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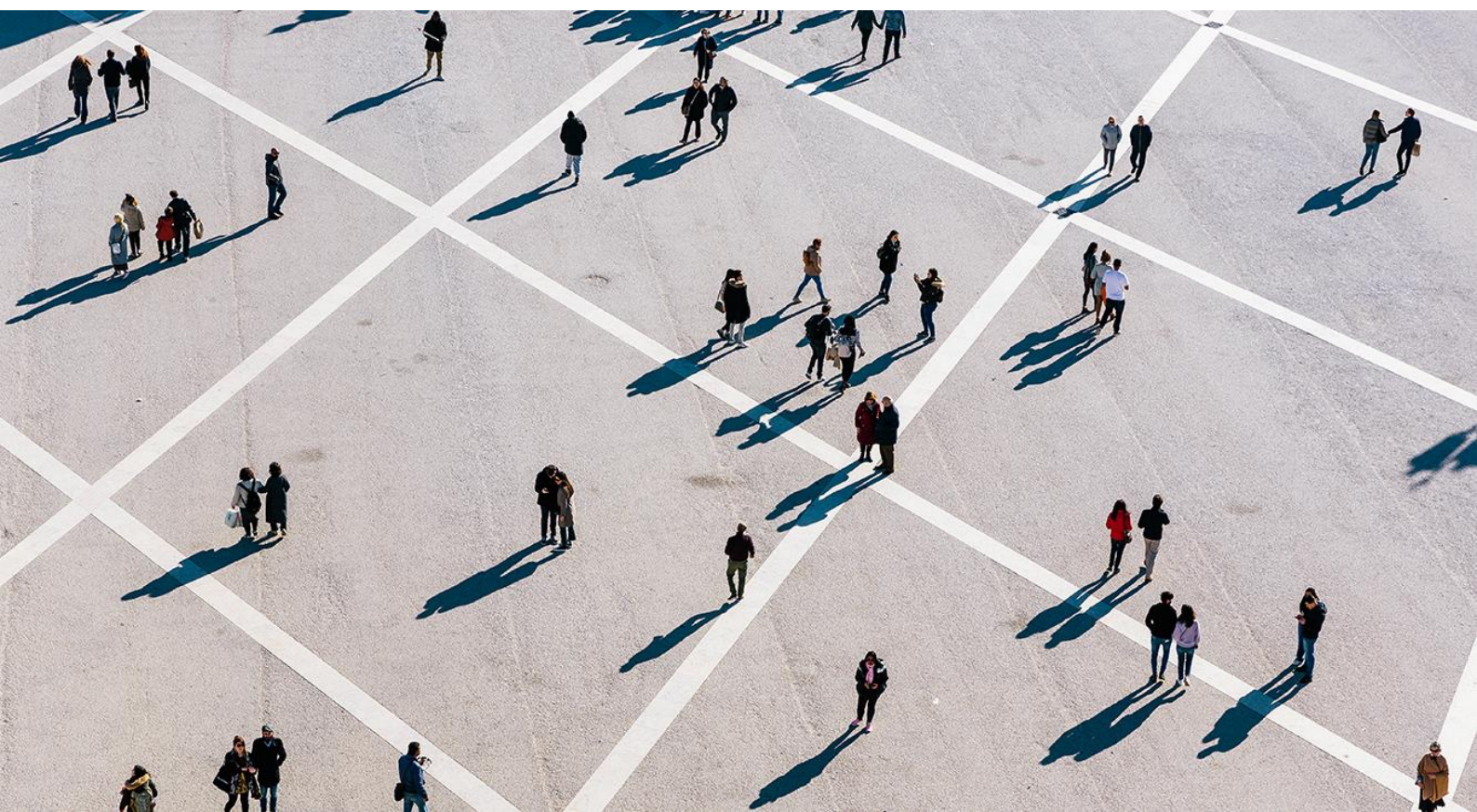
Institute of Management and Strategy

# LONGER-TERM PERFORMANCE OF SWISS PRIVATE BANKS

Part of KPMG's Private Banking Study  
"Clarity on Swiss Private Banks 2023"

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## INTRODUCTION

In this deep dive, we focus on the longer-term performance of Swiss private banks during the 12-year period from 2010 to 2021, a disruptive period influenced by the anticipation and the eventual introduction of automated exchange of information (AEOI) between Switzerland and G20/OECD member states in 2017. The implementation of AEOI and the events leading to it challenged Swiss banking secrecy, increased scrutiny from international tax authorities, particularly the US, and caused significant changes in the Swiss private banking landscape. Of the 163 Swiss-domiciled banks offering private banking services in our database in 2010, almost half have ceased operations, with 69 exits recorded during the study period. These exits involved liquidations (approximately 40%) and acquisitions (about 60%).

While the exiting banks employed around 11,000 individuals, many of these jobs were absorbed by surviving banks through acquisitions. Despite reductions in employee numbers also in the weakest 75 private banks we analyzed, the best-performing banks managed to offset these decreases with an overall net increase of approximately 7,285 employees (FTE). Additionally, UBS grew in this time period with an additional 8,000 employees, despite the downsizing of its investment banking business, and the number of employees in Credit Suisse's wealth management business also saw a slight increase. Overall, it appears that the introduction of AEOI during 2010-2021 did not significantly impact employment in the Swiss private banking sector.

Next, we will focus on analyzing the financial performance of the 75 surviving Swiss private banks (excluding UBS, CS, and cantonal banks, which also provide private banking services) throughout the entire period, for which we have comprehensive data available.

## DEVELOPMENT OF ASSETS UNDER MANAGEMENT (AUM) AND PROFITABILITY 2010-2021

The 75 banks that existed for the whole period of our analysis saw a net increase of over CHF 1,400bn in AuM (CHF 1,408,990m), with a CAGR of 5.21%. The eight largest banks accounted for most of this growth, representing CHF 1,335bn (94.8% of net growth and 84.8% of absolute growth). Only 13 companies did not grow their AuM, with a small total reduction of AuM CHF -167bn. Even when considering the lost CHF -546bn AuM of the banks that exited, the net gain of Swiss private banks was over CHF 1,400bn AuM at the same time as UBS and Credit Suisse also experienced AuM growth. Thus, despite banking law changes and consolidation, AuM in the sector remained largely unaffected. Figure 1 shows the AuM growth of the 75 private banks in our database.

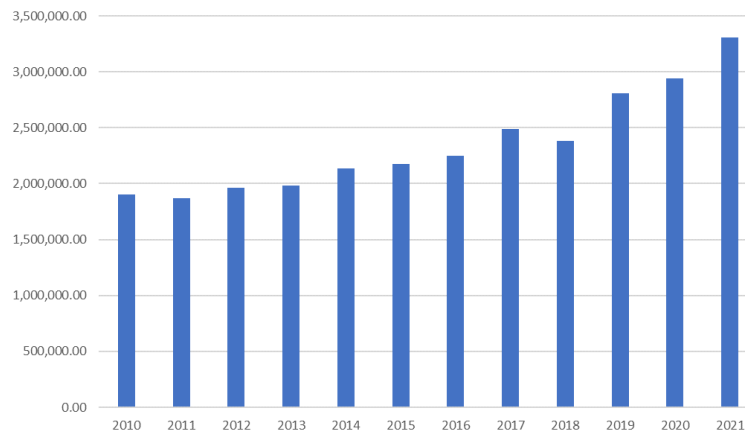


Figure 1. AuM growth in CHFm in the sample of 75 Swiss private banks (2010-2021)

Following the financial crisis, the Swiss private banking industry experienced a significant decline in profitability as we have reported in KPMG’s Clarity on Swiss Private Banks over the past 12 years. Consolidation has, however, enabled the surviving private banks to enhance their profitability over the past 12 years. The average return on equity (RoE) for the surviving 75 banks increased from the first five years’ low level of 3.5% (2010-2015) to a more sustainable level of 5% in the subsequent years (2016-2021).

There is, however, a substantial variation among banks in this regard. While 56% of the sample firms improved their profitability, 44% experienced a continued decline. Among them, 16 banks (21%) achieved an average RoE in excess of 20%, whereas 15 banks (20%) incurred losses between 2015 and 2021. Similar trends can be observed in the cost-income ratios (C/I) of private banks. Although the average C/I improved slightly from 85% (2010-2015) to 83% (2016-2021), 40 banks (53% of the total) successfully enhanced their cost-income ratios.

The eight largest banks from among the 75 Swiss private banks (hence excluding UBS and Credit Suisse and the cantonal banks) exhibited higher profitability (average RoE of 11.7%) and greater cost efficiency (average C/I of 72%) than the other surviving banks in our database (average RoE of 4.9% and average C/I of 83% in 2016-2021). Moreover, they progressively captured a larger proportion of the total net profits generated by the 75 Swiss private banks, with their profit share increasing from 60% in 2015 to 69.9% in 2021 as shown in Figure 2.

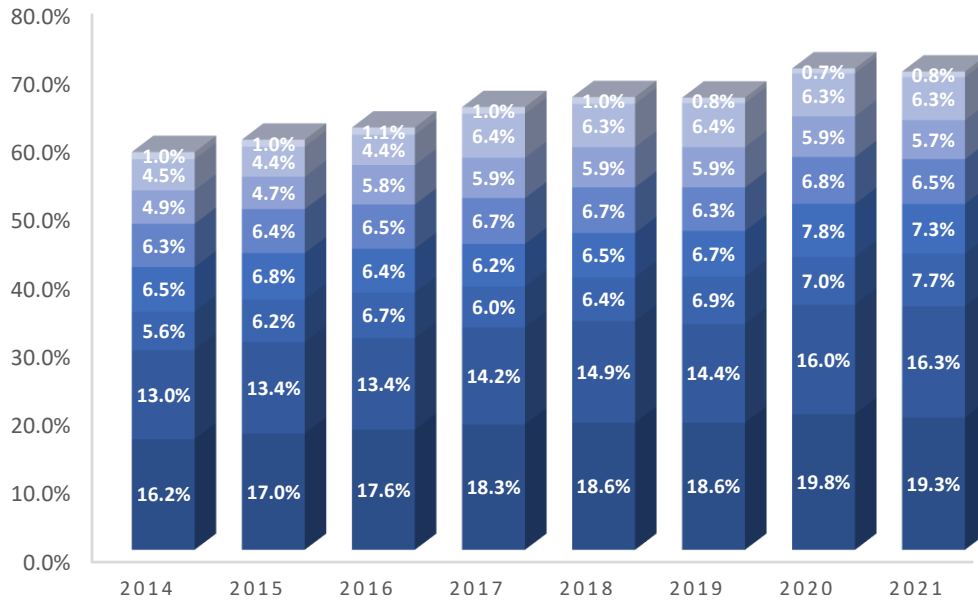


Figure 2. Share of profits of all surviving private banks captured by the largest eight banks (2015-2021)

### PERFORMANCE DIFFERENCES AMONG THE SWISS PRIVATE BANKS

Figure 3 depicts the compound average growth rate of employees (FTE) and the average profitability (RoE) of the 75 private banks in the sample over the 12-year time period. Over half of these surviving banks (61%) are situated in the upper right-hand quadrant, indicating profitable growth during the time period being analyzed.

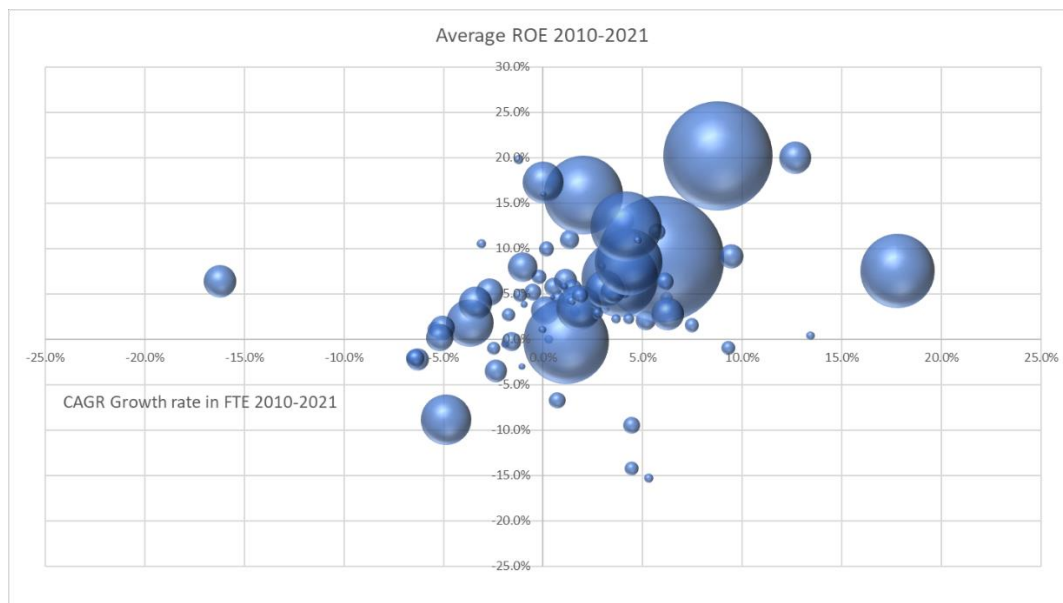


Figure 3. Average RoE and CAGR growth in employees during 2010-2021



The largest eight private banks captured most of this growth. Figure 4 highlights this well by showing the growth of the number of employees between in the top eight consolidators and the other 67 private banks. While the other 67 smaller private grew significantly less or even down-sized their operations, they differed from each other in terms of profitability. Based on their longer-term profitability, we divided these 67 private banks further into high, middle, and low performing private bank clusters. We used longer-term average RoE to determine the performance clusters, but we could have also used the cost-income ratio (C/I) due to the reasonably strong correlation between these two measures as shown in Figure 5.

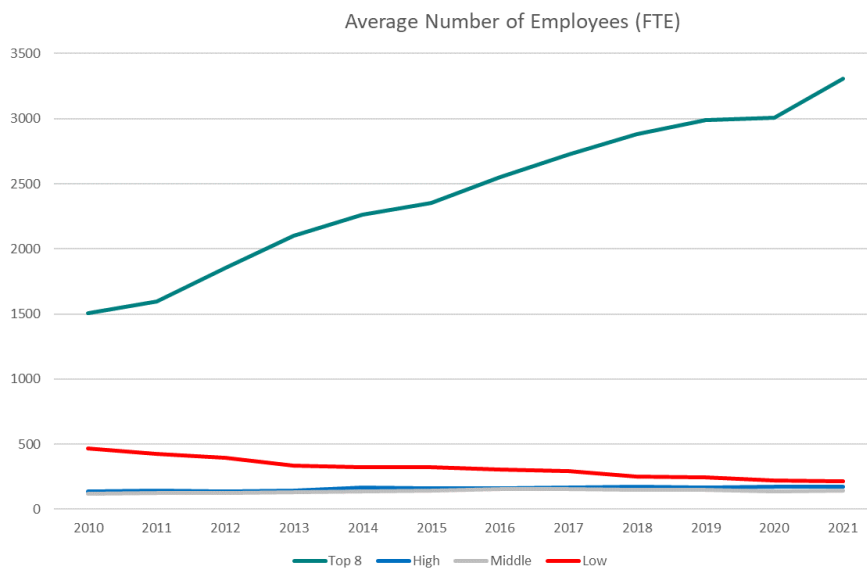


Figure 4. Average FTE growth in the largest eight private banks, and longer-term performance clusters

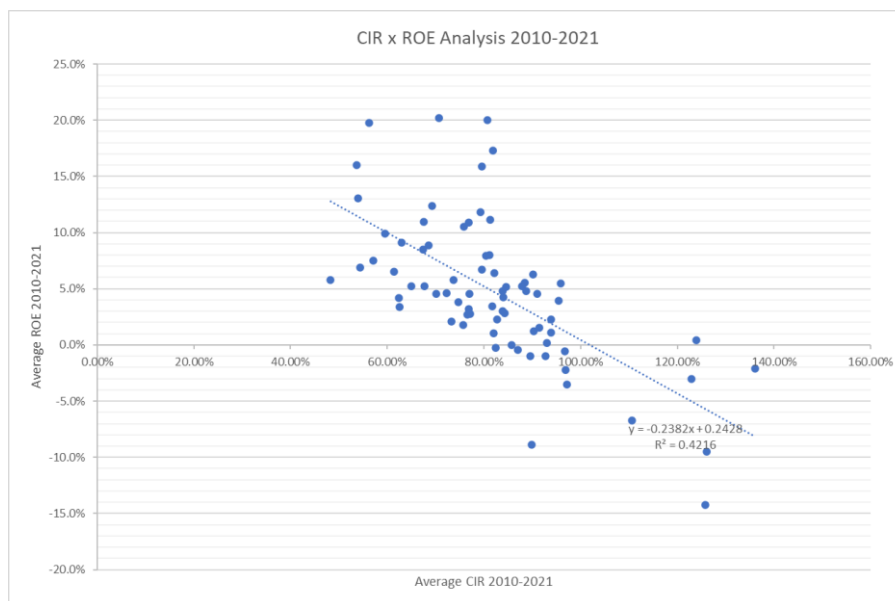


Figure 5. Longer-term relationship between the cost-income ratio (C/I) and RoE



While the eight largest private banks were less profitable than the high-performing boutique banks at the beginning of the observation period, the consolidation strategy seems to have paid off. It would seem that these private banks prioritized scale advantages over profitability in the first half of the 12-year time period, ultimately reaping the benefits in the latter part of the decade, as shown in Figure 6 that show how the average yearly RoE of the different performance clusters developed.

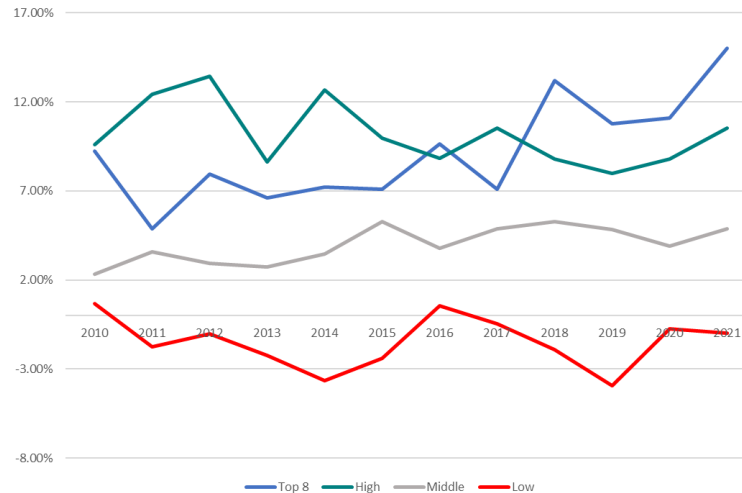


Figure 6. Profitability (RoE) of the eight largest private banks, and smaller private banks

The clear and sustained performance differences among the high (23 banks), middle (21 banks), and low (23 banks) performing surviving private banks raise the question of what causes these differences in performance. We will next provide a brief comparison of the three performance clusters across selected dimensions – client asset types, cost efficiency, and growth through M&A – to help shed light on some of the potential explanator factors.

### Strategy – Client assets

One factor distinguishing the top eight largest banks and the highest performing boutique banks is the higher amount of managed AuM of the gross AuM as shown in Figure 7. For managed AuM these private banks can commonly charge higher management fees. This does not, however, mean that these banks would have more relationship managers or other staff to manage these assets. On the contrary, the highest performing banks in fact seem to have higher AuM per FTE ratio than the private banks in the middle performance cluster as shown in Figure 8. Interestingly, the average AuM per FTE would seem to be relatively similar between the eight largest firms and the highest performing small private banks.

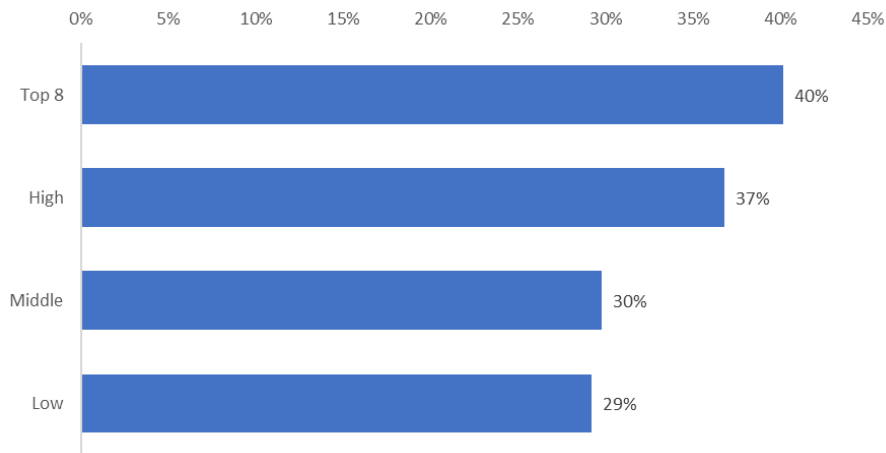


Figure 7. Average proportion of managed AuM of the gross AuM (2010-2021)

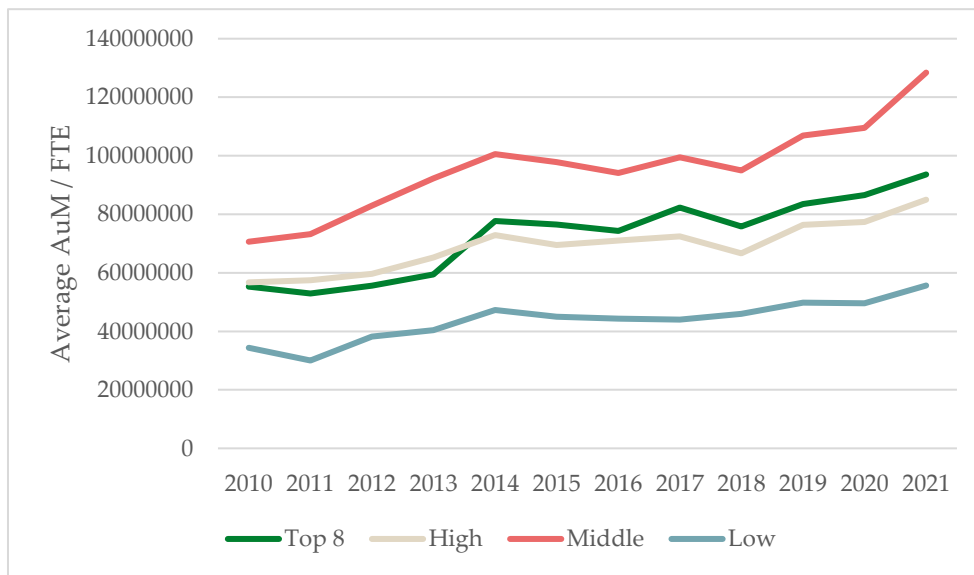


Figure 8. Average AuM per employee (FTE) by performance cluster

### Strategy – Cost Efficiency

The highest performing banks would also seem to be the most cost efficient, closely followed-up by the eight largest private banks, as shown in Figure 9. It would seem, however, that the highest-performing Swiss private banks have not achieved their success only through a cost-leadership strategy, but also by their ability to charge a price premium due to the trust that the clients place on these banks' ability to manage their funds. This contributed to overall profitability of the highest performing Swiss private banks both through higher revenues and lower average costs.

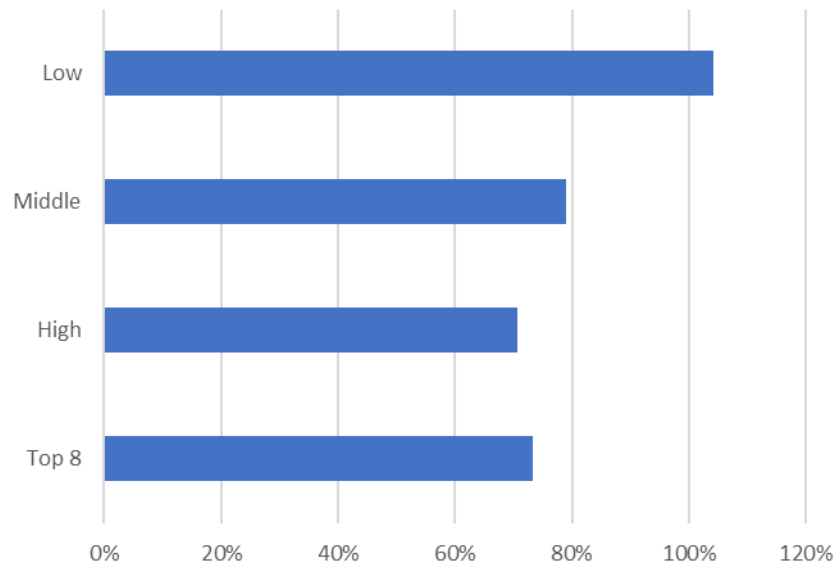


Figure 9. Average cost-income ratio (C/I) by performance cluster over the study time period 2010-2021

#### Strategy – Growth through M&A

During the analysis period, the 75 private banks in our study were also actively engaged in acquisitions, as shown in Figure 10. As one would expect, the majority of these acquisitions were done by the eight largest banks that were actively consolidating the industry. Interestingly, the highest performing boutique private banks were the least active in acquisitions, which may have helped them to further focus on fine-tuning their own boutique differentiation advantages.

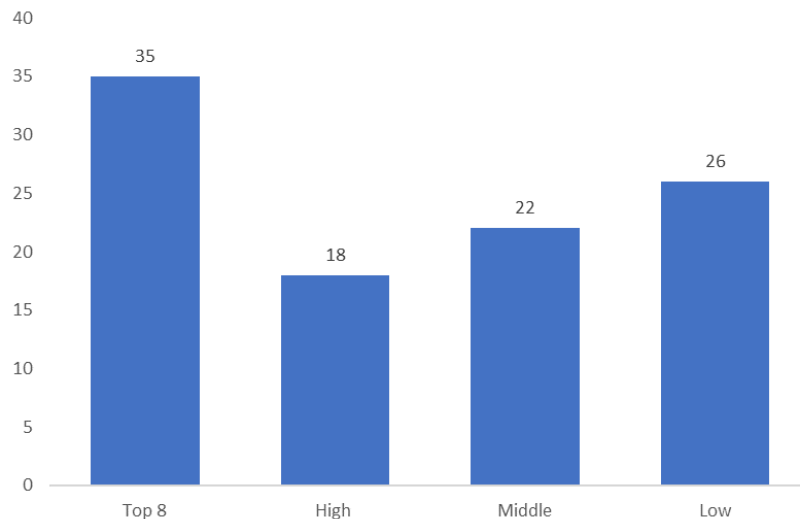


Figure 10. Number of acquisitions by private banks in different performance clusters





CONCLUSION

While the Swiss private banking sector has experienced turbulent times with nearly half of the private banks exiting the market, the eight largest banks and the private banks in the high-performance cluster have clear strategies that are visible in their performances. The largest banks focus on consolidation while the highest performing boutique banks focus on protecting and enhancing their differentiation advantages. Both groups have achieved high performance over the past decade. The middle and low performers seem stuck in the middle, as illustrated in Figure 11. They have downsized their operations over time and moved towards the left side of the diagram, indicating a growing distance from the active consolidators of the Swiss private banking industry. In the future, one could expect the private banking sector in Switzerland to polarize even further along these two extremes with further private banks in the middle exiting.

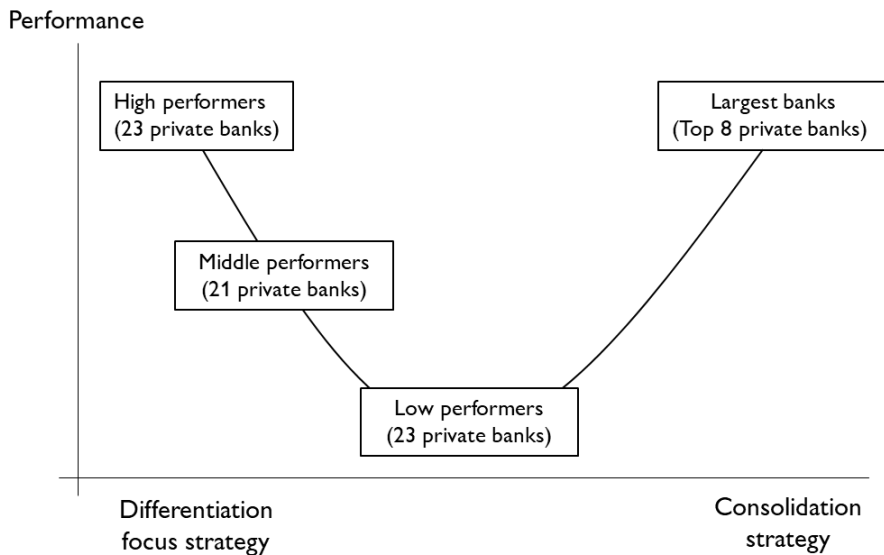


Figure 11. Performance Effects of Different Strategic Approaches



## ABOUT THE AUTHORS



***Tomi Laamanen, Chair of Strategic Management, University of St.Gallen***

Tomi Laamanen is Chaired Professor of Strategic Management at the University of St.Gallen, Director of the PhD Program in General Management and Academic Director of the Master Program in Strategy and International Management (SIM). Previously, he was Professor of Strategic Management and Director of the Institute of Strategy at Aalto University (1997-2011), Finland. With a PhD in both strategy and Finance, Tomi Laamanen conducts research in the field of strategic management, with a special focus on mergers and acquisitions and, in particular, acquisition programs. Professor Laamanen's research has been published in leading international journals and he has acted as an active board member and strategy advisors for firms in different industries. A particular focus in his recent research has been on the evolution of the Swiss private banking sector. Long-standing cooperation with KPMG has over the past 12 years resulted in several studies that tracked the state of private banking in Switzerland.



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Kata Isenring is a PhD candidate and Research Associate at the Institute of Management and Strategy, University of St. Gallen. Several chapters of her dissertation focus on the evolution of the Swiss private banking industry. 2023 is the fifth year in which she is contributing to the [KPMG Clarity on Swiss Private Banks](#) report.