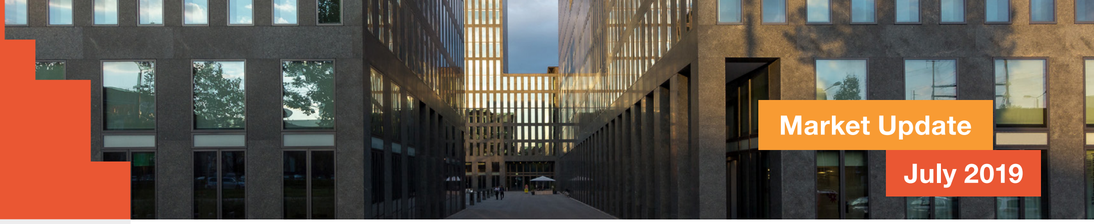
Private Banking Switzerland



83
private banks
in 2018

14
years of data

75
KPIs

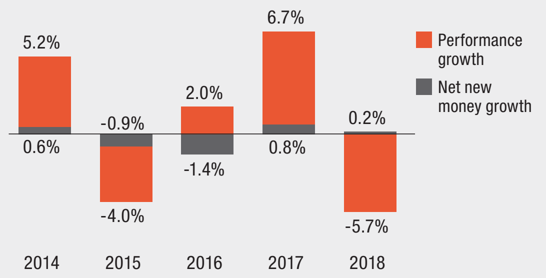
88 %
market coverage
# of private banks in 2018

6th
edition since 2010

7
deals in 2018

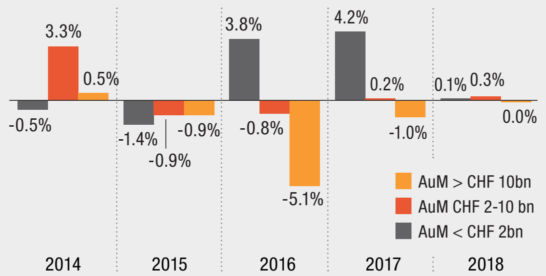
PwC's Market Update on the Swiss Private Banking Sector 2019

The year 2018 proved to be challenging for Swiss private banks. The global equity market downturn in Q4 led to a significant decline in assets under management and profits. Swiss private banks reported a median return on equity of 4 %, significantly lower than the sector's average cost of capital. Only 20 % of banks achieved a return on equity of 10 % or more in 2018. Small private banks in particular are struggling, clearly illustrated by a cost/income ratio of over 100 % for the first time in our records (median). In 2018 there were seven private banking deals, led by the Notenstein La Roche Privatbank transaction, where total assets under management of CHF 16.5bn were transferred from Raiffeisen Schweiz to Vontobel Holding.



Developments in assets under management

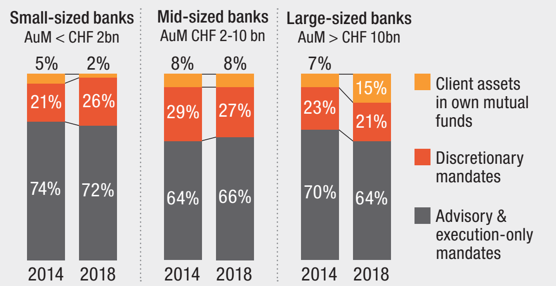
In the past five years, assets under management (AuM) have been primarily driven by performance growth induced by market fluctuations. In the same period, Swiss private banks' ability to attract net new money (NNM) has been quite limited, contributing around +/–1 % to total AuM growth. Before the beginning of the tax disputes between Swiss private banks and several sovereign countries in 2009, NNM growth ranged between 3 % and 5 % per year. In 2018, the median performance growth contribution of -5.7 % to total AuM was heavily influenced by the global market downturn in the last quarter. Considering the rapid market recovery in the first half of 2019, we assume that many private banks have been able to recoup their losses.



Growth in net new money

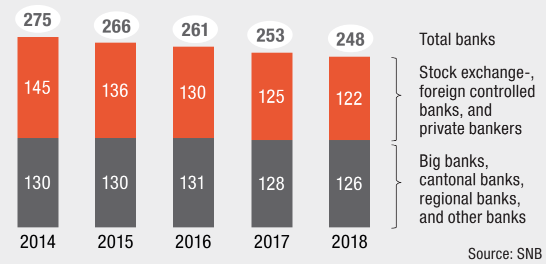
Following the introduction of the Automatic Exchange of Information in 2017, median NNM growth was near zero for all categories of banks. This was due to the fact that roughly half of all private banks had positive NNM growth, balancing out the other banks' negative NNM growth.

Small banks, which were able to attract large NNM inflows of 3.8 % in 2016 and 4.2 % in 2017, were not able to carry their positive momentum forward into 2018, and were able to grow their NNM by only 0.1 %. On the other hand, large banks, which had the largest outflows of -5.1 % in 2016 and -1.0 % in 2017, were at least able to level out to zero NNM growth in 2018.



Composition of assets under management

Small private banks have the highest portion of advisory and execution-only mandates in their AuM, although the percentage declined from 74 % to 72 % between 2014 and 2018. This reflects the strong advisory focus of relationships at small private banks. With a further reduction of 3 % in mandates in their own funds, small private banks were able to shift 5 % of their AuM into discretionary mandates. There was little change in the AuM composition of mid-sized banks, which reported a 2 % increase in advisory and execution-only mandates at the expense of discretionary mandates. Large private banks, however, were able to more than double the portion of client assets in their own mutual funds, from 7 % in 2014 to 15 % in 2018.

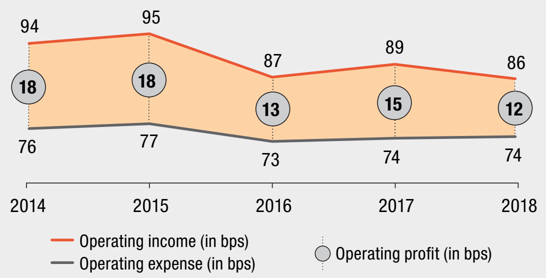


Number of banks and M&A activities in Switzerland

In the last five years, the total number of Swiss banks has declined by 10 %, whereas the number of banks primarily operating in wealth management (stock exchange, foreign-controlled banks and private bankers) has decreased by a more significant 16 %.

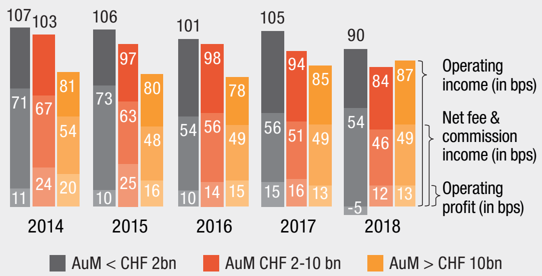
The private banking sector in Switzerland continued to consolidate in 2018, with seven transactions announced, which is slightly below the average number of transactions of around eight per year since 2002. The majority of transactions either involved smaller banks or were asset deals of around CHF 1bn each.

Announced	Target	Stake	Buyer	Seller	Purchase price	AuM
May 18	Notenstein La Roche Privatbank AG	100.0 %	Vontobel Holding AG	Raiffeisen Schweiz	CHF 700m	CHF 16.5bn
Jul 18	MM Mourgue D'Algue & Cie	100.0 %	Gonet & Cie, Banquiers privés	Private individuals	n/a	CHF 1.0bn
Jul 18	Schroder & Co Bank AG (Eastern European Portfolio)	Asset Deal	CBH Compagnie Bancaire Helvétique SA	Schroder & Co. Bank AG	n/a	CHF 0.7bn
Sep 18	Banque Paris Bertrand Sturdza SA	40.0 %	Investcorp	Private individuals	n/a	CHF 5.3bn
Sep 18	Berenberg Bank (Schweiz) AG	80.1 %	Private individuals	Joh. Berenberg, Gossler & Co. KG	n/a	CHF 6.8bn
Oct 18	Lombard Odier (US Portfolio)	Asset Deal	Vontobel Holding AG	Lombard Odier	n/a	CHF 0.6bn
Nov 18	Sallfort Privatbank AG	100.0 %	Banque Heritage S.A.	Private individuals	n/a	CHF 1.13bn



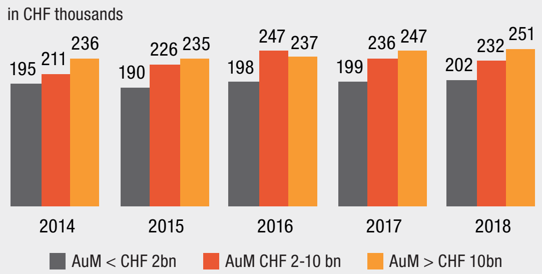
Profitability

After a short-lived recovery in the median operating income margin to 89 bps in 2017, it dropped to 86 bps, the lowest since the beginning of our records. The operating expense margin levelled off, and has remained more or less stable at around 74 bps in the last few years. Owing to the continued worsening in the operating income margin, the operating profit margin of 12 bps in 2018 was also a new historical low. Sixty per cent percent of private banks reported lower profit margins than the previous year. The latest decline in operating income and operating profit margin can be primarily attributed to the downturn in global equity markets in the last quarter of 2018.



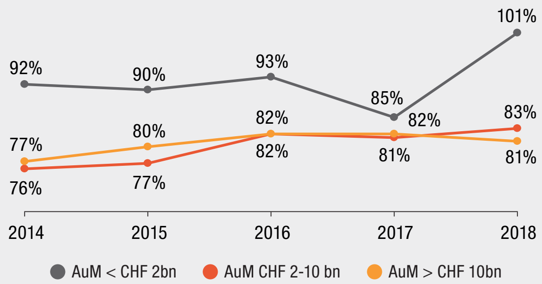
Income margin development

This year, the operating income margin of small banks fell below the 100 bps mark for the first time, reaching 90 bps. This can be attributed to both volume loss and margin decline in AuM and loan amounts. A further increase in operating expenses put an additional strain on small banks' operating profit. The result was that 52 % of small banks made a loss, reporting a negative median operating profit of -5 bps. A 10 bps decline in mid-sized banks' operating income between 2017 and 2018 was largely driven by lower net fee and commission income, while their cost base remained relatively stable. The income margins of large banks remained constant, with a small improvement in the operating income margin of 2 bps in 2018.



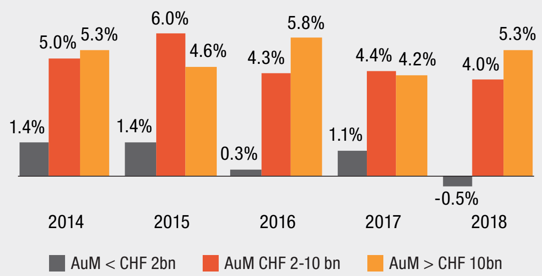
Expenses per FTE

Larger Swiss private banks reported significantly higher personnel expenses per full-time equivalent (FTE) compared with mid-sized or smaller private banks (all measured as median). Personnel expenses include salary costs and bonuses, as well as social insurance benefits and pension fund payments in favour of employees. Employees of large private banks make up the vast majority of all Swiss private banking employees in our database (32,800 FTEs or 88 % in 2018). Mid-sized banks and their 3,500 FTEs account for roughly 9 % of all employees, and employees of small banks account for 900 FTEs or 3 % of total FTEs. The total number of FTEs declined by 3 % in 2018.



Cost/income ratio

The cost/income ratio is the main KPI for measuring a private bank's efficiency and compares a bank's operating expenses against its operating income. Historically, smaller private banks have had significantly higher cost/income ratios, reaching a new unfortunate peak of above 100 % in 2018. Small banks clearly lack sufficient AuM to fully utilise their infrastructure. At the same time, mid-sized and large private banks have been able to stabilise their cost/income ratios at slightly above 80 % over the last three years. As eight of the 27 large banks in our sample reported cost/income ratios of below 70 %, there still seems to be significant room for efficiency gains at other large private banks. At the overall market level, the median cost/income ratio increased from 64 % in 2005 to 85 % in 2018.



Return on equity

With a median return on equity (ROE) of approximately 4 %, the majority of Swiss private banks are consistently failing to reach their cost of capital, and are subsequently diluting shareholder value. Small banks in particular have underperformed recently. In 2018, more than half reported a net loss and negative ROE. Only two small banks reported an ROE of above 10 %. In total, only 18 of the 83 Swiss private banks observed reported an ROE of above 10 % in 2018. Banks in French-speaking Switzerland clearly lead the pack, with the top five in terms of profitability all headquartered in Geneva (all above 15 % ROE).

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