
KPIs			
AuM (year-end in CHFbn)	59	69	15.6%
FTEs (year-end)	1,478	1,518	2.7%
Cost-income ratio	95.5%	93.4%	(2.1)pp

The gap between Strong and Weak banks becomes wider

At the top end of the industry, 16 banks that were Strong in both 2021 and 2020 improved their median C/I significantly to 60% in 2021. By contrast, 18 banks that were Weak in both 2021 and 2020 were unable to improve their median C/I ratio of around 99% despite favorable market conditions.

Cost-income ratio (C/I) as a profitability metric

Cost-income ratio (C/I) is our key profitability metric to determine the performance clusters. C/I has the advantage of being less affected by exceptional profit items and differing size. This makes it a useful level-playing-field profitability metric.

Performance clusters are grouped by C/I:

- Strong <70%
- Upper Mid 70%-80%
- Lower Mid 80%-90%
- Weak >90%.

An elite core of Strong banks is emerging

Of the 19 Strong banks, 16 (or 84%) were Strong in both 2021 and 2020. This core's median C/I improved from 64.3% in 2020 to 59.6% in 2021.

The best performer was a small bank that improved its C/I by 5.5 percentage points to the lowest we have seen historically at 44.1%. The lowest large bank's C/I in 2021 was 53.8%.

More difficult for banks to enter the Strong cluster

Favorable market conditions enabled a net of seven banks to break into the Upper Mid cluster. However, only three banks were able to migrate into the Strong cluster. It appears to be more difficult for banks in other clusters to reduce their C/I below 70% and become Strong.

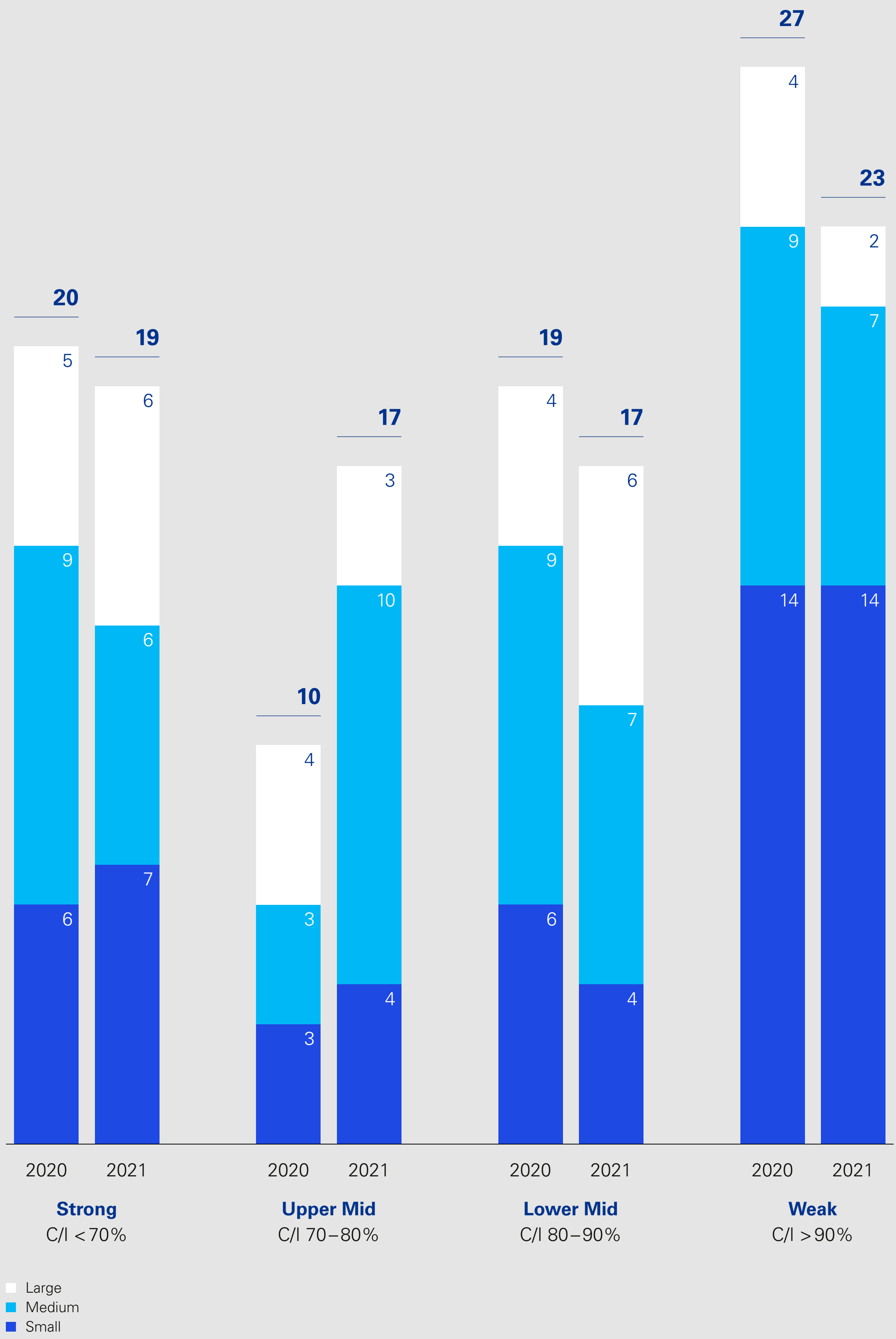
Poorly performing Weak banks unable to improve C/I

Eighteen of the 23 Weak banks (78%) were Weak in both 2021 and 2020. These banks' median C/Is stagnated at around 99% in these two years as they were unable to capitalize on 2021's beneficial market conditions. There is a risk that the next market downturn may push their median C/I deeper into operating loss territory.

Nine banks had C/I above 100%, which means operating losses. Eight of these were small banks.

The largest performance cluster remained Weak, with 23 banks or 30% of our sample.

Number of private banks by performance cluster
2020 and 2021



Six pivotal years: different responses to industry transformation

The full extent of the fundamental transformation needed in Swiss private banking was clear by 2015: the wave of new regulations, dilution of banking secrecy, tax transparency, and automatic exchange of information, to name just a few driving forces. We have analyzed how successfully or not banks have since repositioned themselves by streamlining operating models, adapting business models, and in many cases changing strategies to suit the new environment. Those banks that have done so successfully now operate from a position of strength as they face the dramatic geopolitical and macroeconomic conditions that have begun in 2022. Weak and Lower-mid banks will struggle by contrast, and we believe the fall in the number of private banks will accelerate.

2021 was an outstanding year for Swiss private banks. The past six years have largely seen an excellent economic environment and solid progress by around half of the 76 banks we analyzed, strengthening the Strong and Upper-mid clusters. The number of Weak performers remains high, however, with 2021 recording the highest number of loss-making banks at 17.

2022 looks set to be the start of a period of rapidly rising interest rates, high inflation that has not been seen for decades, potential recession, continuing global supply chain issues, possible trends towards deglobalization, and major geopolitical tensions including the war in Europe.

Against this background, we look at which banks have driven the industry's growth and performance since 2015 and which are best positioned looking forward.

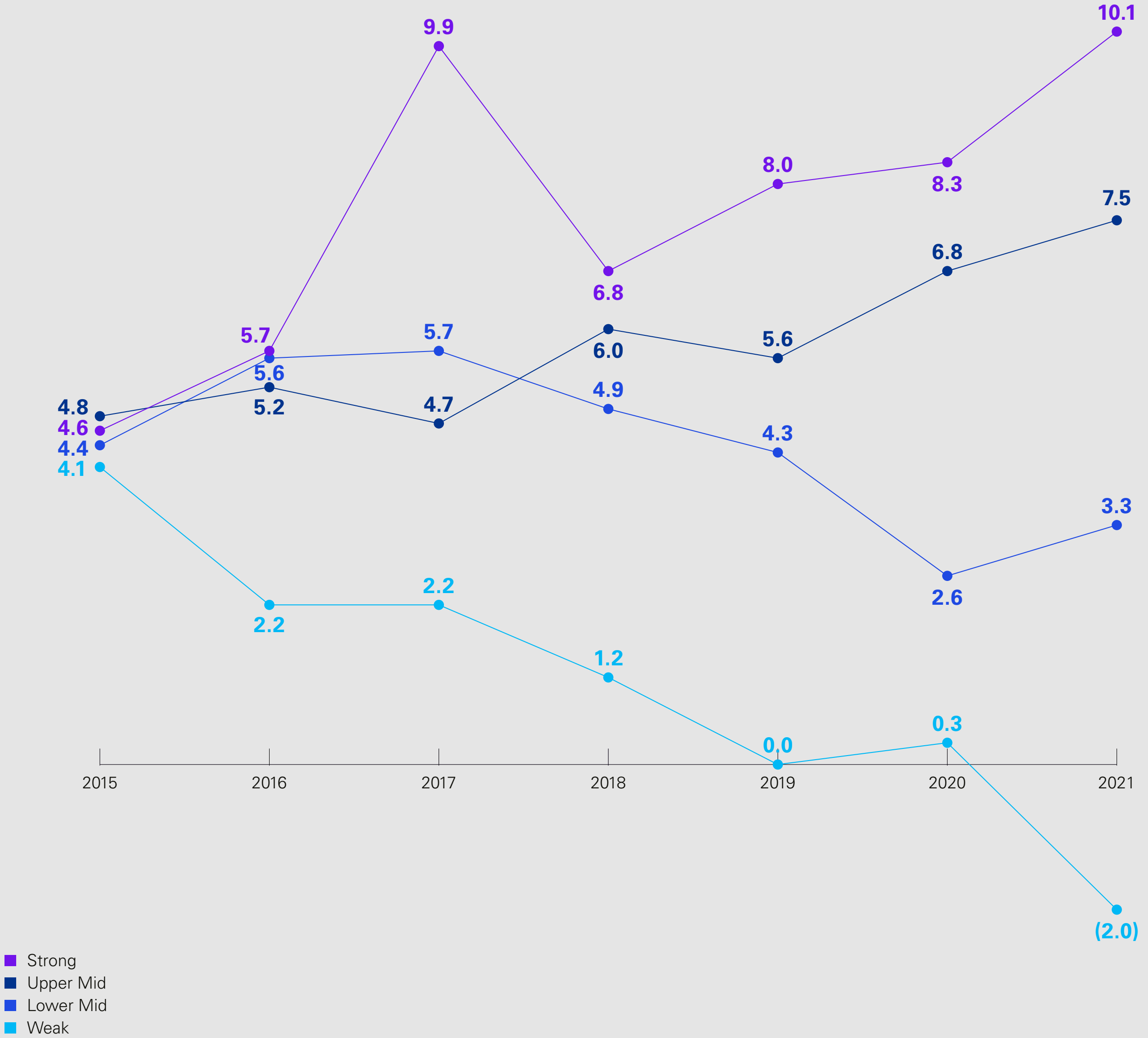
Six years of different trajectories

It is striking how close the median RoEs of the clusters of 2021 were in 2015, and how far apart they had become by 2021. Median performances show how each cluster has been on different trajectories since 2015. This delivered a huge disparity by 2021 with Strong banks at 10.1% and Weak banks at –2.0%.

Interestingly, banks that were Weak in 2021 had started off with a similar median RoE as other banks in 2015. This is in part as some continued to benefit from legacy business with high margins which they have been unable to maintain. They have failed to adapt their businesses to changing conditions, suffering a sharp drop in profitability as they lose clients and revenue.

RoE development by performance cluster

in %

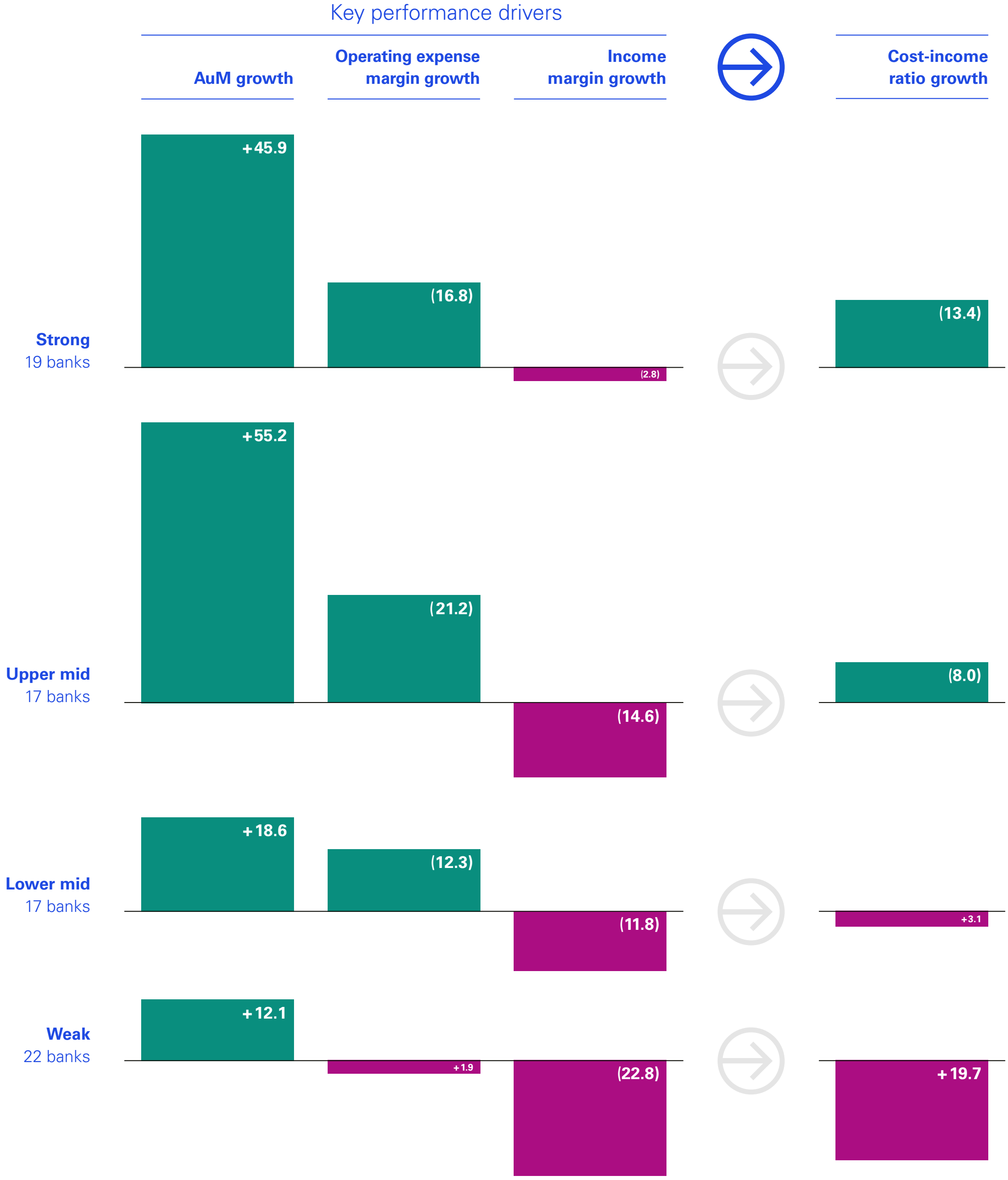


What Strong and Upper-mid banks did differently since 2015

The following chart shows changes in key performance drivers by cluster over the past six years. It demonstrates how the successful strategies deployed by Strong and Upper Mid banks set them apart from Lower Mid and Weak banks on nearly all key ratios in 2021 compared to 2015.

Key performance drivers of the cost-income ratio (all median) by 2021 performance cluster, 2015–2021

in %



Significantly higher AuM growth distinguishes the stronger half of the industry from the weaker half. This is driven by higher NNM and better performance on client AuM.

Strong banks already had a very high starting point, with further improvements being more challenging. The most impressive development was achieved by a group of nine banks that managed to move into the exclusive club of Strong performers between 2015 and 2021. Their median growth was 75% for the six years.

Growth among the stronger half of the industry was not at any price, however. It was combined with relatively stable income margins such that banks did not compromise on profitability for the sake of growth. Strong banks saw income margins fall by only 2.8% compared to 22.8% at Weak banks.

Banks with high growth rates benefited from economies of scale. This was especially the case for banks with in-house IT, which had largely fixed IT costs. While cost reduction and digitalization initiatives reduce the operating expense margin, AuM growth has a greater and more immediate impact. Of the 56 banks which grew AuM in the past six years, 75% saw operating expense margins fall. Strong banks were able to reduce their operating expense margin by 16.8% over the six years, meaning the cost of servicing a given volume of AuM fell by 16.8%. By contrast, Weak banks' cost of servicing AuM rose by 1.9%.

The ability to grow successfully, leading to economies of scale and lower costs of servicing higher business volumes was combined with an ability to keep the income margin relatively stable. This is what led to Strong banks achieving a significant fall in C/I and increase in RoE.

Differences continue to grow

High growth is the consequence of Strong banks' success in the market. By delivering better client service, they were more successful in retaining existing clients, increasing share of wallet with them, and winning new clients.

Many Weak banks were unable to recover from outflows related to their legacy client base, continuing to suffer client attrition and being unsuccessful in acquiring new clients.

Crucially, success enables Strong banks to attract the best people and continuously invest in high quality services, digital initiatives, and a broad and tailored offering for their client base. Large Strong banks can also utilize their optimized international set-up which gives them the capability to approach clients in their countries of residence. Clients of these banks appear to be prepared to pay for excellent service received or are willing to buy more services. This allows banks to stabilize income margins in a highly competitive environment.

Different strategies are possible, as is evident from Strong performers' wide variety of business and operating models. This is also clear in the following analysis of University of St.Gallen.

Combining success factors for high performance

In addition to our own analysis of what has driven private banks' performances in the past six years, HSG shares what are the features of Switzerland's highest-performing banks.

This report has always sought to shed new light on the question: what factors lead to strong performance? This year, the University of St.Gallen applied a novel method – qualitative comparative analysis (QCA) – which is based on set theory. QCA examines the relationship of conditions (e.g. whether a bank is pure play or not) to outcome (e.g. high performance) to identify recipes for success that lead to high performance (Strong or Upper mid). Such a recipe can show what combinations of factors are particularly efficient to achieve high performance.

HSG's analysis of the incumbent banks in 2015–2021 produced nine recipes for success which account for 60% of high-performing cases. It shows that there are many unique strategic combinations for banks to achieve success – some paths are well traveled, while others are less frequented. A quarter of the high-performing banks utilized the combination of having in-house IT solutions, growing organically, and an ability to keep income margin stable between 2015 and 2021. Irrespective of size or business model, in this particular recipe the combination of these three factors led to high performance in 80% of cases.

How super-performers stand out

How can a bank sustain its high performance over the years? From a look at super-performers – i.e. banks that have been performing well in all years between 2015 and 2021 – one particular success factor stands out: income margin stability. Twelve out of 15 consistently high-performing banks managed to keep the variance of their income margin below the industry median.

03

There's a headwind blowing

Macroeconomic upheaval is changing the business of private banks

Interview with Prof. Dr. Klaus W. Wellershoff, Chief Executive Officer, Chairman of the Board of Directors and Partner at Wellershoff & Partners Ltd.

After a very tough decade which saw extensive changes around banking secrecy, the US tax program, tax transparency, negative interest rates and squeezed margins, the Swiss financial center and Swiss private banks have enjoyed several successful years. In an interview with Prof. Dr. Klaus W. Wellershoff, Chairman of the Board of Directors of Wellershoff & Partners and chief economist for 12 years at Swiss Bank Corporation and UBS, we explore the role played by central bank policy and how private banks in Switzerland must adjust to a new reality of rising interest rates, inflation and a possible recession.

Photos by David Biedert Photography AG

About Prof. Dr. Klaus W. Wellershoff

Klaus W. Wellershoff is Chairman of the Board of Wellershoff & Partners and was previously chief economist, first of Swiss Bank Corporation and then of UBS, for 12 years. He teaches economics at the University of St.Gallen and serves on the board of trustees or board of directors for organizations in the fields of science, culture and sport.

Christian Hintermann We have experienced many years of expansionary monetary policy, during which private banks in Switzerland were able to benefit from booming stock markets. How will we look back on this period in the future?

Prof. Dr. Klaus W. Wellershoff The decline in interest rates over the last few years was the major reason the asset management industry reached such great heights. Most assets under management are valued based on the present value of their expected future cash flows, and when interest rates fall, the various asset classes – whether real estate, equities or bonds – are simply worth more. This tailwind of falling interest rates, which we've actually been experiencing since the early 1980s, will no longer exist in the future. Instead, we face a headwind for the time being.

Would you say the boom phase of asset prices covered a period beyond just the past ten years?

Yes, exactly, it's a long-term trend and you can put it into concrete figures. Financial assets have increased in value by around six times more than the economy has grown over the last 40 years – simply because of falling interest rates.

The banking industry – and private banking in particular – has been one of the big beneficiaries of this development, of course.

That is correct. Assets under management have grown not only because of increasing wealth in the world, but also because they're valued much higher than before. In such a development, the business model of being compensated based on a percentage of assets under management is, of course, ingenious.

The geopolitical and macroeconomic environment has changed dramatically in recent months against a background of high inflation, rising interest rates, the threat of recession, war in Europe, supply chains problems and uncertainty in the energy supply. We are facing upheaval – with major implications for the asset management industry.

I see two phases of development ahead of us. One is the search for the right level of interest rates and asset prices. Interest rates will definitely be higher than they are today. In the long term, the interest on debt capital must at least correspond to the rate of inflation, and we're far from that being the case today. It means interest rates will certainly be corrected upwards even further. Moreover, we're left with the question of where the inflation rate will settle. Things will go on from this point, but without a tailwind. This will put enormous selection pressure on the asset management industry. We will see many more years of negative performance. Not everything you buy automatically goes up in value anymore.

"Viewed rationally, the traditional asset management approaches and recommendations do not stand up to empirical scrutiny at all.

Are we talking more about a soft or a hard landing?

Once the first phase of creating a new balance is over, the challenges will be huge. We have already lost around 20 percent of global financial assets as of mid-year, and we're not yet even done with the adjustments. This new macro-economic scenario is forcing banks, insurance companies and pension funds to rethink their business models. At the same time, confidence in these large institutional financial intermediaries continues to dwindle. So, for some it will end up being a hard landing.

What will happen in the second phase, once the interest rate and asset price levels have settled down?

The realignment of interest rates and asset price levels will be followed by the second and much more exciting phase. The way we invest assets will change, and so will the technology we use in the process. The traditional portfolio theory of investment dates back to the 1960s and 1970s. This approach may have still proved its worth in the 1980s and 1990s. Viewed rationally, though, the recommendations we've been hearing for years do not stand up to empirical scrutiny at all. Customer dissatisfaction will take on a whole new dimension.

In your view, what timeframe are we looking at for this macroeconomic adjustment process? Will we see a recession? How long could it take for a recovery?

The recession is very likely the lesser evil. The big question is how quickly we will manage to reduce the enormous debt created in recent years or convert it into other forms of legal entitlements. The longer we refuse to recognize that we overdid it, the longer it will take to make a fresh start.

In this new environment, will performance become even more established as a differentiator in the private banking and asset management industry?

You cannot stand out in the market with a positive performance, but you can certainly come off badly with a poor one. Or to put it another way: brushing your teeth thoroughly does not increase your chances of finding a partner, but poor dental hygiene will quickly make you less attractive.

Where do you see opportunities for providers to differentiate themselves from the competition?

The banking world has spent the last 30 years developing and advancing its technologies, compliance and distribution structures. Digitalization of banking is the latest stage of this journey. But little thought has been given to the content that is sold to clients. Those who produce without considering the real needs of their customers are in danger of losing their competitive position. And this is precisely where pressure will grow. From the client's point of view, the banks and their services are all the same. A large portion of the advice provided by banks can also be provided by non-banks. So banks will have to work on their willingness to change, otherwise they risk losing a lot of added value. The traditional banks are often too static and too spoilt by their past success.

Are you questioning digitalization?

No, not at all. Digitalization is great, useful and necessary. What I want to say is that when a bank's IT specialists and data analysts develop new tools and tap into new data, they do so with the idea of creating the most profitable business model for the bank. However, they rarely give a thought to how they can improve customer satisfaction. They simply don't know enough about this, and often the bankers don't either.

What does the client really want? Your analyses repeatedly reveal striking differences in the performance that asset managers and private banks achieve for their clients. Where do these big differences come from if asset management as a product is so interchangeable and has such little scope for differentiation?

I would like to put the term performance into context a bit and get some perspective on its meaning. Clients are not simply looking for performance from their bank or asset manager. First and foremost, they want someone to look after them. Clients are after a sounding board, someone who explains to them what is possible and what is not, someone to give a second opinion. The performance has to be right, of course, but it is not the first priority. Interestingly, we find a correlation between private banks' corporate culture and their performance. Banks that are open-minded and genuinely interested in the world and their clients often also perform better. Related to this is an issue that the younger generation in particular will be observing keenly in the future: the conflict of interests between what is beneficial to me and my assets, and what is primarily beneficial to my bank. This issue is becoming more accentuated due to increasing transparency, digitalization and better informed clients who take an active interest. Here again, we find that the banks with a professional approach to the issue often also achieve better investment results.

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Opportunities are emerging now – as we speak. And those who aren’t looking will miss them.

For the younger generation of clients, sustainable investment opportunities are a key topic in asset management. How disruptive will ESG be for the global economy and the financial industry?

The sustainability issue is not new. When I joined Swiss Bank Corporation in 1995, we were the largest provider of Eco-Performance equity funds; that’s what it was called back then. Environmental and ethical issues have always played a part in this. However, we deliberately avoided really actively communicating this to the outside world and to our clients because the client advisors in particular were not yet ready to discuss the topic with clients. And clients probably weren’t ready either. Today, everyone is aware of ESG, but it is still too emotionally charged and shouldn’t be offered with too many promises. I don’t think the topic will trigger major structural change. For most banks, an ESG focus must be integrated into the investment process. We advocate doing this with a sense of proportion and leaving the extreme solutions to specialists.

In past global crises, Switzerland has benefited from its neutrality. Now the country has adjusted its previous position on neutrality to a certain extent. How will this new stance affect the financial center?

The past attitude of evading transparency and the rules of an international capital market under the guise of independence and neutrality is, of course, no longer possible today. Those days are gone. But the Swiss financial center does have certain qualities that it can use to outdo other financial centers and countries. Private banking in Switzerland offers positive aspects such as tradition, experience, know-how, specialized services and the high level of training of bank employees.

Is it even possible to make reliable forecasts today given the high level of interconnectivity and the massive upheaval we’re seeing in politics, the global economy and monetary policy?

Yes, very much so. Much in life is determined by chance, but there are major correlations that occur with a high degree of reliability. If a currency is clearly undervalued or an interest rate level is clearly too low, then the greater the imbalances, the stronger the effect of these macroeconomic mechanisms will be. We know a great deal and very precisely how things are going today, but many do not want to admit it because it forces us to make changes. However, those who face the situation with entrepreneurial ambition can look forward to great opportunities for the next 20 years. These opportunities are emerging now – as we speak. And those who aren’t looking will miss them.

Strategy statements in banks’ annual reports: the HSG’s annual report analysis

With such huge macroeconomic and geopolitical changes taking place, it is interesting to note the extent to which they were anticipated in banks’ latest annual reports – some of which would have been published prior to the full scale of developments in 2022 being known. The HSG has analyzed the letters to shareholders in annual reports of Switzerland’s private banks, with the following findings:

- Eleven banks made no forward-looking statements, either about their bank or the economic or geopolitical outlook.
- Banks that did make such statements tended to refer to the war in Ukraine and to a lesser extent slowing global economic growth and rising inflation. All topics were referred to in a negative context.
- Despite their negative outlook on macro developments all banks maintained a positive outlook on their own strategy. This is also true for Weak performers. This contrasts sharply with historical performance and an impending, more challenging environment.
- Banks’ strategic optimism stemmed from (i) benefits of previous strategic decisions such as around efficiency, continuity, resilience and market positioning, and (ii) future strategic plans, which include IT capabilities, increased risk awareness, new strategic cycles, innovation, quality workforce, sustainability, and client acquisition.
- The CEO / Board / shareholder letters referred to specific areas of a bank’s strategic focus. From the most often mentioned to the least often, the topics were: digitalization, sustainable investment, growth, long-term strategy programs, structure, clients, and cost cutting.
- Other recurring themes in the’ annual reports were climate change and systemic, large-scale societal change, which includes the impacts of deglobalization.


“
We find a correlation between private banks’ corporate culture and their performance.

04

Median bank's performance

In this section, we analyze the median – or middle – Swiss bank's performance. This is based on our constant sample of 76 banks for 2015 to 2021, i.e. we analyze the performance of the same 76 banks each year. For the purpose of this analysis, we attribute the same weight to each bank irrespective of the bank's size or other characteristics. This analysis is more representative of the number of banks in the industry, which is dominated by the development of small and medium banks as the largest segments.

Many key ratios reflect the fact that 2021 was a very positive year for the industry, especially ratios that relate to AuM from which most banks benefited. Some ratios show little movement – such as RoE - as the industry is divided into Strong and Weak halves and as these halves move in opposite directions away from the center but the median remains the same. This is also proof of the fact that the weaker half of the industry has been unable to translate positive AuM developments into profitability improvements such as C/I or RoE, otherwise the median would rise.

AuM develops positively

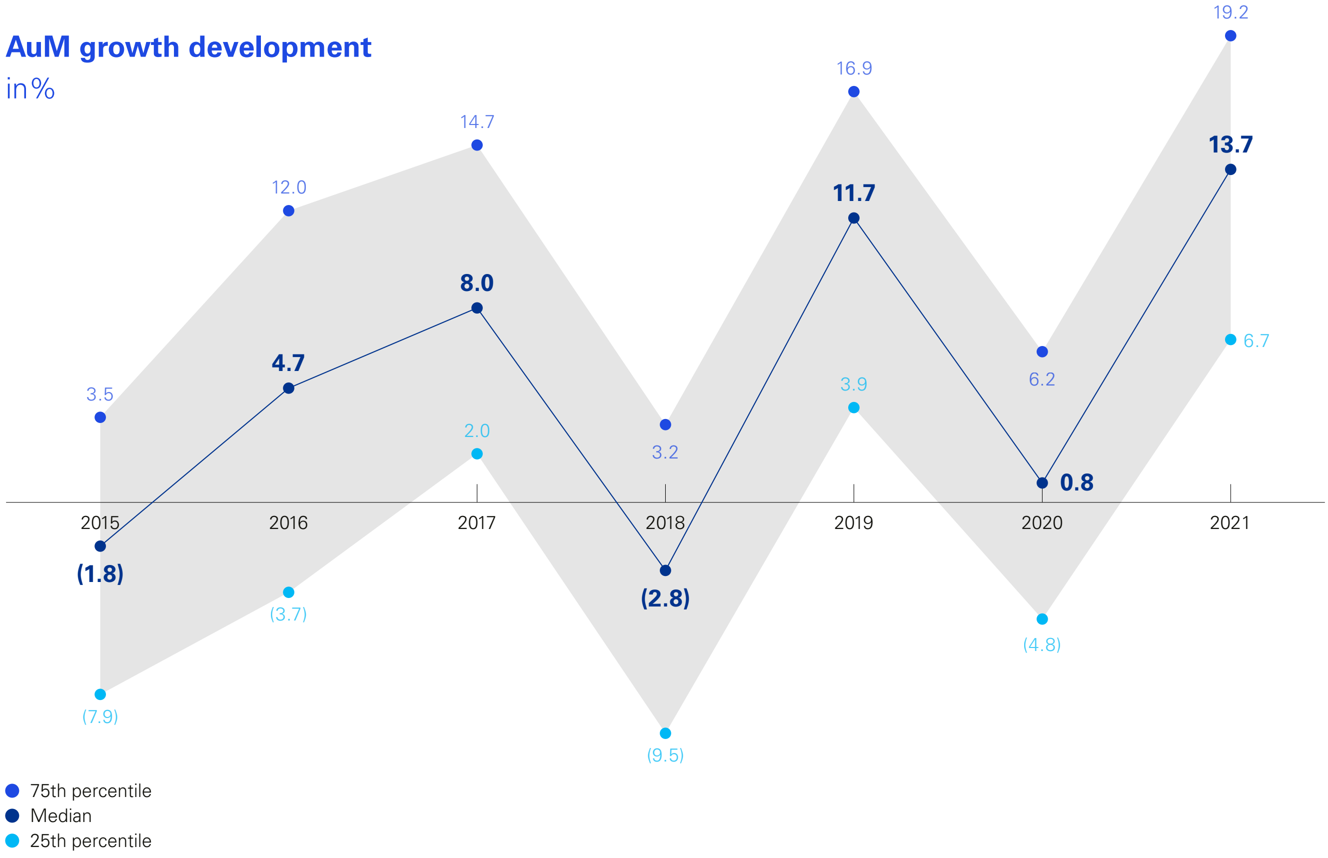
Our analysis of the median development of AuM, NNM and performance is largely in line with the development of overall industry AuM, as most banks reported positive developments on the back of an excellent economic environment. This is especially visible from the NNM median chart which shows significant improvements in the median as well as the top and bottom-performing banks.

Median AuM hits a record high
The industry median reached a record 13.7% in 2021, driven by 74% of banks having generated positive NNM and 96% of the banks having delivered positive market performances.

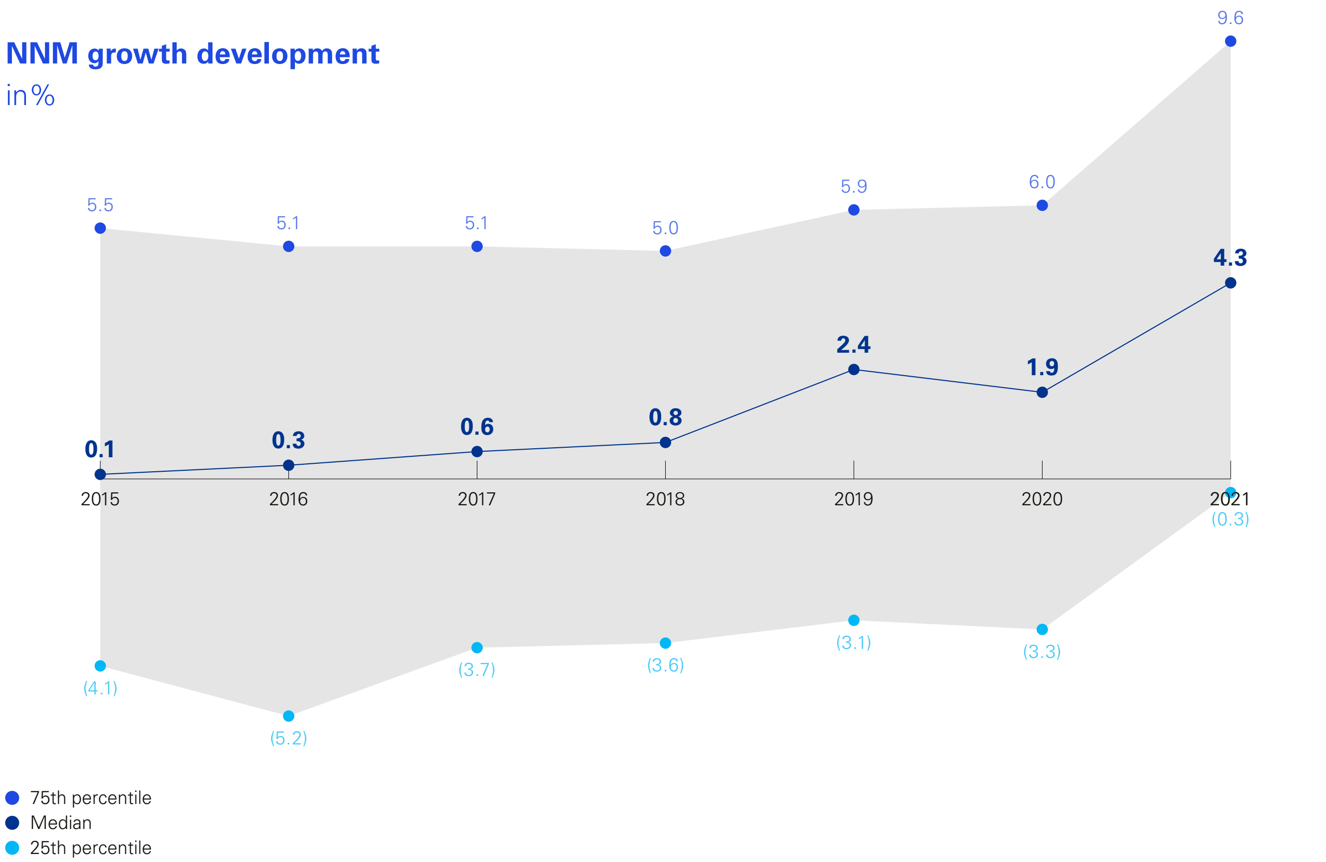
Strong performers and Swiss-German banks performed best
Strong performers generated higher market performance for their clients, at 8.7% thanks to stronger investment capabilities. Weak performers were the lowest at 5.0%. Swiss-German banks generally have higher median market performances at 8.4% compared to those in the Romandie (5.5%) and Ticino (3.8%).

More than two percentage point rise in median NNM in all regions
Swiss-German banks led with a median NNM growth of 5.7%, followed by Romandie banks at 3.4% and Ticino banks at 3.1%. Small banks rose by 2.4 percentage points to 2.1%, medium-sized banks jumped by 3.8 percentage points to 6.8% and large banks grew by 0.5 percentage points to 4%.

AuM growth development
in %



NNM growth development
in %



Operating income mix changes

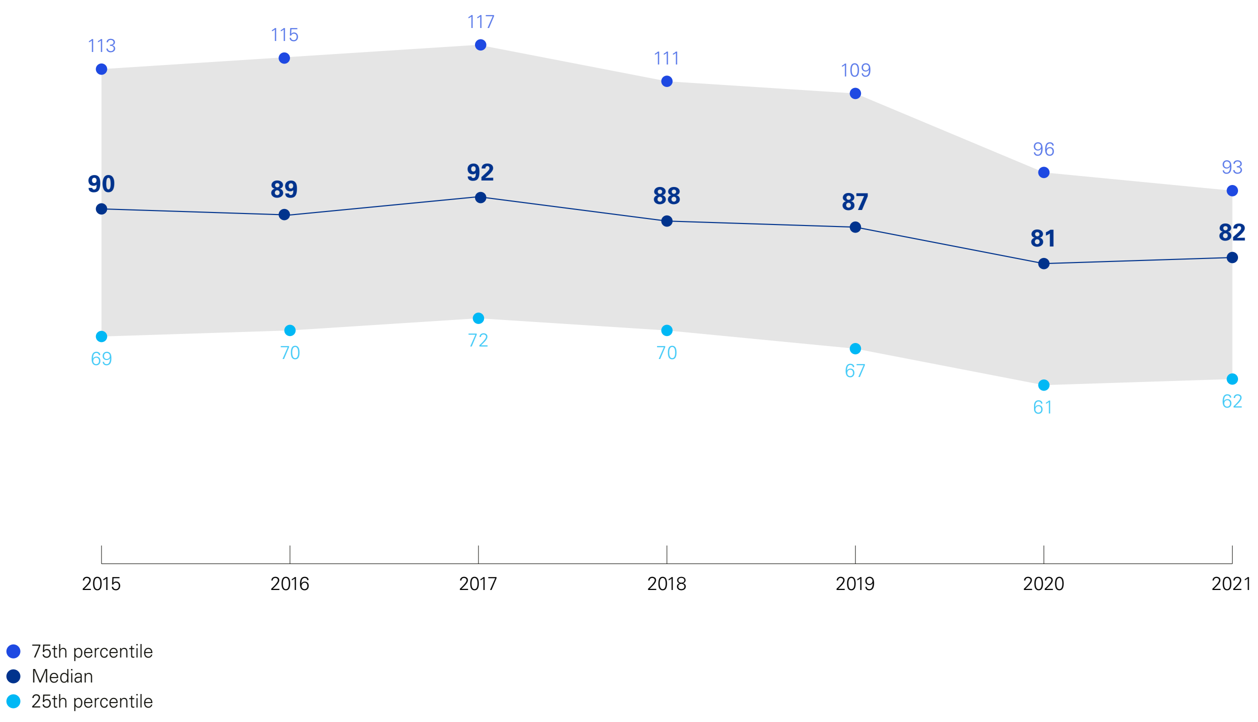
Decline in income margin is halted
The income margin stabilized at 82bps after years of decline, despite a further fall in interest income margin. Banks benefited from high client activity in boom markets and greater invested AuM. The median commission margin increased by 3bps to 50bps in 2021. The operating income mix has changed significantly in the past three years, with commission income growing from 64% in 2019 to 69% in 2021 while interest income declined by 5 percentage points to 14% over the same period.

Strong banks have highest proportion of invested AuM
The median invested AuM rose by 3.1 percentage points to 80.5% which shows how eager clients were to benefit from the booming financial markets. Strong banks had the highest proportion of invested AuM, nearly 10 percentage points higher than weak banks. This enabled them to earn more commission income. It demonstrates how their success with clients enables them to achieve better results.

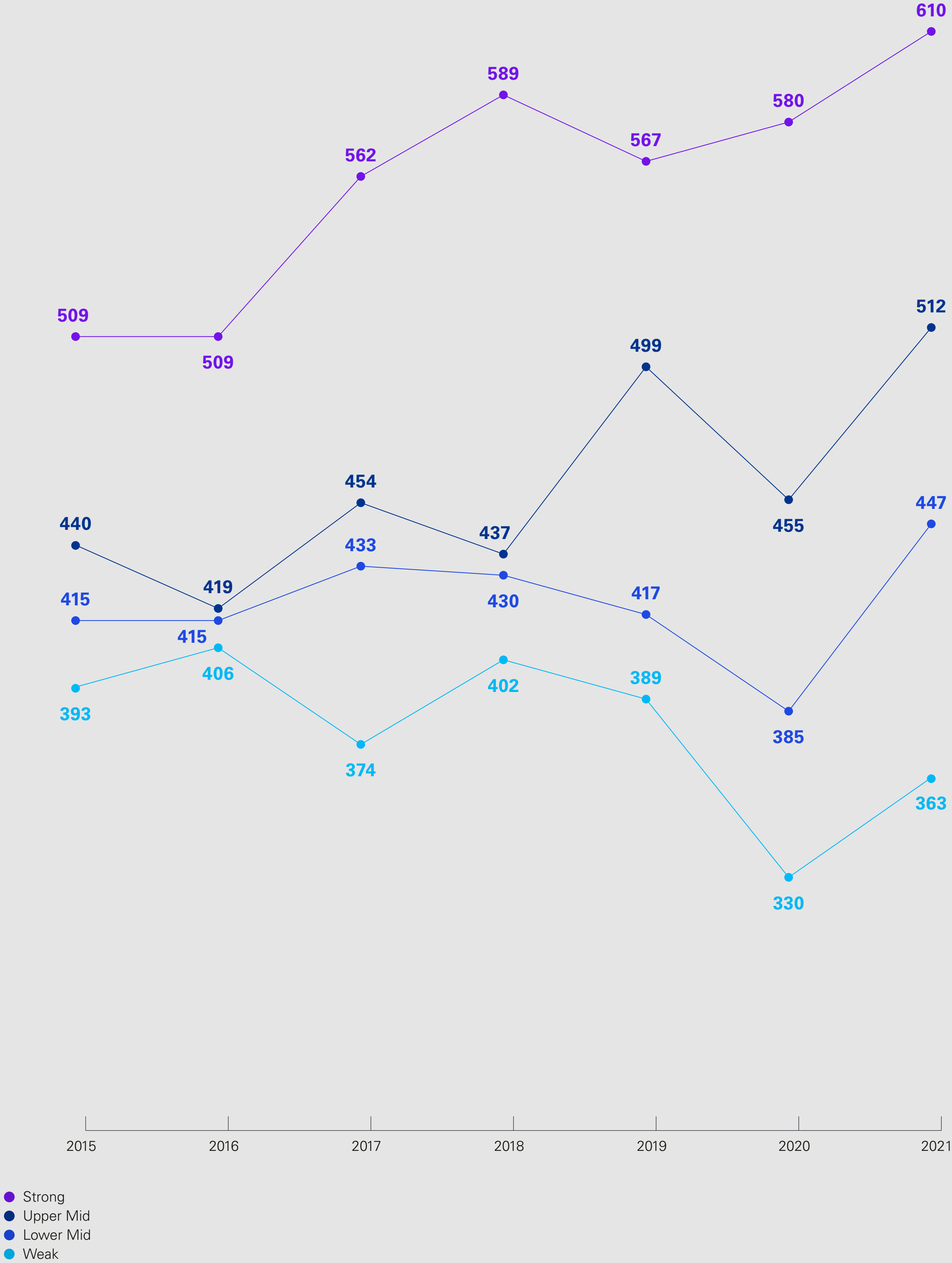
Loans as a percentage of gross AuM fall
Counterintuitively, a deleveraging can be observed as median of loans as a percentage of gross AuM fell from its highest point of 7.7% in 2017 to 6.4% in 2021.

Operating income per FTE hits a new high
Median operating income per FTE improved by CHF 31k to CHF 469k – a new record high. Strong banks recorded CHF 610k median operating income per FTE compared to Weak banks' CHF 363k. This shows Strong banks are significantly more efficient. They use differences in business models and operating models to generate almost 70% more operating income per FTE than Weak banks. In addition, they were able to become even more efficient in recent years, while Weak banks were not.

Operating income margin development
in bps



Operating income per FTE development
In CHFk



Operating expense margins stabilize

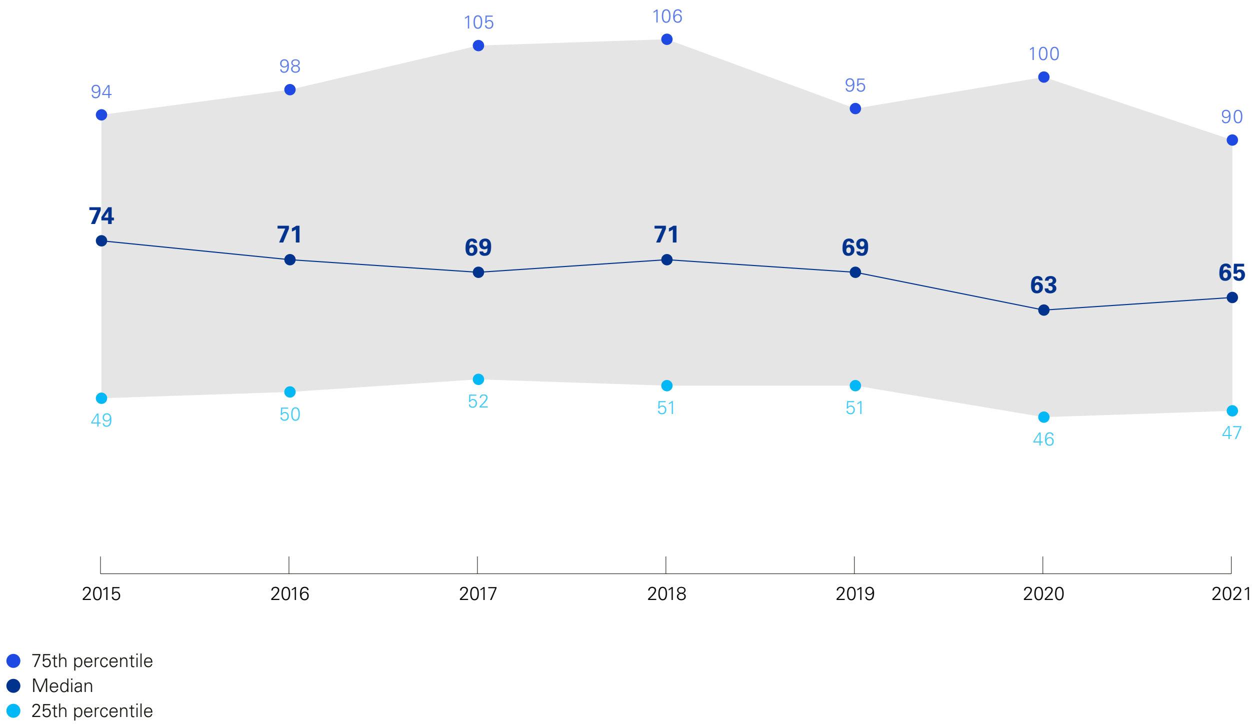
Personnel expense efficiency grows
The median operating expense margin remained relatively stable at 65bps, meaning a bank has operating expenses of CHF 650k to service CHF 100m of AuM. Higher personnel and general and administration expenses were offset by high AuM growth and greater personnel expense efficiency. IT expenses continued to rise, which has moved the cost mix more towards IT expense.

Weak banks will be hit hard by falling markets
Weak banks have systematically higher operating expense margins regardless of their business model. This shows they struggle to control costs or have not found a way to operate efficiently. Weak banks were able to improve their median operating expense margin in 2021, however, due to high AuM growth. As AuM in the market declines, such as happened in the first half of 2022, these banks will be hit hard.

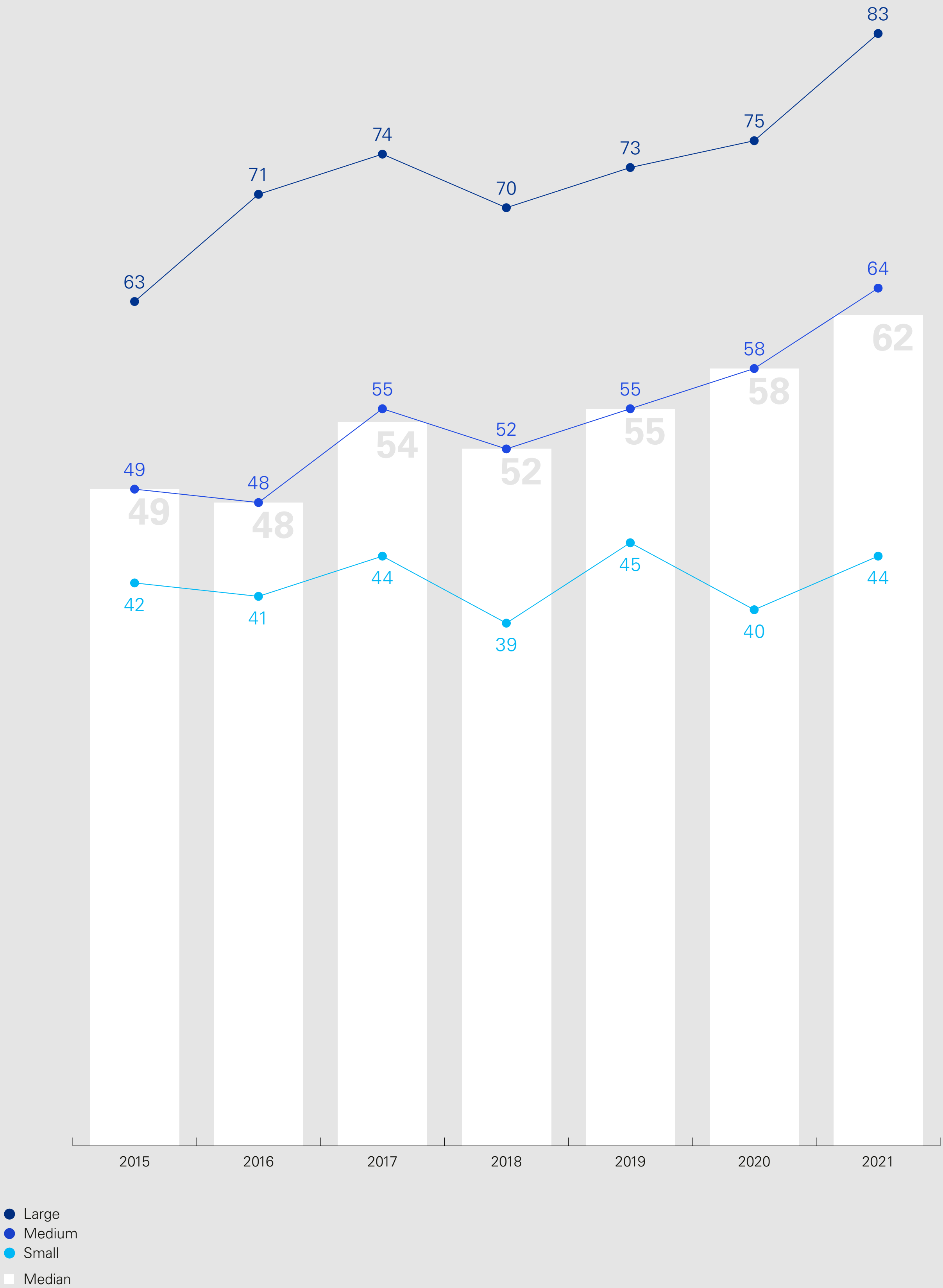
Cost of small banks is highest
The fact that size matters is evident from large banks having the lowest operating expense margins at 49bps, followed by medium-sized banks at 61bps and small banks at 86bps. The cost for small banks to service a certain amount of AuM is 75% higher than that of large banks.

This same relationship is clear from looking at a bank's median AuM per FTE, which hit a new high of CHF 62m. Large banks stood at CHF83m and small banks at CHF44m. Employees benefited from higher efficiency as banks increased compensation per FTE.

Operating expense margin development
in bps



AuM / FTE development
in CHFm



Cost-income ratio recovers

C/I improved significantly in 2021

The C/I ratio is a key measure for a bank's operating performance and is used in this publication to allocate banks to performance clusters. While the C/I ratio improved significantly in 2021 compared to 2020, it was simply returning to the levels seen in 2015 to 2019. The drivers are operating income margin and the operating expense margin. We have already discussed the development and drivers of the C/I ratio in the performance clusters section.

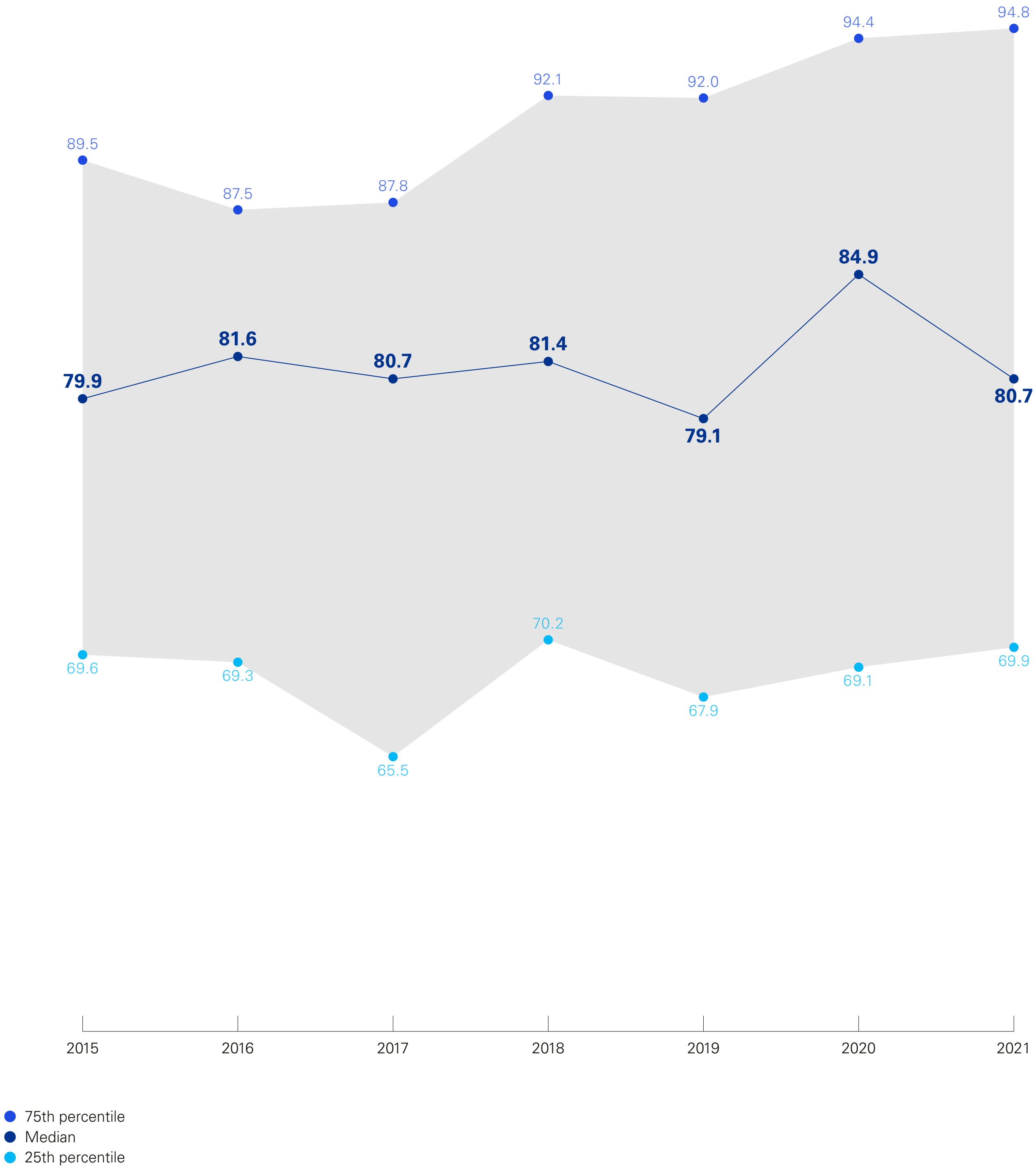
Improvement was driven by medium-sized banks

Medium-sized banks drove the improvement in industry C/I as their median C/I fell seven percentage points from 85% in 2020 to 78% in 2021 while large and small banks improved only slightly.

Weak banks' C/I is the worst on record

The median C/I of Weak banks deteriorated by more than a percentage point to a record worst 100.8%, while Strong banks improved from 64.4% to 60%. This again demonstrates that Weak banks are unable to improve their performances even in an extremely positive market. It raises the question how they will cope with the much more challenging environment we are currently seeing in 2022.

Cost-income ratio development
in %



RoE remains stable

The median masks significant movements

Median RoE was stable at 4.4%, unmoved despite significant improvements in the industry. The median masks a divided industry where Weak and small banks are significantly below the 4.4% median and Strong and large banks are significantly above. The gap is growing as Strong banks' median RoE increases continuously while that of Weak banks continuously falls.

Different priorities drive different RoE trajectories

Median RoEs of all size clusters were almost the same in 2015. Since then, banks have been on vastly different trajectories with the best performers being large banks leading at 7.4% in 2021, followed by medium-sized bank at 5.0% and small banks at 1.3%. Larger banks – especially listed banks – are under greater pressure from shareholders to produce higher RoE. Most small banks meanwhile are privately held and may have lower RoE goals.

Weak banks suffer negative RoE for the first time

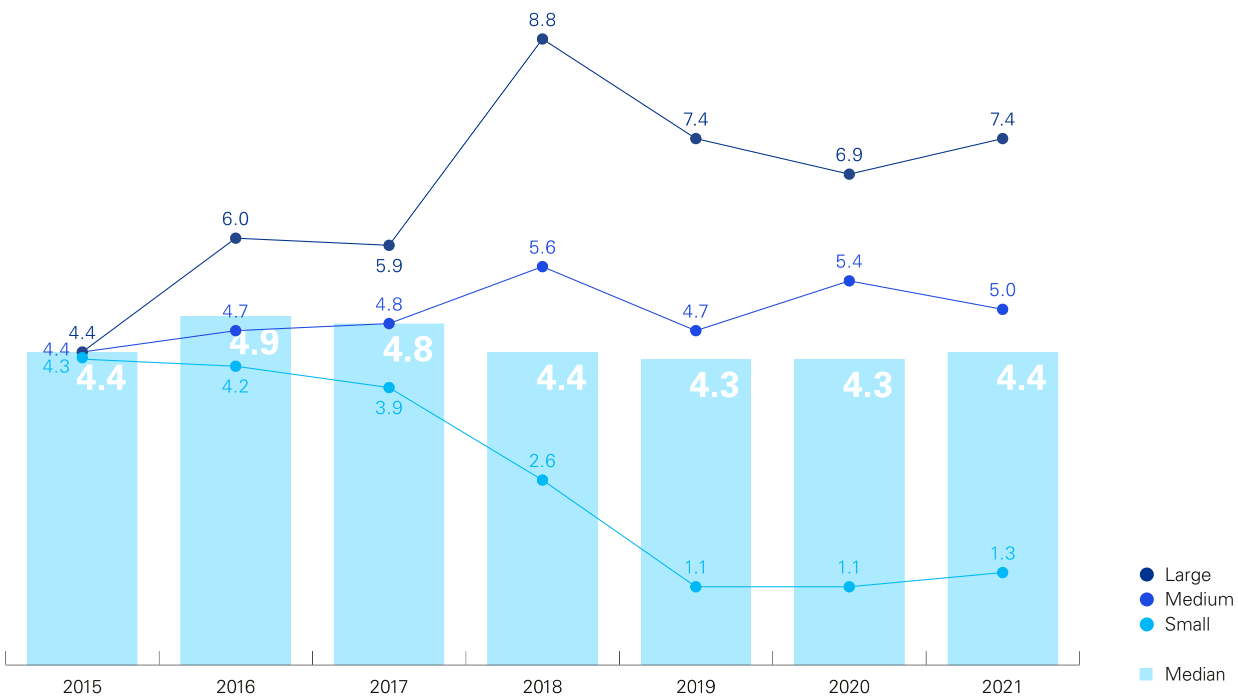
Weak banks were unable to take advantage of 2021's beneficial market conditions and suffered a 2.3 percentage point decrease. This drove their 2021 median RoE into negative territory of –2.0% for the first time.

Number of loss-making banks doubles since 2017

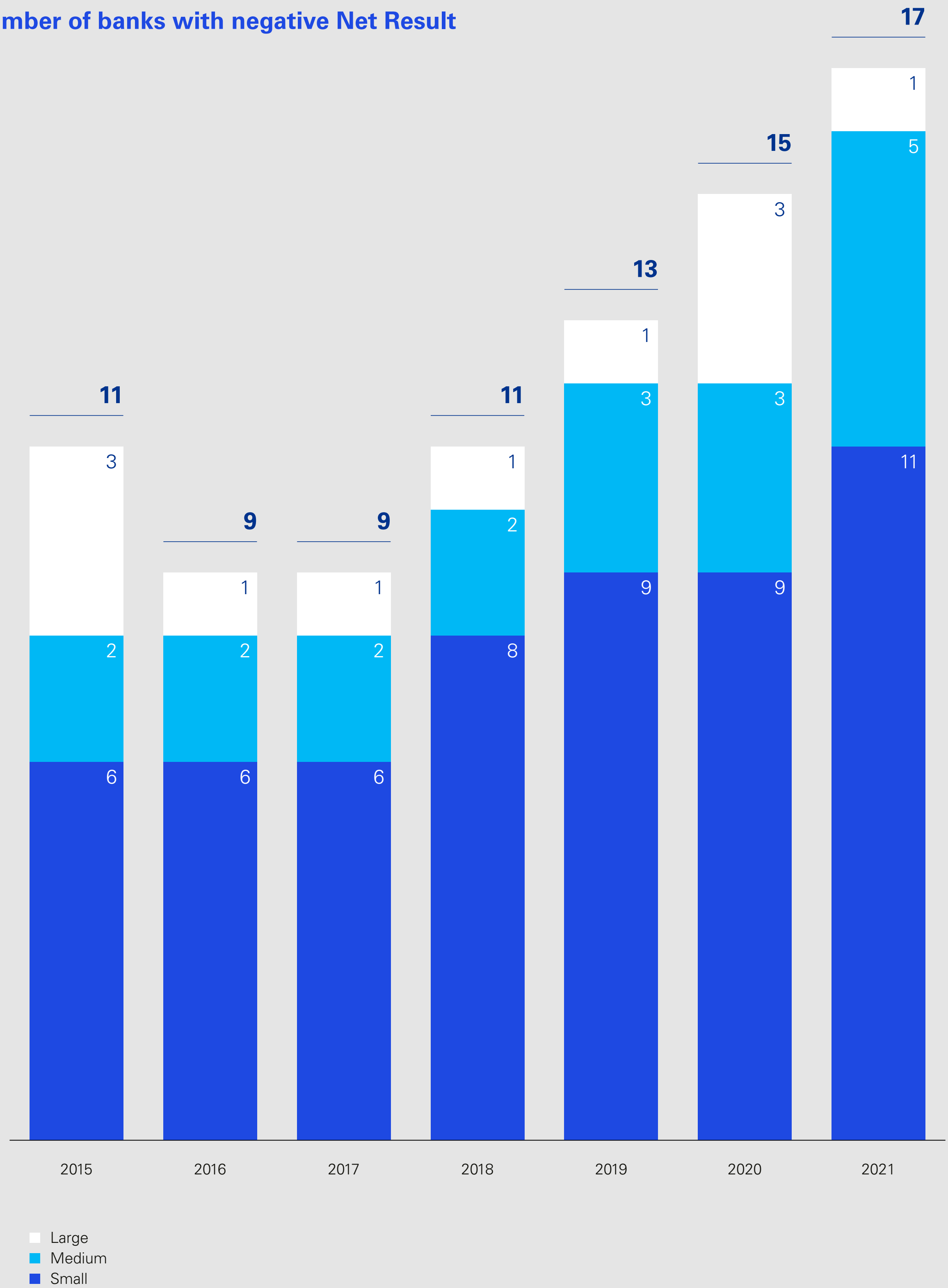
Nineteen banks reported RoE of more than 10%. They achieved a shareholder return in line with the cost of equity of about 8–10% for a Swiss private bank, meaning they created value for their shareholders. In contrast, 17 banks – or 22% of banks - reported a negative net result in 2021. The number of loss-making banks has doubled since the floor in 2017.

Return on Equity development

in%



Number of banks with negative Net Result



Basis of preparation

Our analysis of the past six years covers 76 Swiss private banks, representing 81% of the private bank population.

Our definition of a Swiss private bank

For the purpose of this study, a private bank is defined as a Swiss bank that holds a full FINMA bank license and for which a significant proportion of its business is private wealth management. There were 94 such private banks as at 31 December 2021.

Only survivor banks are included in our analysis

We have excluded those banks that disappeared before the end of 2021 in order to show only the performance of banks that are still in existence as at the publication date.

Banks specifically excluded from our study

We have excluded the following banks from our study:

- UBS and Credit Suisse as, if included, the extremely large size of their businesses would distort the results and make the analysis overall less meaningful.
- Fourteen banks whose financial statements are not available.

76 banks analyzed for the past six years

We analyzed the annual financial statements of Swiss private banks.

Our 'Industry performance' section analyzes 76 banks over the past six years 2015–2021.

Taking aggregate and median perspectives

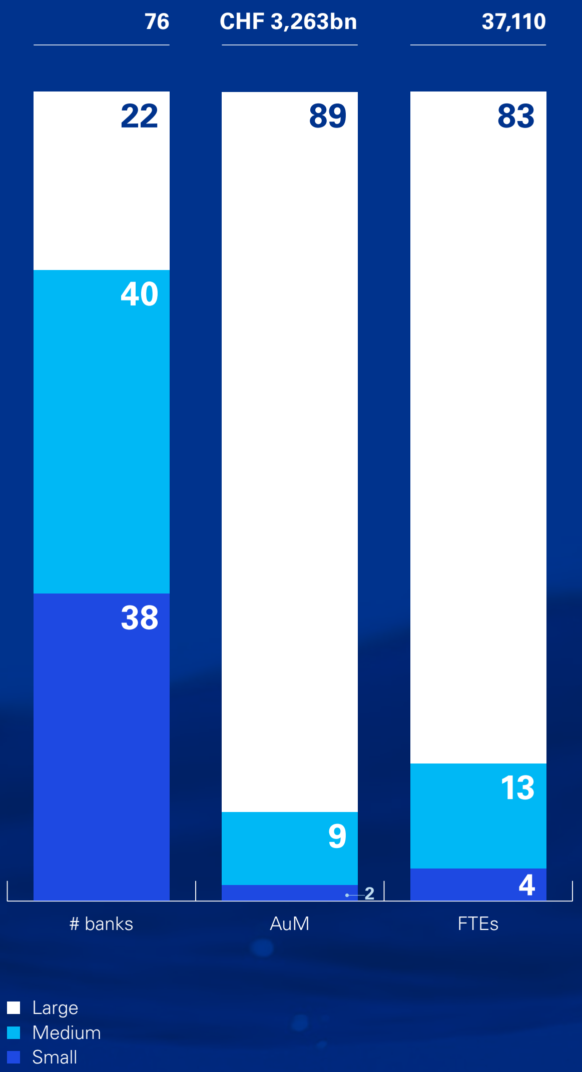
Our performance analysis is presented in two views:

- aggregate (by AuM size), contained in the "Industry performance" section, and
- median, contained in the "Median bank performance" section.

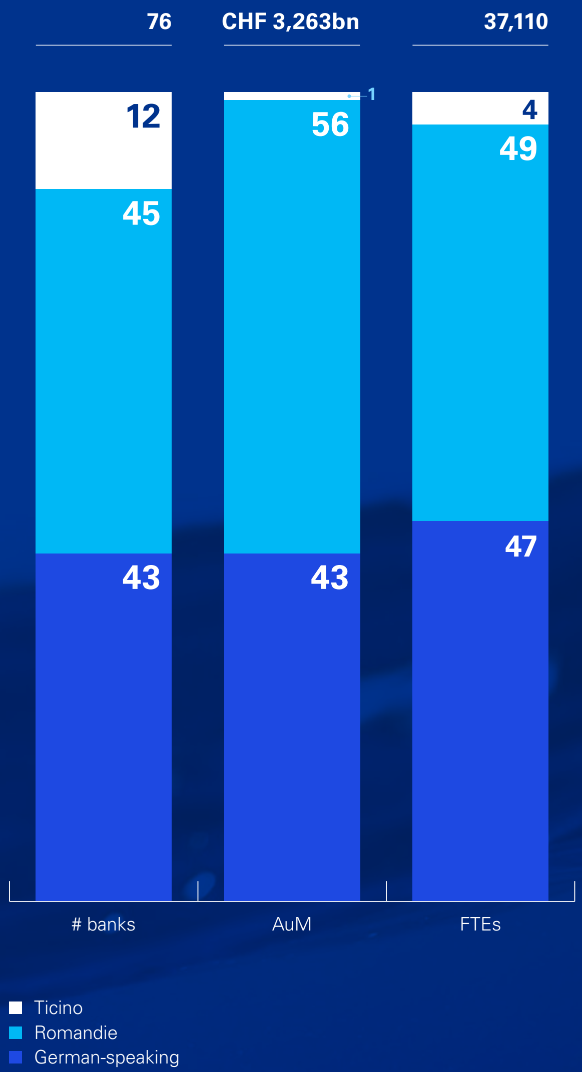
The aggregate view sums up individual banks' financial information by level of AuM – Large (AuM >CHF25bn), Medium (AuM CHF5–25bn) and Small (AuM <CHF5bn). It is dominated by the larger banks in each size segment.

The median view takes the middle bank's KPI value. It better represents the broader industry, which is dominated by Small and Medium banks (78% of the banks in our sample).

Key statistics by bank size
31 December 2021, in%



Key statistics by region
31 December 2021, in%



Glossary

Bank size

Small	AuM < CHF 5bn
Medium	AuM CHF 5bn–25bn
Large	AuM > CHF 25bn

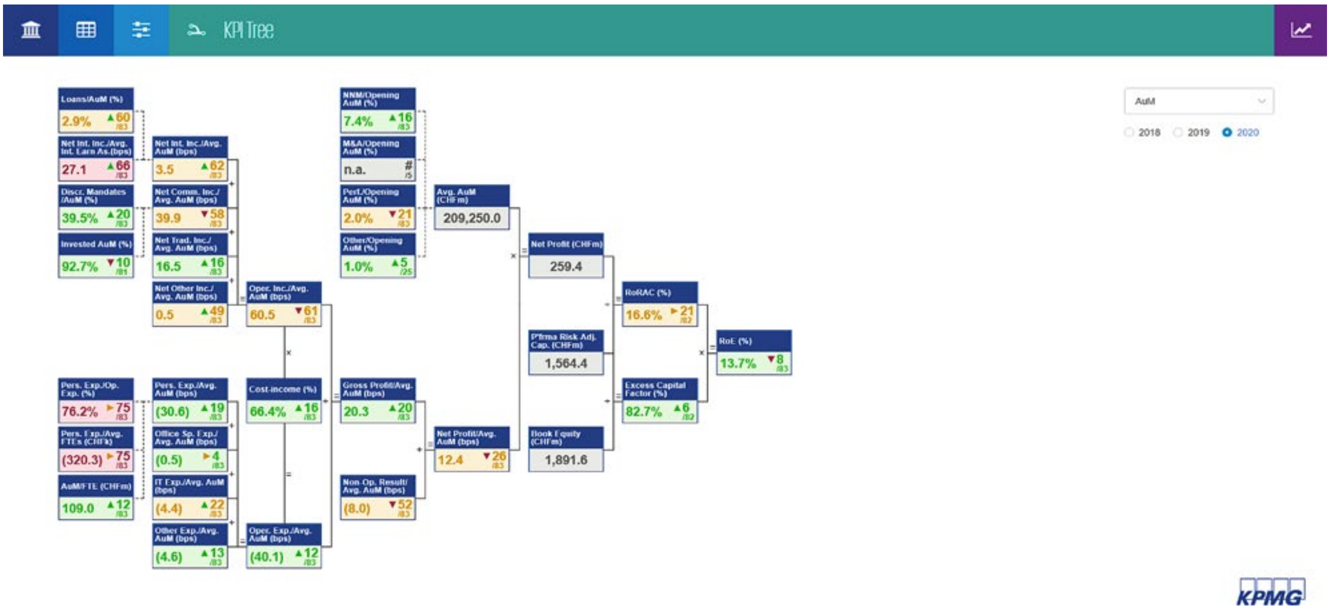
Performance cluster

Strong	C/I ratio < 70%
Upper Mid	C/I ratio 70% – 80%
Lower Mid	C/I ratio 80% – 90%
Weak	C/I ratio > 90%

6M	First six months of the year
AuM	Assets under Management
bps	Basis points (1/100th of 1%)
CHF	Swiss franc
C/I	Cost-income ratio
ESG	Environmental, Social, Governance
FINMA	Swiss Financial Market Supervisory Authority
FTEs	Full-Time Equivalents
IAM	Independent Asset Manager
k/m/bn/tn	Thousand/Million/Billion/Trillion
KPI	Key Performance Indicator
M&A	Mergers & Acquisitions
n/d	Not disclosed
NNM	Net New Money
pp	percentage points
Q	Quarter
RoE	Return on equity
SEC	U.S. Securities & Exchange Commission
USD	United States Dollar

KPMG Digital Benchmarking Tool

Our proprietary digital benchmarking tool contains data from 87 private banks: 76 Swiss and 11 Liechtenstein. Banks can use the tool to undertake a detailed comparison with their peers using unique KPI drill-down capabilities. Our experts are pleased to help you identify areas of performance enhancement for your bank and how they can be delivered practically and efficiently.



- Our KPI tree contains more than 50 KPIs across three performance perspectives.
- Each KPI is individually ranked so you can see exactly where you stand against your peers and the overall market.
- Color coding enables you to immediately identify for which KPIs you are better, comparable or worse than the peer group.
- We can help you elaborate on the performance drivers by reference to the various private banking business and operating models employed in the market.
- Fine tune your peer group with just a few clicks to enable an enhanced performance comparison.
- Detailed insights into any KPI can be obtained by clicking on the respective KPI tile.
- The three-year trend is provided for any KPI against both peer and overall market performance.
- KPI improvement / deterioration can be easily assessed from this analytical perspective.

Please contact us to find out how our benchmarking tool can help you enhance understanding and performance.

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Additional topics

KPMG produces a wide range of publications that share our insights and deep expertise into the opportunities and challenges facing Swiss businesses today. Look online at **kpmg.ch** or click on one of the icons below to read more.

Clarity on Swiss Taxes
The role of tax in a sustainable future: Why green taxes and transparency are increasingly relevant in the ESG space.

Clarity on Sustainability
Geopolitics, technology, society, and the environment are reshaping the business landscape. When change is the only constant, aligning your business strategy to current and future trends is essential.

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Discover deal statistics of the last year, insights into each sector incl. the most notable transactions, and a full list of all deals that involved Swiss businesses.

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The speed of technology innovation means businesses must continuously be on the lookout for new developments. Based on our experience with clients from all industries, our articles, videos and interviews help to think ahead and anticipate fresh opportunities and risks.

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Thought Leadership and insights on regional and global business issues from KPMG Switzerland's subject matter experts.

kpmg.ch/blog

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