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Clarity on Swiss Private Banks

Riding the interest rate wave
But how long will it last?

Institute of Management & Strategy
University of St.Gallen

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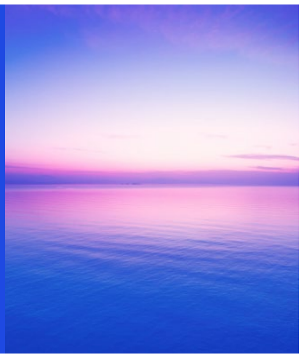
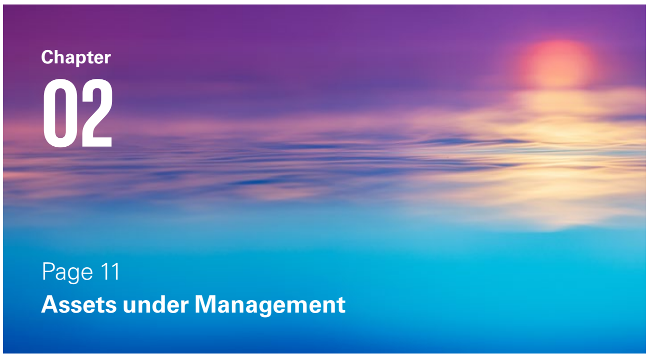
A study by KPMG Switzerland
in cooperation with the Institute of Management & Strategy
at the University of St.Gallen





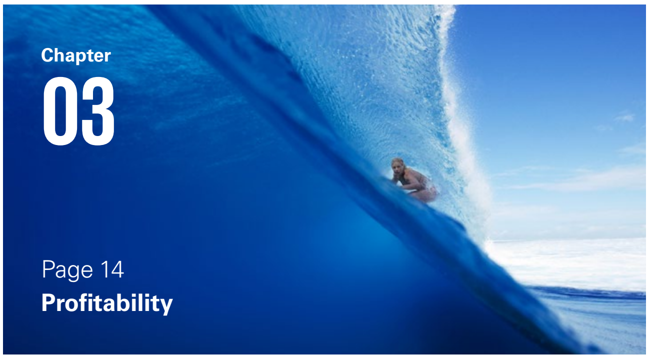


Photo by Geertjan van Beusekom

Riding the interest rate wave
But how long will it last?

At first glance, 2023 looked like a remarkable year for Switzerland's private banks. They appeared to turn around their fortunes as they improved median profitability, generated higher returns on equity (RoE), and achieved much better cost-income (C/I) ratios. The lack of M&A reinforced the fact that banks were not under pressure to sell.

On closer inspection, however, one trend drove the above: a significant increase in interest income. Switzerland's smaller banks benefited most, with an interest expense that was much lower than that of medium and large banks. When interest rates fall, banks' performances may return to previous levels, especially as pressure grows to pay interest on client deposits and as the Swiss National Bank's higher minimum reserve requirement takes effect. At the same time, core business is stagnant with assets under management (AuM) being at the same level it was three years ago. Commission income has also remained flat.

There is therefore still a need for banks of all sizes to improve performances. As interest income falls, banks need to focus on their cost bases, which grew significantly at many banks in the past year. Efficiency ratios showed a clearly negative trend.

Banks also need to generate higher levels of net new money (NNM). Many took the path of hiring relationship managers (RMs) from UBS and Credit Suisse in 2023, which may also explain why M&A was lower. It is too early to say what impact the hirings will have given the gardening leave and onboarding that are required before RMs can truly become productive. With AuM in 2023 being at 2019's level, M&A might return as a booster for growth.

This study sets out a detailed analysis of how banks performed in 2023 and the trend when set against performance in prior years. We would be delighted to discuss the impacts of recent and ongoing developments on your bank's strategy and plans.

Christian Hintermann
Partner, Financial Services

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Partner, Head of Financial Services
Member of the Executive Committee

Key messages

Interest income boosts small banks' profitability and C/I

While banks of all sizes benefited from a rise in interest income, smaller banks received a particular boost as their interest expenses grew only slightly. Given the number of small banks, this was enough to improve overall industry medians, including a 60% increase in median RoE and a median C/I ratio improving from 81% to 74%. This may reverse in the coming years as interest rates fall and more intense competition for AuM may force small banks to pay interest on client deposits.

The number of strong and upper-mid banks has grown by 47% since 2020: from 30 to 50 banks. Of these 20 banks, 17 were small. For the first time in our study series, strong banks formed the largest cluster, and a small bank was the best-performer with a C/I ratio of 35.6%. At the other end of the spectrum, six banks made losses, with three having a C/I of over 100% – all were small banks.

... making Strong banks the biggest cluster for the first time

Generating NNM remains a challenge

Large banks improved NNM significantly in 2023 following a weak 2022, but it still lags behind 2021. NNM at large banks last year was 2.8%, down from 4.7% in 2021. At mid-sized banks it was down from 5.9% to 1.4%, and at small banks from 2.9% to 1.8%. Volumes are insufficient to have a significant positive impact on AuM, and it is too early to say whether the hiring of RMs from UBS and Credit Suisse will help, as it may be late 2024 or in 2025 before the results of such investments are visible.

… as efficiency declines and growing FTE numbers drive up costs

Operating expenses have risen by CHF 1bn since 2021, at the same time as commission income fell by CHF 1.9bn and AuM declined by 10%. Efficiency ratios are being hit hard, and many banks are coping only thanks to the CHF 2.5bn increase in interest income. Banks are hiring more FTEs while business volumes remain stagnant. More focus is needed to make cost bases sustainable.

M&A comes to a hard stop

Deal activity halted in 2023 and 2024, except for two deals including UBS's acquisition of Credit Suisse, the first takeover of a global systemically important bank since 2008. There were no Swiss private banking deals so far in 2024. This is unlikely to last as poor growth, weak NNM and expanding cost bases push banks to undertake acquisitions, as often the fastest and most effective routes to grow.

01

M&A halted as the number of private banks is unchanged

Aside from the largest Swiss bank takeover ever, 2023 was uneventful in terms of M&A. The lack of activity is primarily due to the easing of pressure on smaller banks to sell, given the boost they received from interest income, and general caution over inorganic growth. This cessation of M&A is likely to be temporary, and activity will resume once the interest rate wave is over.

Outlook

Pressure may grow for renewed activity

The pressure on banks to grow through M&A may intensify due to a number of challenges. AuM of the industry overall is the same as at the end of 2020 but with many banks having a significantly higher cost base. Generating consistent NNM will continue to be challenging. Transformational M&A can be used to leapfrog years of uncertain organic growth. We expect the large private banks to capitalize on their strong positions and engage in larger scale M&A again.

M&A came to a halt in 2023

UBS's takeover of Credit Suisse and Julius Baer's divestment of Kairos were the only wealth management deals involving Swiss private banks last year, making 2023 the slowest year on record. There have been no deals in 2024 to date.

UBS's USD 3.7bn acquisition of Credit Suisse was completed in June 2023. It represents the first takeover of a global systematically important bank since 2008, and the largest wealth management acquisition. UBS's combined invested assets in the wealth management segment alone accounts for CHF 3,239bn, which is more than all other Swiss private banks combined. It further improves UBS's international footprint and competitive position, in particular putting it on a par with its US-focused competition.

The other wealth management deal was Julius Baer's sale of its remaining 65% stake in Italian wealth and asset manager Kairos to Anima Holding.

Outside wealth management, large banks engaged in five transactions involving asset managers, management companies or fund distributors, which are excluded from our analysis.

The number of private banks therefore remained stable at 90. Banca Generali meanwhile received its banking license, while Banque Havilland restructured its Swiss operations into a branch.

The cessation of M&A activity could relate to the significant improvement in small banks' financial performances due to the increase in interest income. This may have reduced the pressure to sell. We also notice many Swiss private banks remaining cautious about inorganic growth, with prevalent fears being cultural differences in a people-focused business, and regulatory risks.

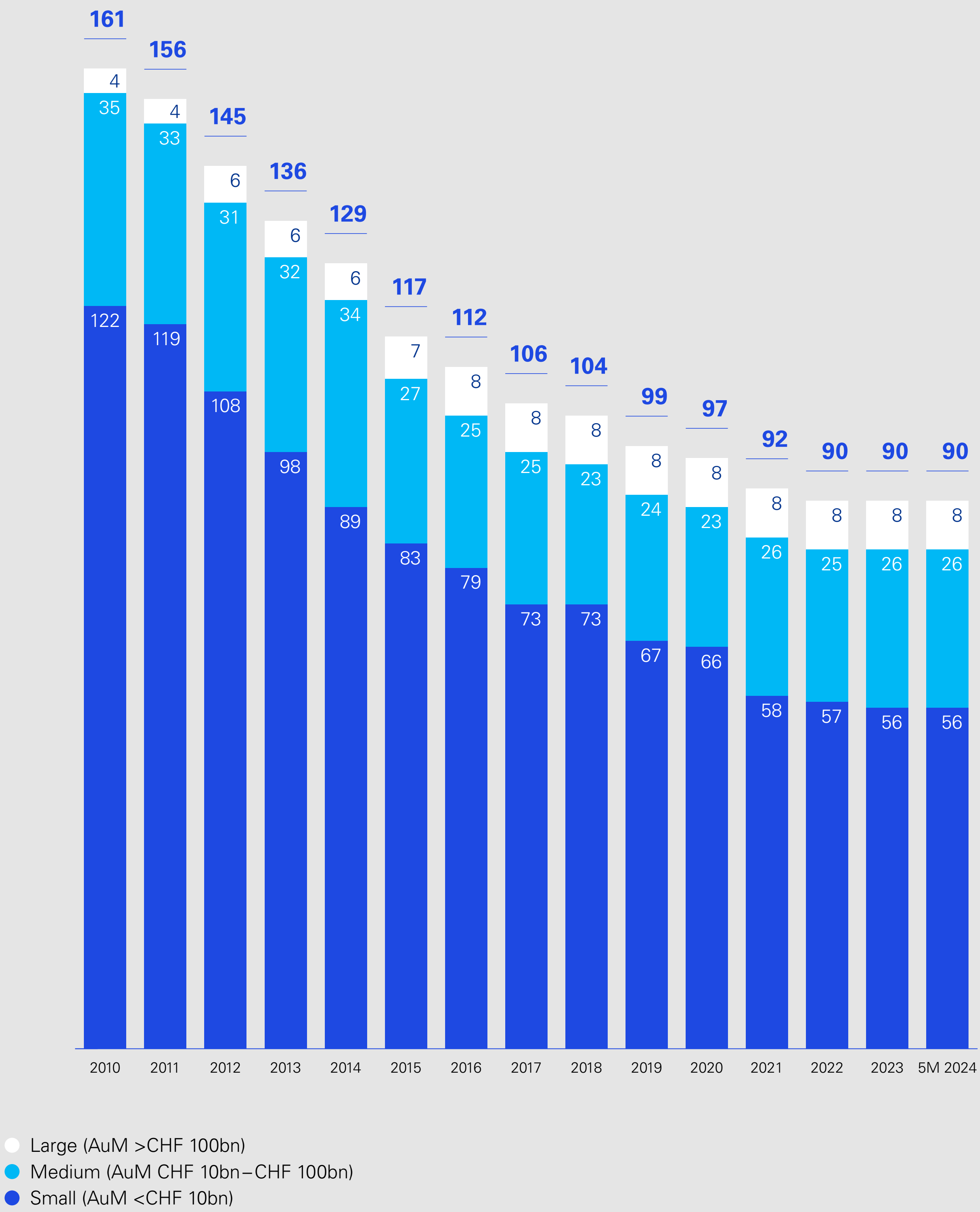
Deal fever was replaced by hiring relationship managers

Large banks looked to benefit from employee and client uncertainty in the wake of the UBS / Credit Suisse transaction by hiring dozens of relationship managers from those two banks. NNM in 2023 suggests this did not yet give rise to significant growth. As the onboarding of new RMs takes time, it will be interesting to see if investments start to pay dividends in the form of additional NNM in 2024 and 2025.

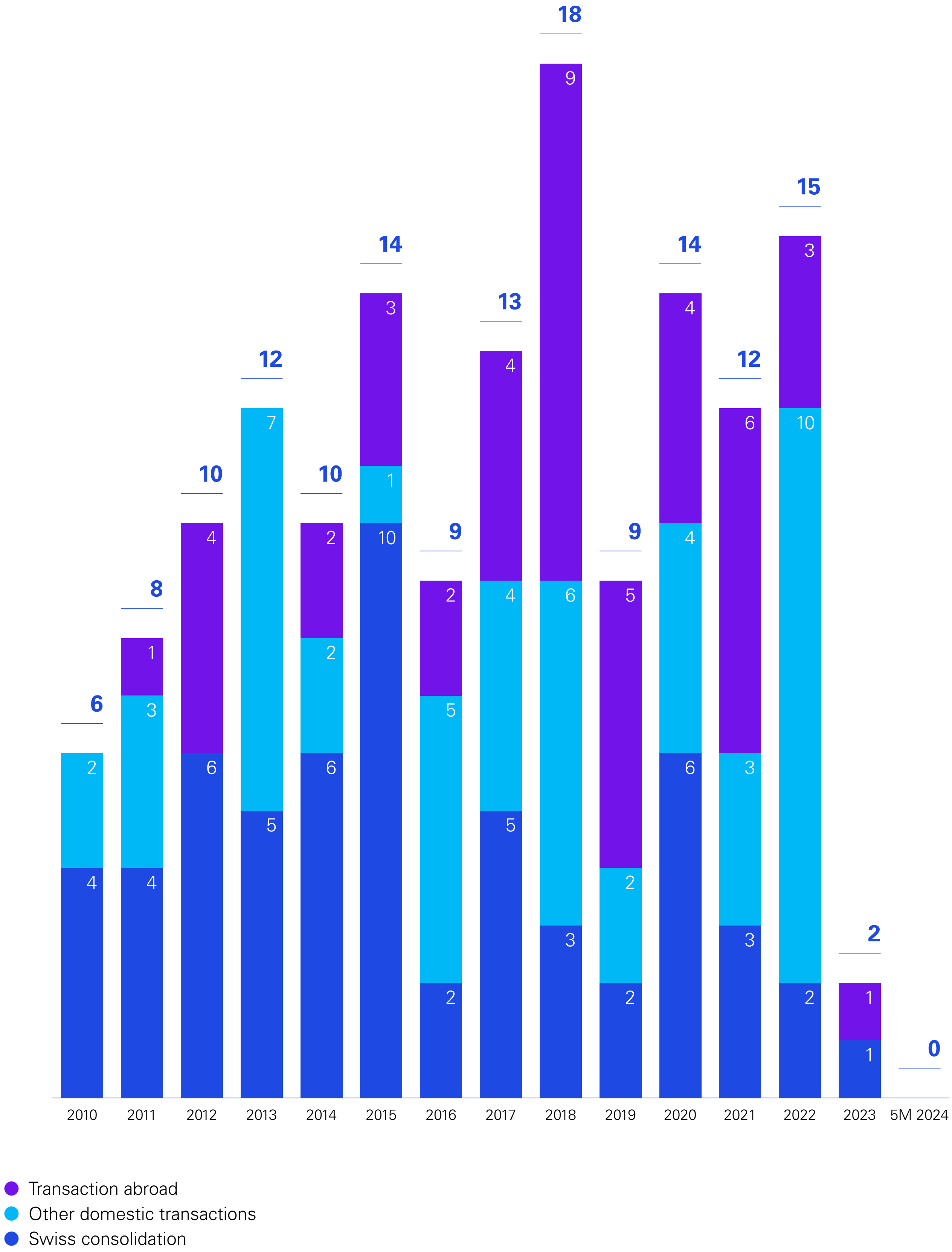
International competitors are active with big wealth deals in Europe

In contrast to Swiss private banks, international competitors continued to undertake large deals abroad. Credit Agricole Indosuez acquired a majority stake in Belgium's Bank Degroof Petercam, adding about EUR 65bn of AuM, of which EUR 36bn is in private banking. ABN AMRO announced the acquisition of Hauck Aufhäuser Lampe in Germany with approximately EUR 26bn in AuM.

Number of Swiss private banks by AuM size
2010 – May 2024, excluding UBS and Credit Suisse



Number of announced M&A deals (buyer, target or seller is a Swiss private bank)
2010 – May 2024, excluding UBS and Credit Suisse (only merger in 2023 included)



Swiss private banking transactions

2022 – May 2024, excluding asset management deals

Announced date	Target	Bidder	Seller	AuM CHF bn	Deal type
5 months 2024					
No deals					
2023					
Nov 23	**Kairos Partners SGR SpA (Italy, 65% stake)**	Anima Holding SpA	Julius Baer Group Ltd.	4.3	Share deal
Mar 23	**Credit Suisse Group AG**	UBS Group AG	Credit Suisse Group shareholders	1,365	Share deal
2022					
Dec 22	**Sartus Capital (Genève) SA**	Cité Gestion SA	n/d	1.0–2.0	Share deal
Nov 22	**Gonet & Cie SA**	Arab Bank (Switzerland) Ltd.	Gonet Holding SA	5.5	Share deal
Sep 22	**GROW Investment Group (China)**	Julius Baer Group Ltd.	n/d	n/d	Share deal
Aug 22	**Vögeli Vermögensverwaltung AG**	Baumann & Cie Banquiers	n/d	n/d	Share deal
Jul 22	**Vontobel (Hong Kong, wealth management business)**	LGT Bank (Hong Kong)	Vontobel Holding Ltd.	n/d	Share deal
Jun 22	**UBP Investment Advisors SA**	Ameliora Wealth Management AG	Union Bancaire Privée, UBP SA	1.0	Asset deal
Jun 22	**Fransad Gestion SA**	Management of Fransad Gestion SA	Julius Baer Group Ltd.	0.9	Share deal
Mar 22	**Finpromotion Société de Promotion Financière SA (30%)**	Cornèr Banca SA	n/d	n/d	Share deal
Feb 22	**NSC Asesores, S.A. de C.V. (Mexico, 50.1% stake)**	Stratos Wealth Partners Ltd.	Julius Baer Group Ltd.	3.7	Share deal
Feb 22	**bank zweiplus ag (42.5%)**	Bank J. Safra Sarasin Ltd.	Aabar Trading S.à.r.l (Luxembourg)	7.1	Share deal
Feb 22	**Credit Suisse (wealth management in nine Sub-Saharan countries)**	Barclays Bank (Suisse) AG	Credit Suisse Group AG	0.2	Referral 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 Ltd. (Gibraltar)	AS Citadele banka (Latvia)	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 Vermögensverwaltungs AG	Julius Baer Group Ltd.	1.2	Share deal

- Transaction abroad
- Other domestic transactions
- Swiss consolidation

Deal activity involving major IAMs remains high

Fifteen M&A transactions involved Swiss IAMs in 2023, following 16 in 2022. Most of the deals in 2023 were larger IAMs acquiring smaller peers, which drove consolidation. Significant activity was also observed by private equity-backed consolidators, which are taking a greater foothold in the Swiss market. Two cantonal banks acquired IAMs to enter new markets and acquire specialist know-how. Below is a list of major deals that involve IAMs as a bidder, target or seller.

M&A transactions involving Independent Asset Managers (IAMs) in Switzerland

2023 – May 2024

Announced date	Target	Bidder	Seller	AuM (CHF bn)	Deal type
5 months 2024					
May 24	**Mental Capital AG**	Colombo Wealth SA	n/d	n/d	Share deal
Mar 24	**Arete Ethik Invest AG (25% stake)**	Thurgauer Kantonalbank	n/d	0.5	Share deal
Jan 24	**BJKK AG**	Plutos Vermögensverwaltung AG	n/d	n/d	Share deal
2023					
Dec 23	**SSI Wealth Management AG (majority stake)**	Cinerius Financial Partners AG	n/d	2.0	Share deal
Nov 23	**KTS Capital Management AG**	Crossinvest Zürich AG	n/d	n/d	Asset deal
Nov 23	**St. Gotthard Wealth AG**	Private Investors	n/d	n/d	Share deal
Oct 23	**ENSO Gestão de Patrimônio Ltda.**	Brainvest Wealth Management SA	n/d	n/d	Share deal
Oct 23	**BCB Asset Management SA**	Bruellan SA	n/d	n/d	Share deal
Oct 23	**Harver Capital SA**	NFG Partner SA	n/d	n/d	Asset deal
Sep 23	**Finstoy SA**	Probus Pleion Holding SA	n/d	0.2	Share deal
Jul 23	**Cinerius Financial Partners AG (majority stake)**	IK Investment Partners Ltd.	Summit Partners LP	11.0	Share deal
May 23	**Altrafin AG (minority stake)**	Banca dello Stato del cantone Ticino	n/d	n/d	Share deal
Apr 23	**GMG Asset Management SA**	Quaestor Coach AG	n/d	n/d	Share deal
Mar 23	**KPC Consulatoria Financeira**	Brainvest Wealth Management SA	n/d	1.3	Share deal
Mar 23	**Decimo Immobilien AG**	swisspartners Group AG	n/d	n/d	Share deal
Mar 23	**NRS Treuhand AG**	swisspartners Group AG	n/d	n/d	Share deal
Feb 23	**Essentia Family Office SA**	LFG Holding SA	n/d	0.5	Share deal
Feb 23	**Entrepreneur Partners AG**	Cinerius Financial Partner AG	n/d	4.0	Share deal

Acquisition performance of Swiss private banks

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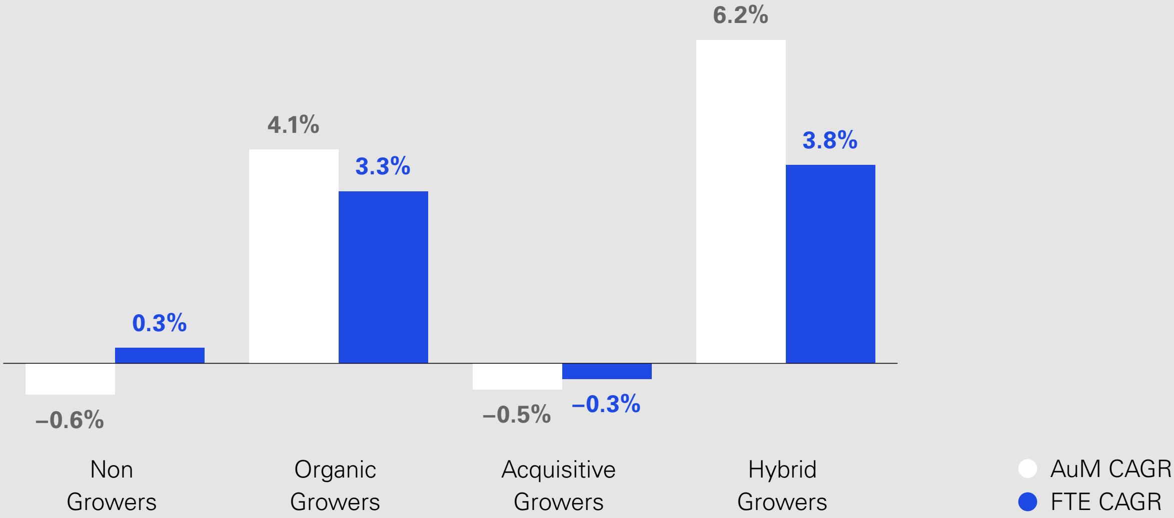
Professor Tomi Laamanen and Research Associate Thomas Starck from the University of St.Gallen (HSG) looked at the acquisition performance of Swiss private banks over 14 years from 2010 to 2023. This period was marked by significant regulatory change, notably the automated exchange of information, which triggered a wave of consolidation. 280 M&A transactions involving Swiss private banks took place over those years. Private banks that combined both organic and acquisitive growth outperformed the other banks on most performance measures when compared to other growth strategies.

AuM and FTE growth (CAGR) by growth strategy



A key observation is that acquisitions of non-wealth management targets dominated Swiss private banks' acquisition activities in the early years (2010-2013). However, from 2014 onwards the focus switched to wealth management acquisitions as regulatory changes triggered a wave of consolidation among the private banks. During this time, those banks that combined organic and inorganic growth ("hybrid growers") clearly outperformed those that only focused on only one type of growth. Such banks also posted significantly better average RoE and C/I ratios.

Detailed analysis of a subset of acquisitions revealed substantial improvements in post-acquisition operational metrics. The median RoE of the combined bank one year after the acquisition rose from a median pro forma ROE of 2.4% of the combined banks one year before the acquisition to a median RoE of 6.3% above industry average. In the sample of 25 deals, the AuM/FTE ratio increased from CHF 46m to CHF 50m, underlining the success of acquisitions in boosting profitability and operational efficiency.

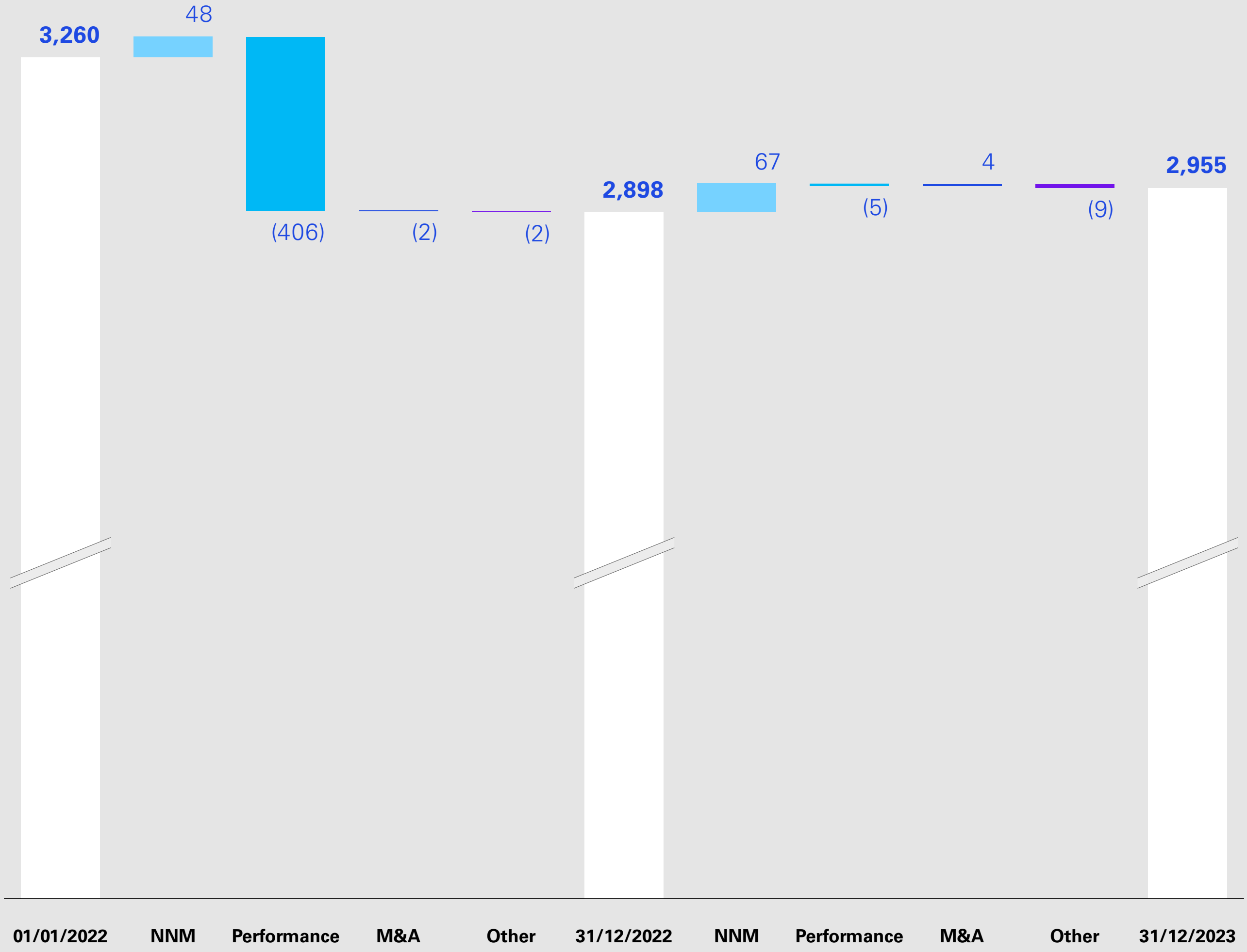
Download and read the full article here

02

Industry AuM remains flat while median NNM falls

Swiss private banks are suffering a low growth dynamic, with industry AuM being only slightly above 2019 levels. NNM was low last year, not helped by a strengthening Swiss Franc. 27 banks had negative NNM last year. Whether the hiring of RMs from UBS and Credit Suisse helps turn around banks' fortunes will be seen over the coming year.

AuM development
in CHFbn



Markets performed much better in 2023 following an extremely negative 2022. The appreciation of the Swiss Franc against major currencies such as the USD (8.7%) and EUR (5.2%) completely offset the more than CHF 100bn positive market performance, however. This led to a slightly negative performance effect on industry AuM of CHF –4.8bn AuM, emphasizing the challenges faced by an export industry like private banking where AuM and revenues are significantly influenced by foreign exchange fluctuations.

AuM grew at 62% of banks in 2023. Median growth was a modest 1.3%, however, with overall industry AuM up 2.0%, driven by positive NNM. Total industry AuM reached CHF 2,955bn compared to UBS's CHF 3,239bn AuM after the Credit Suisse acquisition.

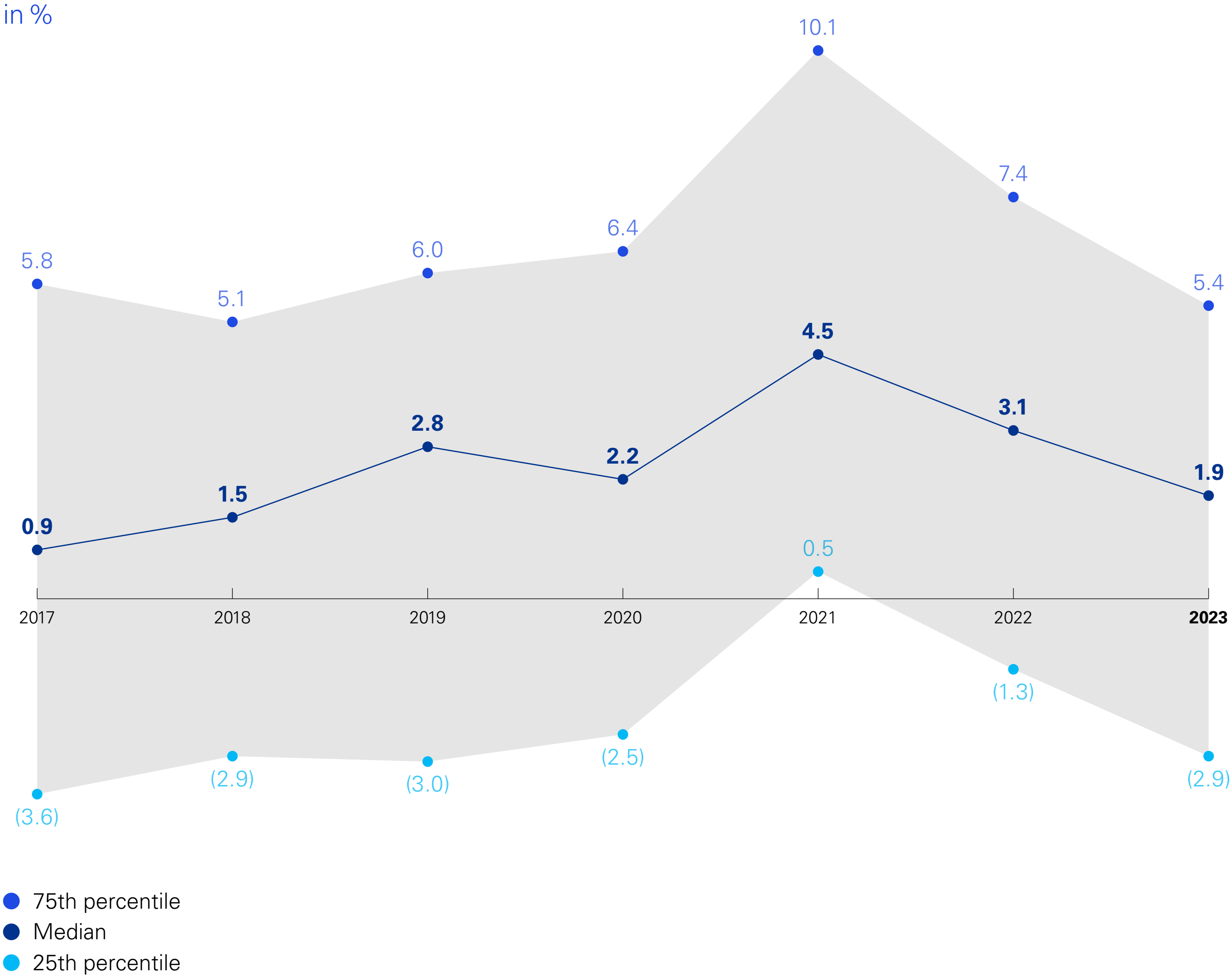
The net positive impact from M&A related to deals announced in 2022 that closed in 2023. These included mainly the acquisition of Banque Gonet by Arab Bank (AuM CHF 5.8bn) less various smaller divestments by Julius Baer.

Other movements include group internal transactions of international banks and reclassifications of certain AuM.

Industry AuM is only slightly above 2019 levels, with small and medium banks being about 10% higher. This illustrates a very low growth dynamic. While small and medium banks also grew since 2019 through M&A the large banks mainly engaged in selling subsidiaries in wealth management, with M&A therefore generating an overall negative impact on their AuM.

NNM was too low to make any significant difference to AuM. External factors such as the unique negative market performance in 2022 and a constantly strengthening CHF have not helped. The absence of major M&A transactions have added to the stagnation.

Median NNM growth
in %



Median NNM declines further

Median NNM fell for the second consecutive year, with 58% of banks experiencing lower NNM. Following strong growth in 2022, NNM slowed in 2023 for medium (from 3.0% to 1.4%) and small banks (from 5.2% to 1.8%). The number of small banks achieving NNM above 5% halved from 23 to 12.

In total, 27 banks experienced negative NNM, with three medium and two small banks seeing more than 10%. Only large banks were able to improve after a relatively weak 2022, from 1.6% to 2.8%, but still significantly below 2019–2021 levels. These figures are also below the target ranges of 3–6% NNM per year communicated by some of the large banks. Some banks achieved the range in certain years, but doing so consistently seems to be a challenge.

While many banks hired RMs from UBS and Credit Suisse in the past year, there will be time lag before the RMs become productive due to gardening leave and onboarding. Results may therefore be seen only in 2024 and after.

Deleveraging at clients due to higher interest rates had a negative impact on loan volumes and NNM, as the repayment of loans leads to lower AuM. Customer loans and mortgages at large banks fell by CHF 13.7bn, corresponding to a negative impact of NNM of 0.6 percentage points. The figure for medium banks was CHF 6.5bn or 1.3 percentage points, and CHF 0.7bn or 0.3 percentage points at small banks.

03

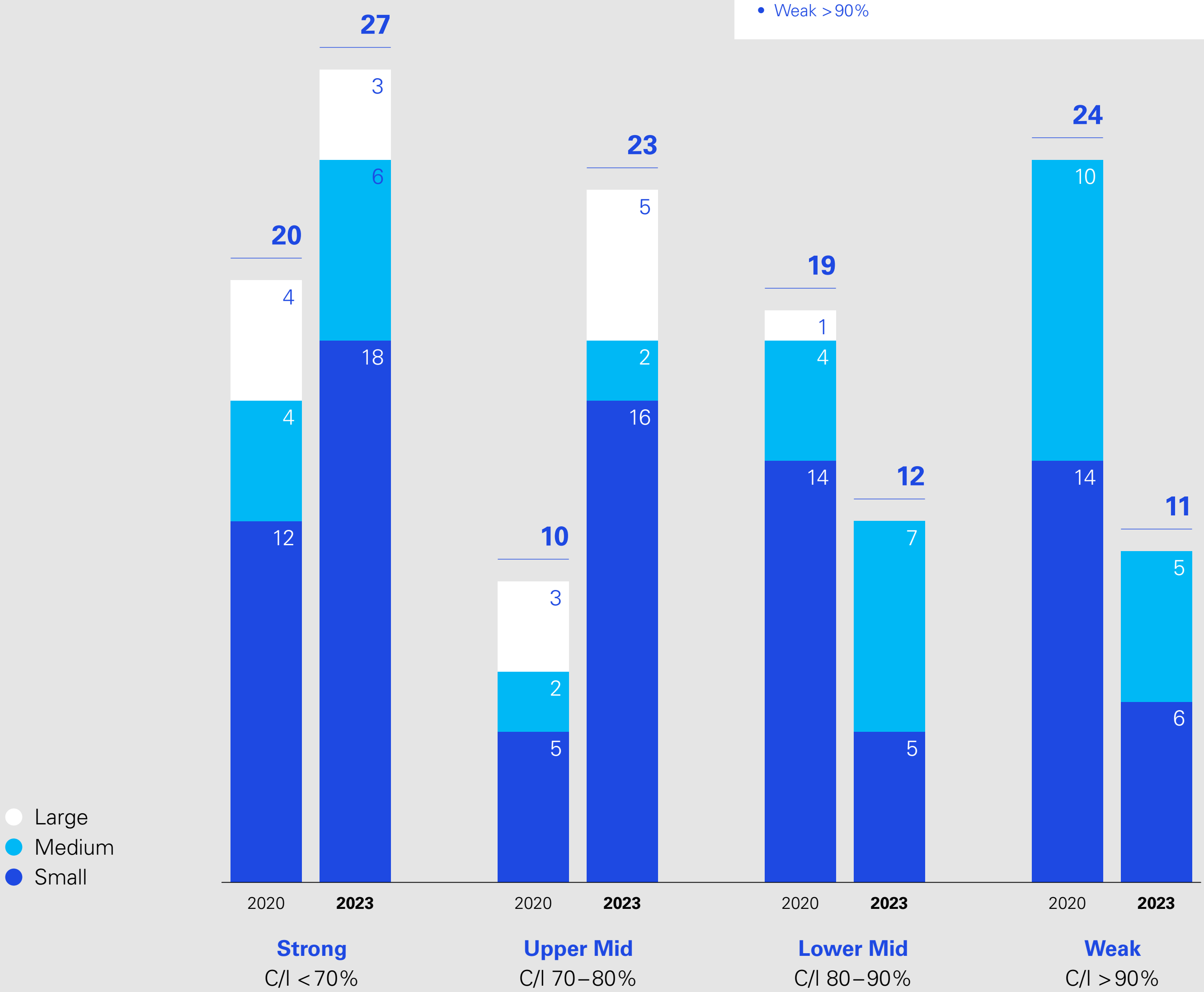
Surge in the number of strong and upper-mid performers

Small banks helped drive a dramatic rise in the number of Strong and Upper Mid performers, which are up from 30 to 50 banks since 2020. Small banks' median operating income margin jumped from 85bps to 113bps in 2023 to reach by far its highest point since 2009. Large banks remain the stronger players, however, with the lowest C/I ratios and posting consistently robust performances.

Number of private banks by performance cluster
2020 and 2023

Cost-income ratio (C/I) as a profitability metric
C/I is our key profitability metric to determine the performance clusters, as it has the advantage of being less affected by exceptional items and differing bank sizes.

Performance clusters are grouped by C/I:
- Strong < 70%
- Upper Mid 70%–80%
- Lower Mid 80%–90%
- Weak > 90%



Performance clusters see radical shifts

The number of banks in the stronger half of the industry (strong and upper mid) has risen from 30 to 50, or by two thirds, since 2020. Small banks were behind this shift, accounting for 17 of the 20, supported by three exceptional years:

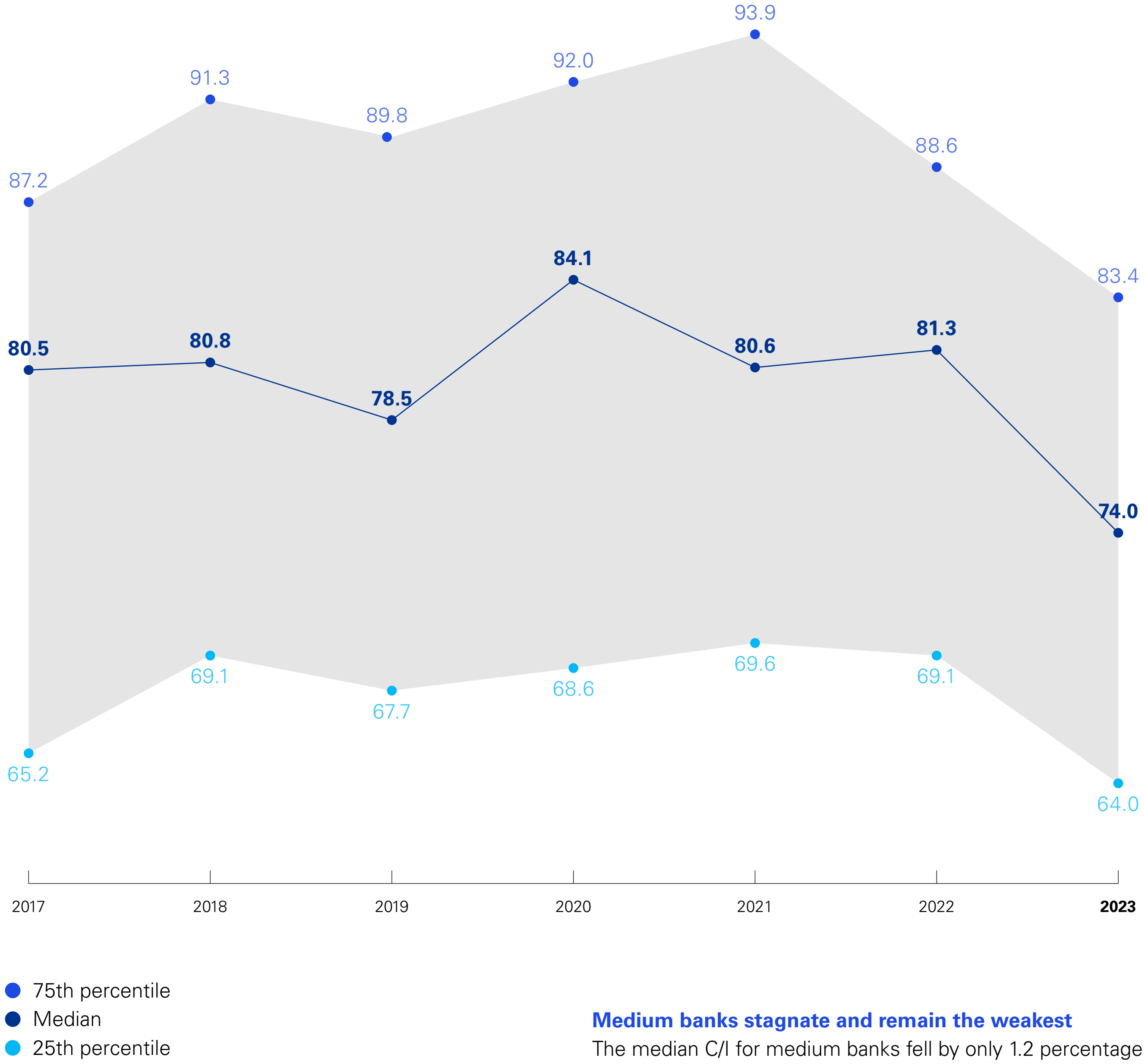
- Very strong financial markets in 2021
- Weak financial markets in 2022 but interest rate rises kicking in the last quarter of the year
- Negative impact of a strong Swiss Franc in 2023 but high interest rates over the year.

The median C/I ratio in 2023 improved by 7.3 percentage points to 74%, which is the lowest since 2007. This was driven largely by small banks, while mid-sized banks showed a slight improvement and large banks saw a slight increase in C/I.

Strong banks formed the largest cluster for the first time in the history of our study, at 27 banks or 37% of our sample. The best performing bank was a small one with a C/I ratio of 35.6%.

In 2023, there were only the six loss-making banks, or 8% of banks. From 2010-2015, 30-40% of banks were loss making in any given year. Many of these banks no longer exist. This shows how much the industry has improved.

Median cost-income ratio
in %



Small banks, big movements
The median operating income margin of small banks jumped from 85bps to 113bps in 2023 to reach by far its highest point since 2009. Despite rising costs, this led to a fall in the median C/I for small banks by eight percentage points last year, from 81.4% to 73.4%. Of the 45 small banks, 43 either stayed in the same performance cluster or moved to a stronger one. Eight advanced by two clusters.

Small banks benefited more from high interest rates as they had a much lower interest expense than medium or large banks. This will not last, as 2023 was an exceptional year from an interest perspective.

Medium banks stagnate and remain the weakest
The median C/I for medium banks fell by only 1.2 percentage points, from 83.1% to 81.9%. Medium banks remain the weakest size cluster. As in previous years, many of the weakest mid-sized performers are subsidiaries of global banks. Some do not seek to maximize standalone performance as they are seen as part of the bank's global offering to clients.

Large banks decline relative to the industry overall
Although large banks' C/I rose from 69.7% in 2022 to 71.2% in 2023, reaching the highest since 2014, they maintained the lowest C/I level and posted consistently strong performances. The increase in C/I was due primarily to one bank that booked a significant loan loss provision. Four large banks improved C/I by up to six percentage points, the lowest one reaching 46.2%, while the remaining three had limited increases of up to 2.4 percentage points.

Return on Equity surges higher

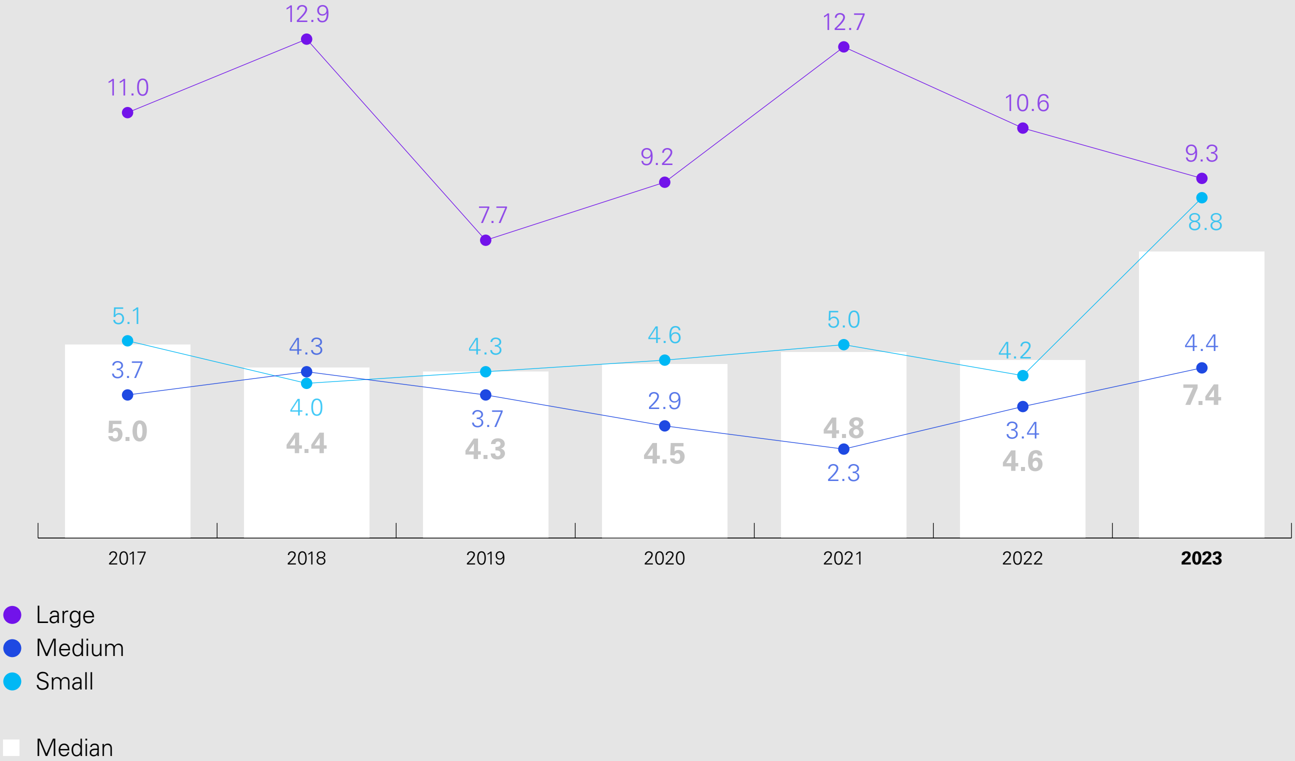
After years of stability around 4.6%, RoE reached a median of 7.4% for the first time ever last year. Small banks in particular outperformed other bank sizes, improving median RoE by 4.6 percentage points, to an impressive 8.8%. Fourteen banks – all of them small – have a RoE of above 15%.

Banks' cumulative net profit fell from CHF 4,189m in 2021 to CHF 3,658m in 2022 and CHF 3,036m in 2023. By adding back one bank's CHF 606m exceptional loan loss provision and the increase of CHF 515m in several banks' general banking reserve provisions (2022: CHF 141m, 2021: CHF 107m), the adjusted industry profit would be CHF 4,157m comparable to 2021. This emphasizes again how small banks have driven the improvement in the median ratios while the adjusted net profit of the industry is at a similar level as in the record year 2021.

The total equity in the industry remained stable at about CHF 41.5bn with a reduction of about CHF 300m at large banks and an increase of the same level at small banks.

Median Return on Equity

in %



Size clusters have very different RoE trajectories

There was a significant disparity in RoE between size clusters in previous years. The current positive impact from net interest income, particularly at small banks, has significantly narrowed the gap. Whereas 80% of small banks were able to improve their RoE to an all-time high median RoE of 8.8%, only half of large banks were able to improve, with their median RoE falling by 1.3 percentage points.

Looking at only the eight large banks, figures are significantly negatively impacted, such as C/I due to one bank with the loan loss and another bank increasing its general banking reserve by CHF 348m. Overall, however, large banks appear to have very strong, sustainable profitability. Continual improvement from that level seems to be a challenge as RoE was relatively stable overall for many of the large banks in the past five years. Only one bank achieved a significant improvement, coming from a much lower RoE than most others and now being comparable.

While medium banks also improved, driven by net interest income, overall profitability remains clearly below the return shareholders would expect from a private bank. Eleven of the 20 medium banks have a RoE below 5%; only two are above 10%. It remains a very mixed group for various reasons. In terms of low profitability, as mentioned, many of the subsidiaries of global banks have very low RoEs as they might not be managed to achieve standalone profitability. Six of them have a RoE below 1%.

04

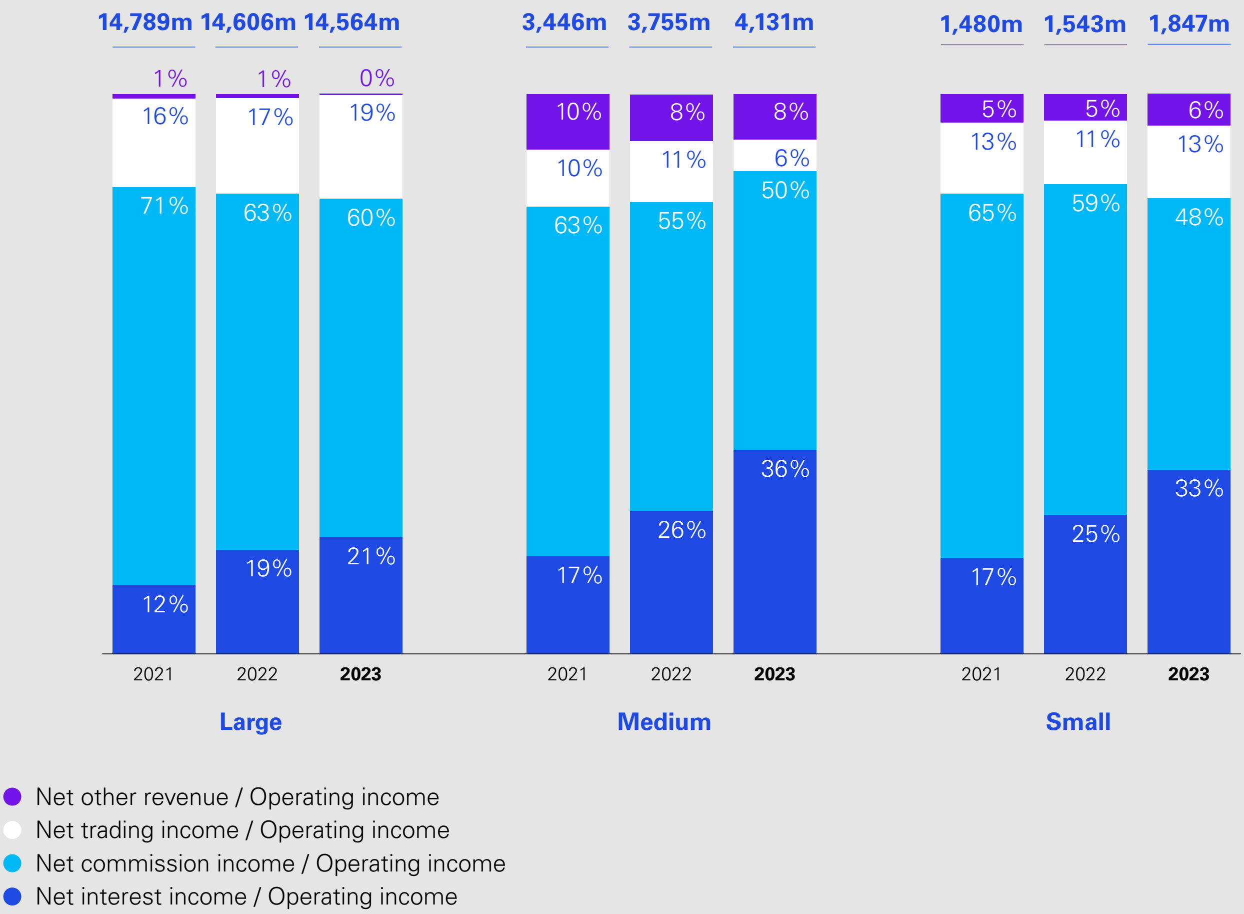
A wave of interest income while commission stagnates

Net interest income doubled as a share of small and medium-sized banks’ operating incomes. Commission income now forms less than half of their revenues. The net interest margin at small banks has more than tripled since 2021 to 35bps – a level we have never seen before, and which is driving the significant changes in median ratios such as C/I and RoE.

Commission income now less than half of small and medium banks' revenues

The proportion of net interest income to overall revenues rose significantly in the past three years. It more than doubled for medium sized banks, from 17.4% in 2021 to 36.4% in 2023, and rose sharply for small banks, from 17.1% in 2021 to 32.9% in 2023. By contrast, commission income, which is typically a private bank's main revenue source, is now less than 50% for small and medium banks.

Composition of operating income by size cluster



This increase is visible in the median net interest margin, which more than doubled to 26bps in 2023 from 10bps in 2021 before central banks raised interest rates. This is the highest level in our data going back to 2006. The second highest interest margins were 18bps in 2008 and 2022.

This is an exceptional situation that will at least partially reverse in the next couple of years. Central banks have begun to lower interest rates; and the interest differential between the CHF and the USD and EUR will begin to fall. The Swiss National Bank has announced an increase in the minimum reserve requirements starting in July 2024 on which it pays no interest, and reduced interest to be paid to banks.

More intense competition for AuM and client deposits will force banks to pay more interest to avoid clients changing bank. The competition is also driven by the need of banks to pay higher attention to their liquidity situation in the new environment. The main source of liquidity for many private banks are customer deposits, which declined by CHF 90bn in the past two years from CHF 375bn to CHF 285bn. Fiercer competition can already be observed in the market.

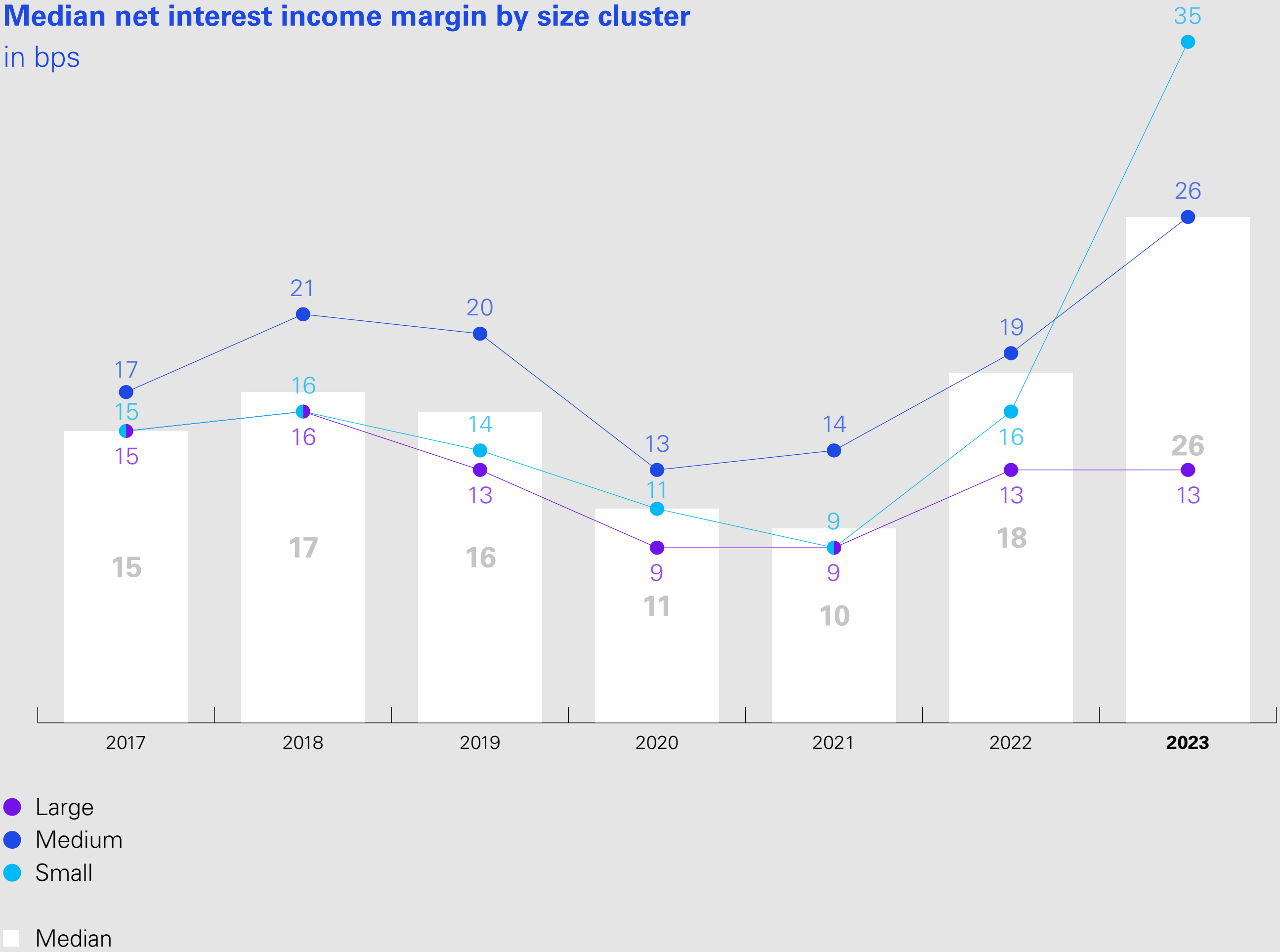
Net interest margin is by far the highest at small banks

Small banks have a net interest margin of 35bps compared to medium banks (26bps) and large banks (13bps). This is the result of a growing interest income at small banks but much stronger growth at large and medium banks, but interest expenses growing only slightly at small banks.

Interest income grew at 460% between 2021 and 2023 at medium banks, 396% at large banks and 243% at small banks. Medium banks include many subsidiaries of global banks which have large balance sheets and loan books as well as trading portfolios and financial investments. While large banks have large balance sheets, loan books are generally smaller. Many small banks do not have much loan business and have limited trading books and financial investments; they therefore show the lowest increase in interest income.

Interest expense, rather, is driving the difference in net interest income between the size clusters. It rose sharply for medium and large banks, while many small banks paid very little interest on their liabilities, which are mostly customer deposits. The median interest expense on interest-bearing liabilities was 2.1% for large banks, 1.4% for medium banks and 0.4% for small banks. The resulting net interest margin is much higher at small banks which therefore benefit most from the exceptional interest environment – receiving high income with very limited expense.

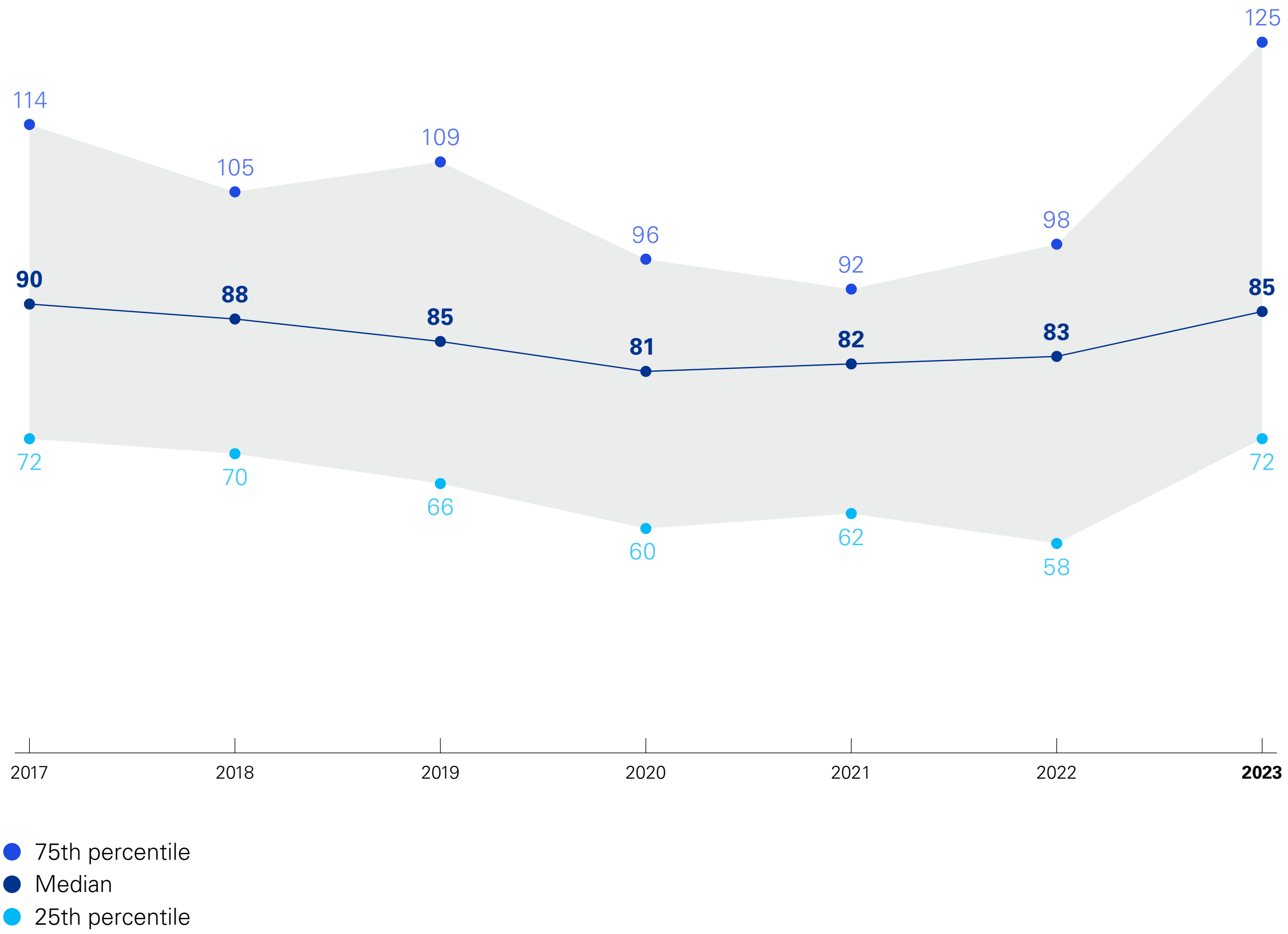
Median net interest income margin by size cluster
in bps



Net interest income margin is causing other ratios to surge ahead

The exceptionally high net interest income margin at small banks boosted those banks' operating income (+19.8%), gross profit (+64.8%) and net profit (+88%). It drove the significant changes in median key ratios such as C/I, RoE and revenue margin in the industry overall as small banks are by far the largest group at 45 of the 73 banks in our study.

Median operating income margin
in bps



Overall operating income margin increases
The median operating income margin also rose significantly thanks to the net interest income margin. 86% of all banks improved their operating income margin in 2023. The top quartile of banks, all with an operating income margin above 125bps, are 16 small banks and two medium banks. Their average operating income margin was 159bps in 2023.

As the most important source of income, commission income did not contribute much to the increase – the median grew from 45bps to 48bps as average AuM for the industry remained stable. However due to more positive markets, client activity increased and the proportion of invested assets rose as clients moved out of cash to benefit from higher interest rates (80.8% median invested AuM versus 77.1% in 2022).

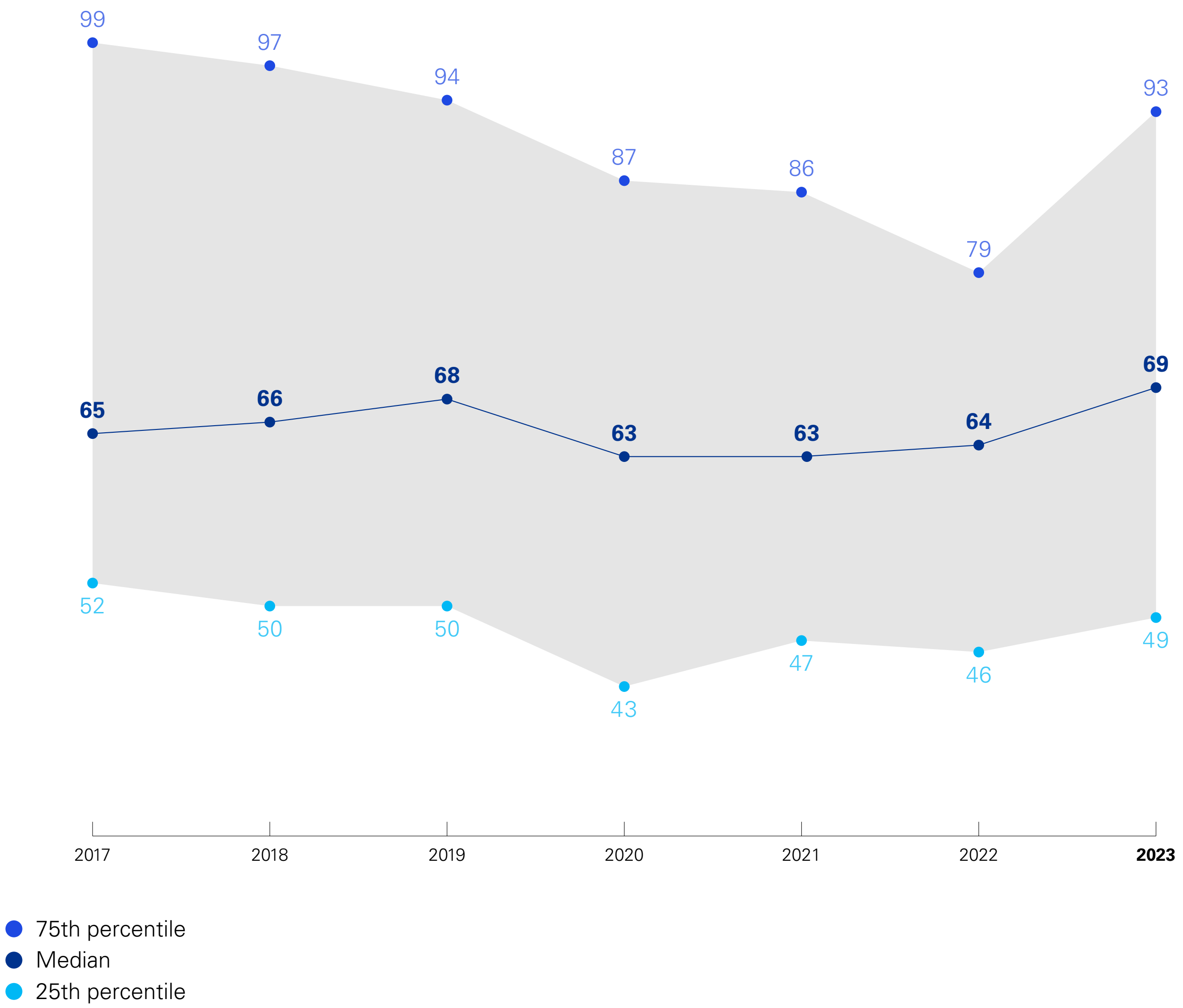
Absolute commission income for all banks was around 4% lower than in 2022 and around 10% lower than 2021 and 2020. This was driven mainly by falls at large banks. It re-emphasizes that the past three years should be considered a period of stagnation in banks' core businesses, masked by the positive impact of net interest income.

05

Costs rise as banks continue to hire

Costs continue to increase as the number of FTEs grows. In an environment of flat AuM and where efficiencies are not being delivered, this caused the operating expense margin to reach its highest level since 2016.

Median operating expense margin
in bps

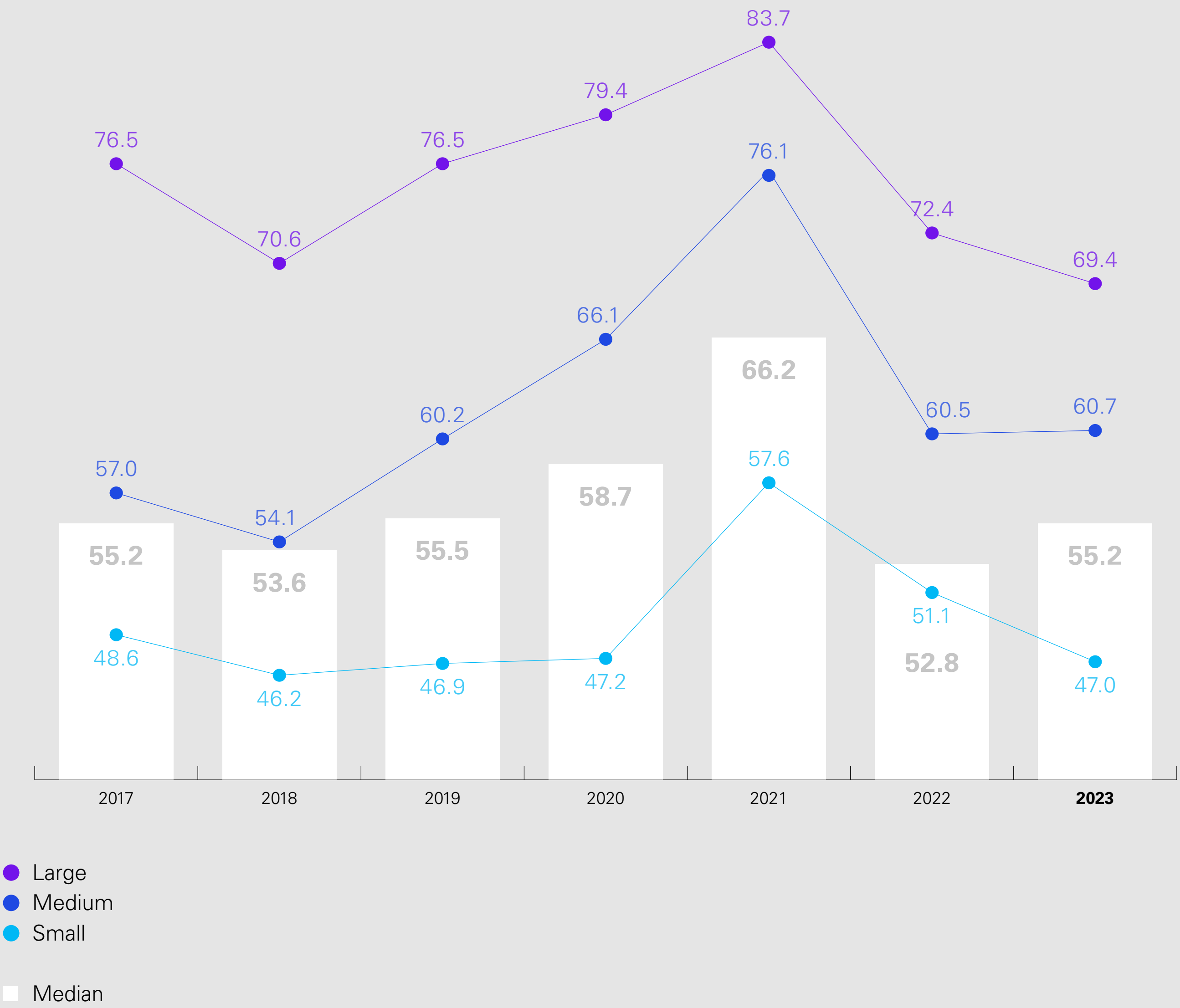


Employee numbers and IT expenses drove up operating costs

The industry's operating expenses rose from CHF 14.1bn in 2022 to CHF 14.8bn in 2023. This was driven largely by an increase in personnel expenses as the number of FTEs grew by 4.1% to 39,697 (large banks 4.5%, medium 3.6%, small 2.8%) and IT expenses rose by 8%. Large banks' personnel expenses rose by only 2.4%, however, despite taking on more new employees than the others.

Small banks, despite having the lowest increase in number of FTEs, saw the biggest increase in personnel expenses at 8.1%. This is because their median cost per FTE rose from CHF 234k to TCHF 254k, moving much closer to that of large (CHF 273k) and (CHF 278k) banks where costs per FTE remained more or less stable in 2023. This increase related to small banks paying higher bonuses on the back of improved financial performances.

Gross AuM per FTE
in CHFm



More FTEs servicing flat levels of AuM

81% of banks saw their operating expense margin rise. The median reached 69bps from 64bps in 2022, the highest since 2016. The significant drop in efficiency, combined with increasing costs, is evident from the fact that AuM was the same at the end of 2023 as it was in 2020 but with 10% or 3,610 more FTEs in the 73 banks. One would also expect significant investments in digitalization to have led to efficiency gains and therefore a decreasing number of FTE – these are not apparent from the industry numbers.

2023 saw AuM per FTE fall at 85% of banks. This figure had remained relatively flat since 2017 but peaked in 2021 due to a sharp increase in AuM. This ratio shows clearly that banks did not successfully improve efficiency in recent years. However, AuM per FTE in the different size clusters shows that size leads to efficiency gains: large banks have 48% more AuM per FTE than small banks. In addition, the few banks that grew AuM significantly in 2023 also grew their AuM per FTE. The differences are huge: 12 banks have AuM per FTE above CHF 100m and 10 banks below CHF 30m. Several small banks that focus on Swiss onshore business are in the best group, illustrating how their less complex business model allows them to operate efficiently.

It appears difficult for the industry to keep costs flat in an environment of increasing operating income such as the exceptional increase in net interest income in 2023. The pressure to raise compensation seems very high. As personnel expenses represent almost 70% of total costs, higher compensation has an immediate and impactful influence on key ratios. Large banks benefited less from last year's interest rate environment, with half of them managing to reduce the average cost per FTE.

06

Industry financials by bank size

Small banks had an outstanding year as gross profit rose by more than CHF 208m. While they led to improvements in median ratios, the aggregated financials are still driven by the largest banks, which had a mixed year.

Comment
Key ratios shown in this chapter will differ from median ratios as here financials are the sum of the financial statements of all the banks in the respective cluster. The larger bank in each cluster will therefore have a stronger weighting than in the median section where each bank has the same weight.

All banks

Aggregated financials of all 73 banks
100% of industry AuM

CHFm	2021	2022	2023	Change 2023 vs. 2022	Change 2023 vs. 2021
Net interest income	2,659	4,063	5,138	26.5%	93.3%
Net commission income	13,642	12,268	11,757	(4.2)%	(13.8)%
Net trading income	2,874	3,085	3,164	2.5%	10.1%
Net other income	540	487	483	(0.7)%	(10.5)%
Operating income	**19,715**	**19,903**	**20,542**	**3.2%**	**4.2%**
Personnel expenses	(9,837)	(9,850)	(10,226)	3.8%	3.9%
General and administrative expenses	(3,951)	(4,276)	(4,553)	6.5%	15.2%
Operating expenses	**(13,788)**	**(14,126)**	**(14,779)**	**4.6%**	**7.2%**
Gross profit	**5,927**	**5,777**	**5,763**	**(0.3)%**	**(2.8)%**
KPIs					
AuM (year-end in CHFbn)	3,259	2,898	2,955	2.0%	(9.3)%
FTEs (year-end)	36,979	38,117	39,697	4.1%	7.4%
Income margin (bps)	64	65	70	6bps	6bps
o/w Net interest income margin (bps)	9	13	18	5bps	9bps
Cost-income ratio	69.9%	71.0%	71.9%	1pp	2pp

Median key ratios such as C/I and RoE improved hugely despite the aggregated finanicals not looking like an outstanding year. This is because key figures for the 73 banks combined are driven mainly by the large banks, which represent 77% of AuM, 77% of gross profit and 70% of FTE. Large banks had a mixed year while small banks had an excellent year, with the latter driving the median ratios due to there being so many of them. The CHF 208m increase in small banks' gross profit are the reason for the improvement of the median ratios.

Large banks

Aggregated financials of eight large banks

76.6% of industry AuM

CHFm	2021	2022	2023	Change 2023 vs. 2022	Change 2023 vs. 2021
Net interest income	1,806	2,722	3,026	11.2%	67.5%
Net commission income	10,525	9,283	8,804	(5.2)%	(16.3)%
Net trading income	2,334	2,499	2,690	7.7%	15.3%
Net other income	124	102	44	(57.3)%	(64.9)%
Operating income	**14,789**	**14,606**	**14,564**	**(0.3)%**	**(1.5)%**
Personnel expenses	(7,203)	(7,117)	(7,291)	2.4%	1.2%
General and administrative expenses	(2,456)	(2,674)	(2,855)	6.8%	16.3%
Operating expenses	**(9,659)**	**(9,791)**	**(10,146)**	**3.6%**	**5.0%**
Gross profit	**5,130**	**4,815**	**4,418**	**(8.2)%**	**(13.9)%**
KPIs					
AuM (year-end in CHFbn)	2,539	2,217	2,263	2.1%	(10.9)%
FTEs (year-end)	26,193	26,760	27,963	4.5%	6.8%
Income margin (bps)	62	61	65	4bps	3bps
o/w Net interest income margin (bps)	8	11	14	3bps	6bps
Cost-income ratio	65.3%	67.0%	69.7%	2.6pp	4.4pp

Overall, large banks had a solid year, as in the previous two years. With only eight banks in this cluster, each bank has a significantly impact on the figures. Underlying performance would have been much better without two points: one bank reported a credit provision of CHF 606m which reduced net interest income and profit at all levels. Secondly, one bank had a very good year and increased its provision for general banking risk by CHF 348m. These two points together reduced the net profit of the large banks by about CHF 1bn.

Medium banks

Aggregated financials of 20 medium banks

17.2% of industry AuM

CHFm	2021	2022	2023	Change 2023 vs. 2022	Change 2023 vs. 2021
Net interest income	599	959	1,505	56.9%	151.1%
Net commission income	2,154	2,074	2,057	(0.8)%	(4.5)%
Net trading income	352	411	234	(42.9)%	(33.5)%
Net other income	341	312	334	7.2%	(1.9)%
Operating income	**3,446**	**3,755**	**4,131**	**10.0%**	**19.9%**
Personnel expenses	(1,796)	(1,899)	(2,033)	7.1%	13.2%
General and administrative expenses	(1,119)	(1,214)	(1,281)	5.5%	14.5%
Operating expenses	**(2,915)**	**(3,113)**	**(3,314)**	**6.5%**	**13.7%**
Gross profit	**531**	**642**	**817**	**27.1%**	**53.7%**
KPIs					
AuM (year-end in CHFbn)	526	501	507	1.3%	(3.6)%
FTEs (year-end)	7,135	7,622	7,893	3.6%	10.6%
Income margin (bps)	70	73	82	9bps	12bps
o/w Net interest income margin (bps)	12	19	30	11bps	18bps
Cost-income ratio	84.6%	82.9%	80.2%	(2.7)pp	(4.4)pp

Medium banks are still the weakest size cluster as subsidiaries of global banks. Many of them have sizeable loan business and balance sheets, so they benefited from the strongest increase in interest income. CHF 546m additional interest income was partially offset by a drop in trading income and significant cost increases. Gross profit still rose while C/I remained at a high level.

Small banks

Aggregated financials of 45 small banks

6.3% of industry AuM

CHFm	2021	2022	2023	Change 2023 vs. 2022	Change 2023 vs. 2021
Net interest income	253	383	607	58.7%	139.8%
Net commission income	963	911	895	(1.7)%	(7.0)%
Net trading income	189	176	240	35.9%	27.1%
Net other income	75	72	105	45.4%	40.5%
Operating income	**1,480**	**1,543**	**1,847**	**19.8%**	**24.8%**
Personnel expenses	(838)	(834)	(902)	8.1%	7.6%
General and administrative expenses	(376)	(388)	(417)	7.5%	10.9%
Operating expenses	**(1,214)**	**(1,222)**	**(1,319)**	**7.9%**	**8.6%**
Gross profit	**265**	**321**	**528**	**64.8%**	**99.0%**
KPIs					
AuM (year-end in CHFbn)	194	180	185	2.8%	(4.7)%
FTEs (year-end)	3,651	3,735	3,842	2.8%	5.2%
Income margin (bps)	82	82	101	19bps	19bps
o/w Net interest income margin (bps)	14	20	33	13bps	19bps
Cost-income ratio	82.1%	79.2%	71.4%	(7.8)pp	(10.7)pp

As they represent 45 of the study's 73 banks, small banks drive the changes in the median ratios. In small banks' aggregated financials, operating income jumped by almost 20% due to very high growth in net interest income and relatively stable net commission income. Despite significant cost rises, gross profit grew by 64.8%, C/I ratio was down by 7.8 percentage points, and operating income margin was up by 19bps. The changes are exceptional and are reflected in the number of small banks moving up into the next performance clusters.

Basis of preparation

Our analysis of the past six years covers 73 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 90 such private banks as at 31 December 2023. We exclude UBS and Credit Suisse from our analysis due to their size, which would distort the results.

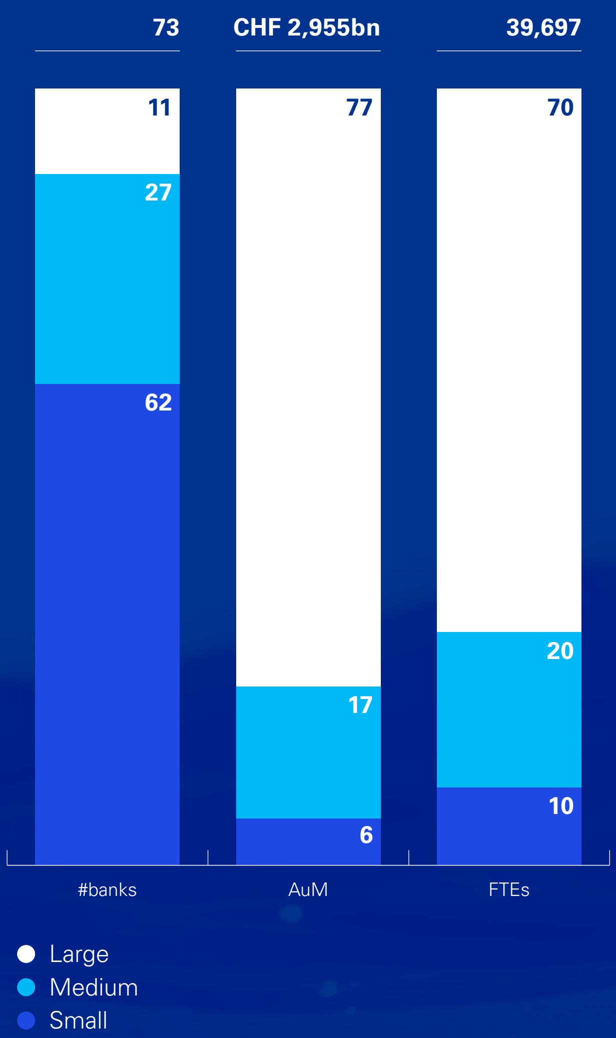
Only survivor banks are included in our analysis
We have excluded those banks that disappeared before the end of 2023 in order to show only the performance of banks that are still in existence as at the publication date. Also excluded are the 17 banks whose financial statements are not available.

73 banks analyzed for the past six-years
We analyzed the annual financial statements of 73 Swiss private banks, examining both the aggregated (by AuM size) and the median perspective.

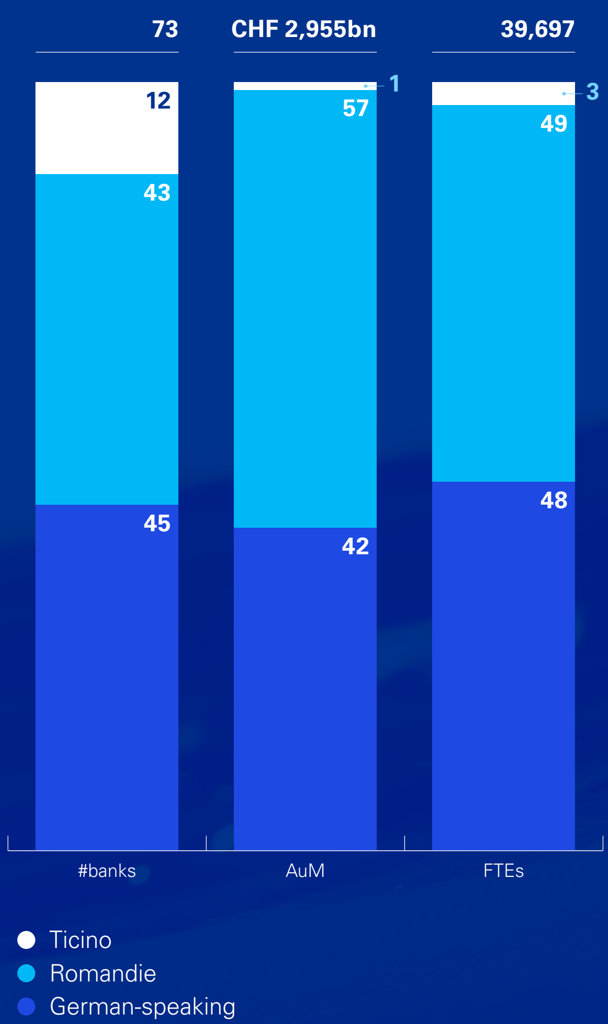
The aggregate view sums up individual banks' financial information by level of AuM – Large (AuM > CHF 100bn), Medium (AuM CHF 10–100bn) and Small (AuM < CHF 10bn). It is dominated by the larger banks in each size segment.

The median view takes the middle bank's KPI value. It better represents the broader industry, which is dominated by small and medium banks (89% of the banks in our sample).

Key statistics by bank size
31 December 2023, in %



Key statistics by region
31 December 2023, in %



Glossary

Bank size

Small	AuM < CHF 10bn
Medium	AuM CHF 10bn – 100bn
Large	AuM > CHF 100bn

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%

5M	First five months of the year
AuM	Assets under Management
bps	Basis points (1/100th of 1%)
CHF	Swiss franc
C/I	Cost-income ratio
EUR	Euro
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
USD	United States Dollar

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