zeb

SPECIAL REPORT

The future of cross-border private banking

INTERVIEW SUPPLEMENT TO OUR SWISS PRIVATE BANKING STUDY 2021

partners for change

To outsiders looking in, it might appear that the abolition of banking secrecy and stricter regulation dealt a significant blow to Switzerland's private banking industry. But so far, Switzerland has managed to successfully defend its position as the world's biggest cross-border financial hub. Nevertheless, the future remains volatile and Swiss private banks must be prepared to react to new developments. Critically, changes are taking place in areas such as sustainability, data leverage and digital assets, and wealth managers must be willing to embrace the priorities of a new generation of investors.

Such were the findings of our 2021 study of private banking in Switzerland. To help shape our perspective, we conducted a series of interviews in Q2 2021 with eight leading Swiss wealth managers, asking them about their perception of the future of cross-border private banking. On the following pages we present our initial hypotheses, how our industry insiders responded to them – from total agreement to outright rejection – and what conclusions we can draw from their unique insights on the industry.

Our interview partners were members of executive boards or in charge of specific cross-border markets in their institutions

Names and profiles of interviewed executives

Dr. Florian Dürselen **LGT Bank** Member of the Executive Board Head of Europe	**Dr. Andreas Arni** **Lombard Odier** Head of Swiss Market	Confidential **Swiss private bank** Member of the Executive Board	Confidential **Swiss private bank** Head of Wealth Management European Markets
Confidential **Swiss universal bank** Head of Digitization in Global Wealth Management unit	**Georg Schubiger** **Vontobel** Member of the Executive Board Head of Wealth Management	**Tobias Wehrli** **VP Bank** Head of Intermediaries & Private Banking	**Adrian Kohler** **Zürcher Kantonalbank** Head of Private Banking International

Building on a set of six hypotheses, we discussed with our interview partners their perception on the future of Swiss cross-border private banking

1 Despite having lost much of what made it distinctive in the past, **Switzerland retains its pole position** as the world's biggest cross-border financial center.

2 Offshore clients outside Western Europe are **younger, more autonomous, more tech-savvy and less willing to delegate their wealth** than onshore clients and offshore clients in Western Europe.

3 Swiss wealth managers predominantly attract "old wealth" in cross-border banking. They are **less attractive to young entrepreneurs** as they fail to position themselves as innovative and progressive.

4 Smaller pure-play private banks find it hard to compete for offshore clients as their size makes it more challenging for them to invest in digital capabilities.

5 Despite a sharp increase in digital communication, the pandemic has strengthened the development of onshore hubs with a local flavor. Remote or "fly-in fly-out" banking models are not enough.

6 With offshore premiums shrinking and local rivals catching up, Swiss banks are losing their only remaining source of organic growth, leaving the industry in dire need of stimulation.

100%
of our interview partners
agreed
with the hypothesis

1

"Despite having lost much of what made it distinctive in the past, Switzerland retains its pole position as the world's biggest cross-border financial center."

"Most certainly, Switzerland still has one of the best positions as cross-border hub."

"Hong Kong and Singapore are regional cross-border hubs that grow in line with their Asian neighbors. Switzerland's position as a truly global cross-border hub is indisputable."

"It still means something when you say to your friends 'I bank with a Swiss bank'. It is a brand."

"From Zurich we operate very successfully in Eastern Europe, the Middle East and the Mediterranean markets – Greece, Turkey and Israel. I observe a winner-takes-all phenomenon, involving roughly six banks. Those banks have exclusive access to very wealthy families, who in turn consider Switzerland the best place from which to manage their wealth."

The message from industry insiders is clear: Switzerland has an indisputable role to play as the number one cross-border hub in the world. Eight out of our eight interview partners agreed with this hypothesis. Swiss wealth managers are widely recognized for their dedicated, high-quality wealth management offerings. They have established an unrivalled position in catering to very wealthy families and individuals. In addition, some are still family-owned, meaning that they share a common mindset with their clients. But while the traditional Swiss value proposition is still intact and appealing, doubts are beginning to emerge as to whether Switzerland can stay on top of the transformational changes taking place in the industry.

2

“Offshore clients outside Western Eu more autonomous, more tech-savvy to delegate their wealth than onsho offshore clients in Western Europe.”

“We are not chosen for our technical prowess. We are chosen for our governance and owner structure, for the ability to co-invest and for our values, especially by younger clients.”

“It is very much like health. Young people love apps and blogs – until they face a serious illness. As soon as something serious comes along, online is no longer enough. Then they want to see the specialist with the white hair. In wealth management we have a similar threshold: At some point, clients want to talk to an investment specialist.”

“I wouldn't necessarily say 'more tech-savvy'. When I listen to colleagues from Western Europe, I have the feeling that they speak much more about technology and fintech competition than my colleagues in the Middle East or Russia.”

rope are younger, y and less willing ore clients and

Seven out of eight of our interview partners agreed with our second hypothesis. However, they stressed that traditional Swiss wealth management was still attractive for offshore clients. Our discussions with them revealed that cross-border clients differ from their Western European peers in a number of ways. Thus, clients in Asia and the Middle East have the highest risk appetite, while penetration rates for delegatory models are lower in Asia, where wealth is reinvested, and higher in Western Europe, where wealth is mostly preserved and passed on. Asset protection is the number one client need in Latin America, the Middle East and Eastern Europe, while sustainable investing is a priority above all in Western Europe and the Middle East. Tech-affinity is increasing across all geographies – with Europeans very much still in catch-up mode.

3

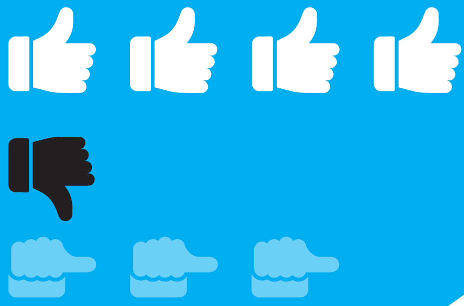
“Swiss wealth managers predominantly attract 'old wealth' in cross-border banking. They are less attractive to young entrepreneurs as they fail to position themselves as innovative and progressive.”

Inheritance is increasingly important for wealth management clients, and relationship managers need to build long-term relationships with heirs so that they can offer personalized solutions. In fact, our discussions with industry insiders provided some useful insights into the expectations of the next generation of investors as a whole. Interviewees said that these new clients were self-confident and prepared to challenge wealth managers, thanks to information symmetries, good education and their intuitive use of technology. They are well informed, less loyal and less easy to please. At the same time, they want to be more actively involved than their parents and are looking for dynamic markets to invest in, such as new technology. Critically, they consider social impact just as important as performance.

50% agree

12.5% disagree

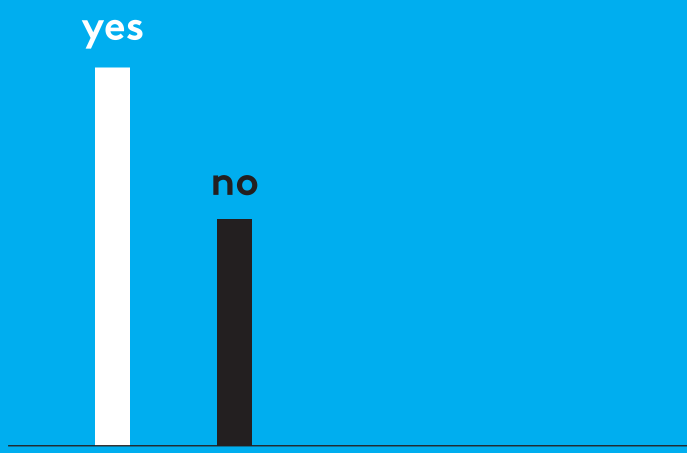
37.5% no response



"Generational succession is going on everywhere – most forcefully in Europe, where demography provides older clients on average. It is important to be close to new, younger clients, and provide the right technical tools."

"It is extremely rare to find a 30-year-old UHNW client. A Silicon Valley type reinvests instead of putting the money into a European blue-chip company. We do have a role to play when clients think about wealth preservation, however. Essentially, wealth managers contribute to our clients staying rich – which is incredibly difficult over generations."

"Young entrepreneurs are more autonomous and better educated than their parents. They are critical with regards to performance and sensitive to costs. However, this does not mean that they want to do everything themselves. On the contrary, they lack time and therefore delegate."



Five of eight interview partners agreed with the hypothesis, three disagreed

“Smaller pure-play private banks find it hard to compete for offshore clients as their size makes it more challenging for them to invest in digital capabilities.”

4

Our fourth hypothesis received mixed support from our interview partners. Many pointed out that the more sophisticated clients are, the less value is added by technology. One respondent – somewhat shockingly – even considered the whole topic of digitization overhyped. Where there appears to be general agreement is that affluent clients are best served with digital investment advice (plus a limited amount of human supervision), front-to-back automation and low fees, while HNW (high net worth) and UHNW individuals require human advice, personalized or bespoke investing and a close relationship with the wealth manager. As one insider put it, "the higher the volume, the more 'human' it takes". Overall, COVID-19 has sped up the process of digitization substantially. For example, digital signatures and digital onboarding have been widely implemented, a process that might have taken years otherwise.

"The 'red carpet approach' that makes smaller private banks attractive to clients will play less of a role in a world in which client communication primarily goes through digital channels. It will be difficult for smaller private banks to keep pace in a post-COVID-19 world."

"We cannot resist digitization. At the same time, we cannot afford to experiment. I would call ourselves a 'smart follower': We observe which trends are generally accepted by the market and implement those."

"Swiss private banks tend to be a step behind when it comes to digital banking in comparison to our European peers. We need to catch up."

"If a bank focuses on a small number of countries, it is possible to survive. The key is to sort out which services the bank should provide itself and which it should outsource."

5

Most of our industry insiders saw onshore hubs as eminently dispensable. Those who did consider them important point out that proximity can be important for brand building, client acquisition and visibility in the market. Onshore hubs may also be required for tax reasons. The majority, however, saw them as an expensive luxury, stressing that client meetings take place wherever the client likes. In their opinion, onshore hubs are only really necessary in countries with a protectionist regime. Moreover, clients who are looking for asset protection actually prefer not to engage with onshore hubs, as they automatically eliminate the advantages of cross-border banking.

"Despite a sharp increase in digital communication, the pandemic has strengthened the development of onshore hubs with a local flavor. Remote or 'fly-in fly-out' banking models are not enough."

"Do our representative offices make a difference for client acquisition? Not really. For our clients, the location is not that relevant. We meet them in London, Zurich or somewhere else – depending on where they are."

"We still travel a lot. Private banking is very much relationship-driven. It is not product-driven. It is not technology-driven. Talking to a client via Zoom is not the same as talking face-to-face."

"We did not see our clients in person for more than a year. Virtual meetings are efficient, focused on a specific topic, lasting just 30 to 60 minutes. But you lose the emotional bond. All the chit-chat, all the subtext gets lost."

"For us, proximity is key. In our target markets we aim to be present."

2/8

interview partners agreed with the hypothesis

Our interview partners do not see an end to new growth opportunities for Swiss private banks – on the contrary, in their opinion the market is full of opportunities. They look to the future with great optimism and see chances for growth in both cross-border banking and elsewhere. Developments favoring wealth management include political changes in certain countries, consolidation as markets swing into recession, opportunities to improve the client experience and client engagement, and lower costs overall due to increased standardization across all wealth bands.

6

"With offshore premiums shrinking and local rivals catching up, Swiss banks are losing their only remaining source of organic growth, leaving the industry in dire need of stimulation."

"We are seeing a democratization of investment advice. Nowadays, you can access a robo-adviser at almost no fee and with extremely low investment amounts. Therefore, we believe scale effects and reduction of costs will be needed to stay competitive."

"The world is big enough. I am not worried about a lack of growth from cross-border banking – I am more worried about new business models replacing banks altogether."

"It is an incredibly exciting time with regards to the tokenization of assets. You can't put an Old Master in the bank, or a classic car. But those assets are relevant for our clients. We have a tremendous potential from those asset classes, even if they are probably lower-margin. A basis point of something is still better than a basis point of nothing."

None of our eight interview partners agreed with the hypothesis

Our interview results are a uniform tribute to the belief in Switzerland as the dominant global cross-border hub for private banking

Although competition is fierce and younger clients increasingly engage in a highly connected digital lifestyle, the traditional, conservative approach to wealth management appears to be just as relevant as ever. Swiss wealth managers have built up an unparalleled reputation for servicing very wealthy families, who represent a sophisticated, complex section of the market. By and large, these wealth managers leave less complex clients to domestic players in their various countries. This model remains strong and forms the basis for the continuing success of Swiss private banking.

Swiss wealth managers see their job as helping clients stay wealthy over the course of generations. Accordingly, wealth preservation strategies form the cornerstone of their investment decisions. This makes inheritance critical and means that relationship managers increasingly need to spend time building long-term relationships with heirs.

This next generation of clients are different from their parents, however. They are more financially knowledgeable, more sensitive to performance and costs, and they increasingly demand sustainable investment choices. This could mean an end to the somewhat complacent approach of many traditional players in Swiss private banking.

The focus on face-to-face relationship management as the key differentiator in Swiss cross-border banking may also be on its way out. Communication is increasingly performed remotely. This shift, accelerated by the pandemic, could transform the way private banking has been practiced for decades. Particularly for small private banks, strategic focus is now a matter of survival.

Overall, however, executives see more opportunities than threats for their business. They paint a rosy picture of the future, particularly in the field of cross-border banking, which they see as a source of growth for years to come. If Swiss private banks can fully embrace the changes taking place in the outside world and understand the needs of the next generation of investors, we believe that their continued success is secure.

Learn more about the findings of our Swiss Private Banking Study 2021 in our whitepaper "Staying on top", which can be downloaded at bit.ly/3k0D4k7. Contact us for more details.

Contacts

Norman J. Karrer
Partner

Norman.Karrer@zeb.ch
Zurich office

Nadine Hannemann
Manager

nhannemann@zeb.de
Frankfurt office

Münster
Hammer Straße 165
48153 Münster, DE
zeb-consulting.com

Amsterdam
Barbara Strozzilaan 101,
1083 HN Amsterdam, NL
zeb-consulting.nl

Berlin
Friedrichstr. 78,
10117 Berlin, DE
zeb-consulting.com

Frankfurt a. M.
Taunusanlage 19,
60325 Frankfurt a. M., DE
zeb-consulting.com

Hamburg
Kurze Mühren 20,
20095 Hamburg, DE
zeb-consulting.com

Kiev
42–44 Shovkovychna Str.,
1601 Kiev, UA
zeb-consulting.com

Copenhagen
Arne Jacobsens Allé 7,
2300 Copenhagen, DK
zeb.se

London
107 Cheapside,
EC2V 6DN London, GB
zeb.co.uk

Luxembourg
26-28 Rue Edward Steichen,
2540 Luxembourg, LU
zeb.lu

Milan
Via Santa Maria Segreta 6,
20123 Milan, IT
zeb-consulting.it

Moscow
Testovskaya St., 10,
123112 Moscow, RU
zeb.com.ru

Munich
Theresienhöhe 13a,
80339 München, DE
zeb-consulting.com

Oslo
Filipstad Brygge 1,
0252 Oslo, NO
zeb.se

Stockholm
Biblioteksgatan 11,
111 46 Stockholm, SE
zeb.se

Warsaw
ul. Krolewska 18,
00-103 Warsaw, PL
zeb.pl

Vienna
Praterstraße 31,
1020 Vienna, AT
zeb.at

Zurich
Gutenbergstr. 1,
8002 Zürich, CH
zeb.ch

zeb | B | S | PrBaSpRe | EN | 0.2k | 11.21