



Photo: Vilhelm/Adobe Stock

Sustainability – A strategic imperative

Private Banking Switzerland 2020

December 2020

Industry challenges and the quest for sustainability require private banks to fundamentally rethink their raison d'être

Executive summary (1/2)

1

Private banking industry challenges

Asset growth and margin decline continue, while relevance of traditional private banking is fading

- > Consistently growing assets fueled by capital markets, stable net new money and resilience to Covid-19 so far
- > However, margins continue to decline as clients are not willing to pay for current offerings – 96% of domestic PBs still profitable vs. 60% of foreign banks' PB units in 2019
- > Private banks struggle to define what's next as they risk losing their purpose and significant portions of current revenues

2

Quest for sustainability in society

Sustainability is here to stay but still more talk than client engagement and impact for now

- > Sustainability has become mainstream and will only increase in importance as wealth transfers to the next generation
- > 80% of banks cite clients as key driver of their sustainability efforts but management conviction is still rather low
- > Current sustainability efforts often remain superficial and have failed to successfully engage clients and their demand for personalized, value-driven solutions

3

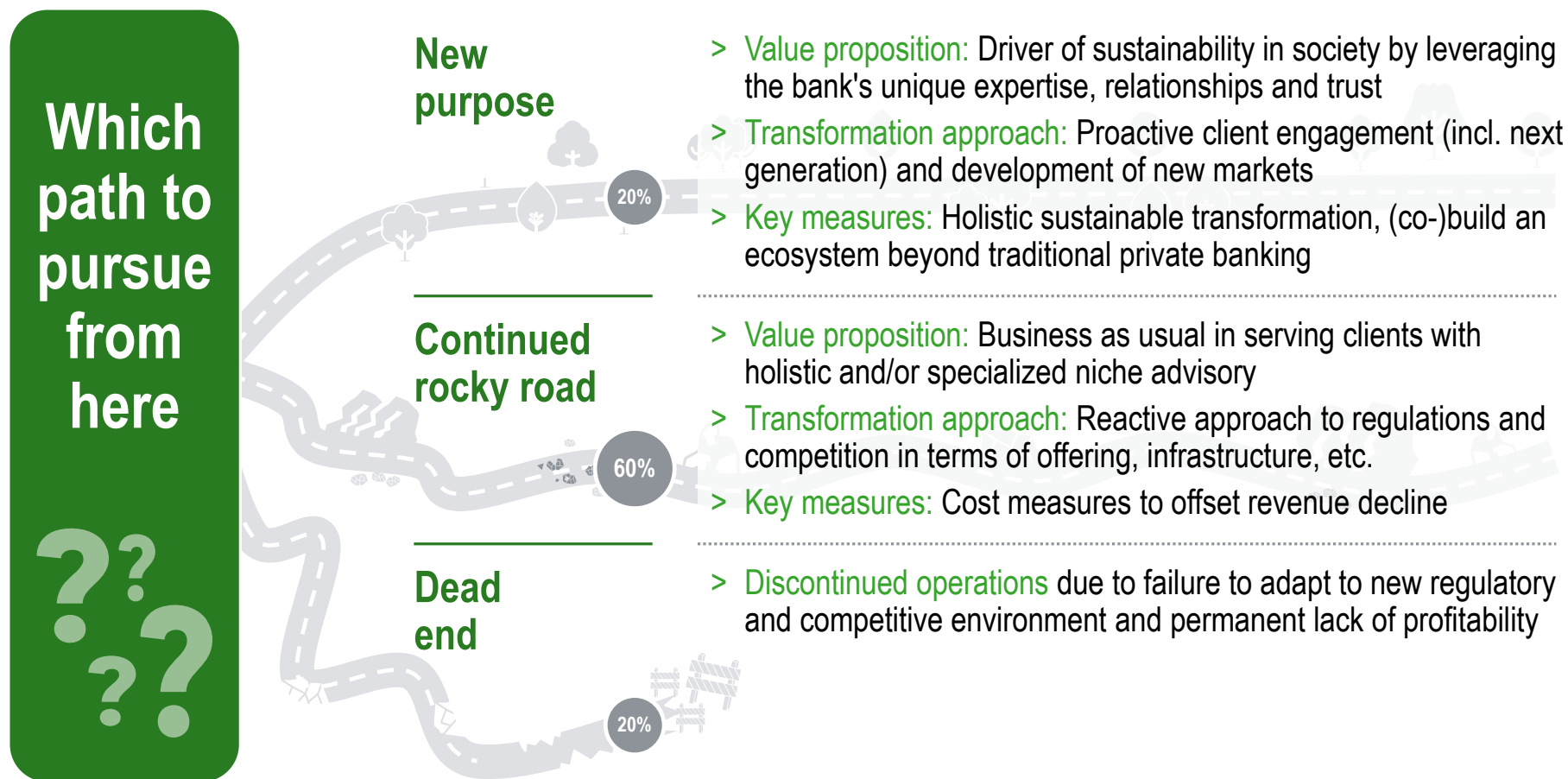
Strategic imperative

Pursuing "business as usual" is not a sustainable option – A **holistic and client-centric sustainable transformation** offers a path to **regain purpose** and increase **shareholder value**



Private banks that take a proactive approach towards sustainability and successfully engage clients will be rewarded

Executive summary (2/2)



x Estimated share of private banks that will follow the respective path within the next 5 years



B

Private banking industry challenges

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The quest for sustainability

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How to choose the right path

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Substantial efforts were undertaken to cope with industry challenges – However, mostly addressing symptoms rather than fundamentals

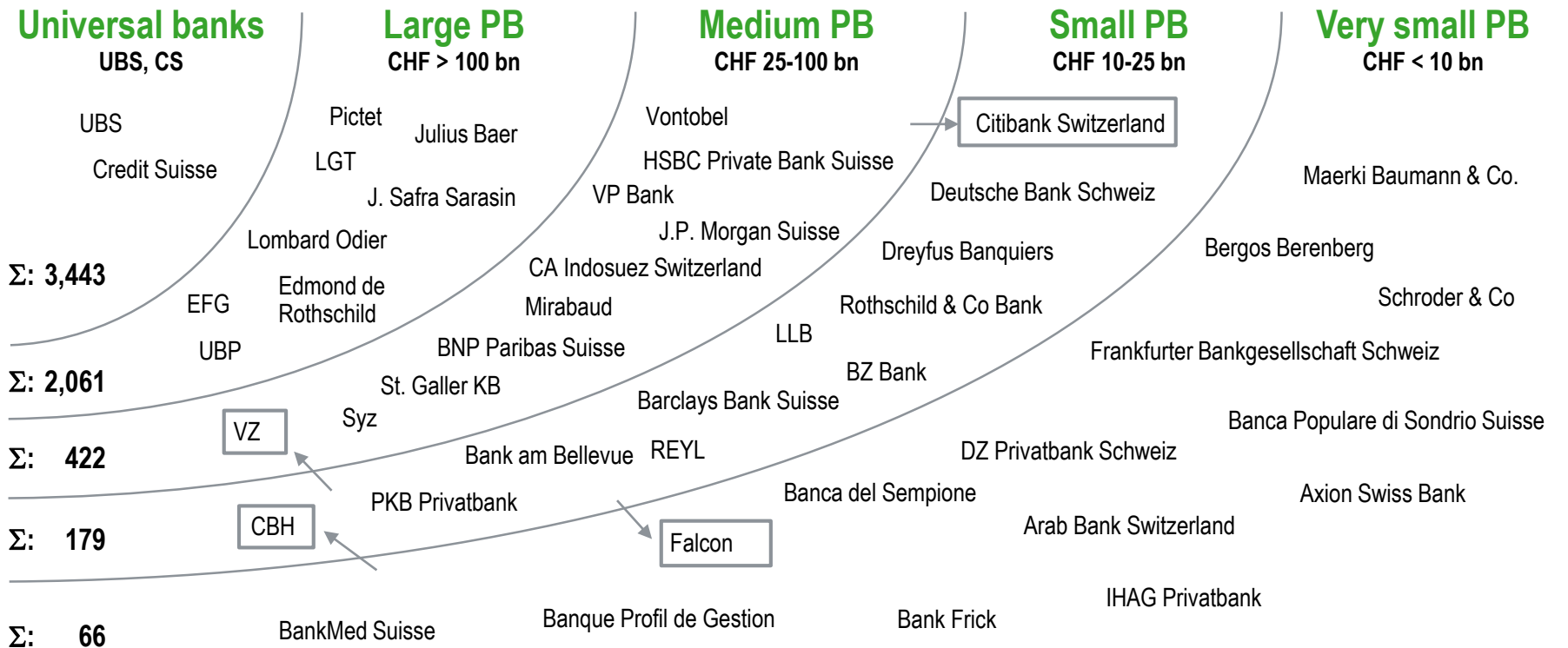
Summary of industry challenges

	Key industry challenges	Reactions from private banks	
	Market and regulatory environment <ul style="list-style-type: none"> > Persistent low/negative interest rates > New regulations and transparency requirements > Increased barriers for access to offshore assets 	<ul style="list-style-type: none"> > Regulations mostly implemented > Players adapted to new environment (e.g. pricing, targeted focus markets) 	
	Progress in technologies <ul style="list-style-type: none"> > Restrictive and fragmented (legacy) IT systems > Limited capabilities to leverage new technologies (e.g. digital assets) 	<ul style="list-style-type: none"> > Digitalization integrated into strategy > Technology investments increased 	
	Increasing competition <ul style="list-style-type: none"> > New technology-driven players across value chain > Increased commoditization of traditional offering 	<ul style="list-style-type: none"> > Selected partnerships initiated > Ongoing market consolidation 	
	Shifting client expectations <ul style="list-style-type: none"> > Shifting client expectations (e.g. sustainability, digitalization) further accelerated by Covid-19 > Incomplete knowledge of clients and their preferences > Reduced willingness to pay for current offering 	<ul style="list-style-type: none"> > Client segmentation and data analytics initiatives (re-)launched > Basic product range extended 	

Challenges (mostly) addressed
 Challenges partly addressed
 Challenges not sufficiently addressed

Our benchmarking offers a representative view of the industry by covering the PB business of major players in Switzerland

Overview of analyzed clusters and banks [AuM in CHF bn]¹⁾



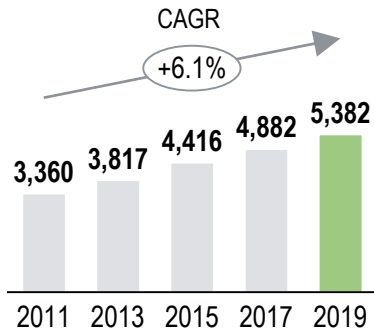
Our benchmark study covers the private banking business run/managed by Swiss entities

1) Only private banking segments were considered as far as possible
Source: Roland Berger

Overall market growth is reflected in private banks' performance – Nevertheless, no end to negative margin development in sight

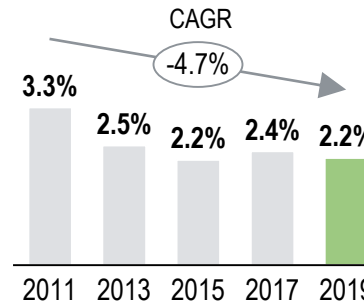
Longer-term industry performance

Assets under management¹⁾ [CHF bn]



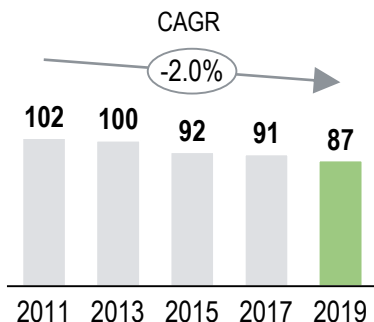
- > Steady asset growth in each year, with growth driven mainly by domestic and larger private banks
- > Market performance contributed approximately 65% of yearly AuM growth

Net new money growth²⁾ [%]



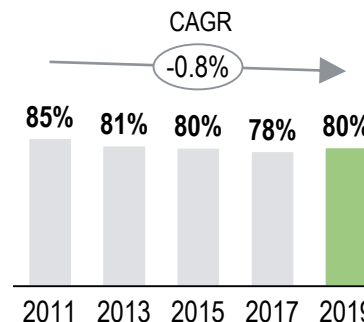
- > Positive NNM as stable contributor to AuM growth, reflecting the banks' ability to profit from global asset growth
- > Medium and small private banks faced some asset outflows due to e.g. portfolio consolidations

Gross margin³⁾ [bps]



- > Revenue growth lagged AuM growth, resulting in steadily declining gross margins
- > Large domestic PBs generally with lowest margins, while margins for medium PBs declined most

Cost-income ratio⁴⁾ [%]



- > Improving cost-income ratio, mostly due to cost saving programs of larger players
- > 96% of domestic banks vs. 60% of foreign banks reported an operating profit in 2019

1) Only includes banks that reported figures for each period (e.g. excludes Pictet, Lombard Odier, Mirabaud) 2) NNM as % of average AuM for the period 3) Operating income/AuM

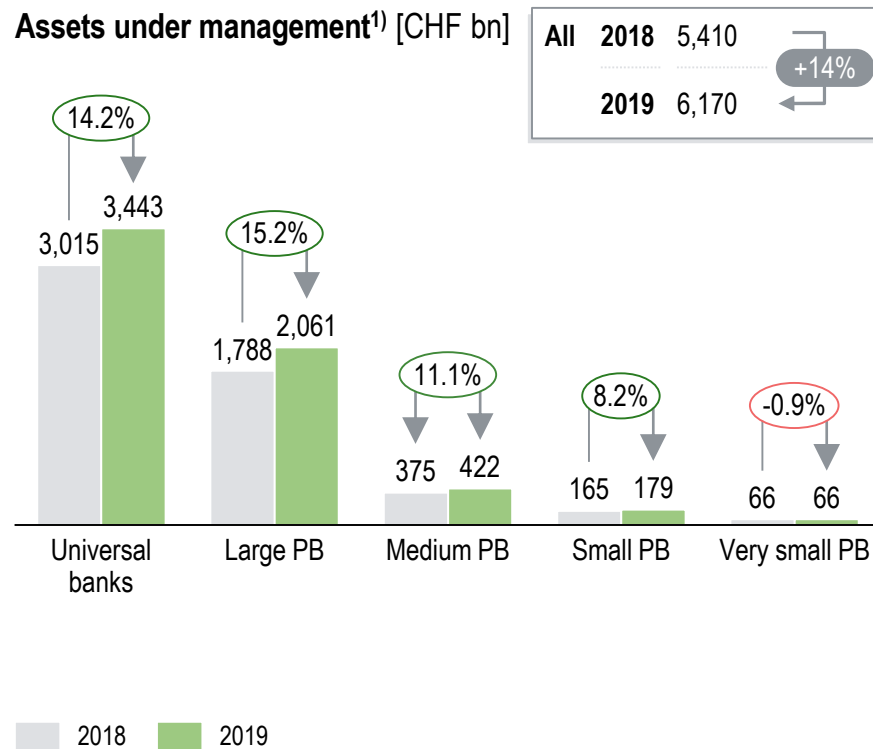
4) Operating expenses/operating income

Source: Annual reports, Roland Berger

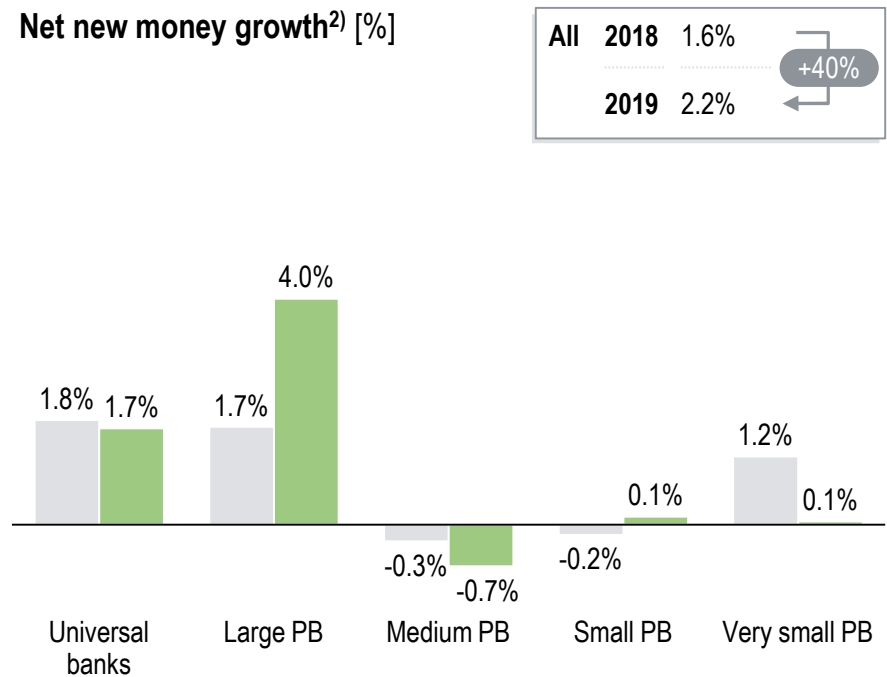
Strong market-driven AuM growth in 2019 – Large private banks were the winners in attracting new money

Performance review 2019 (1/2)

Mostly positive AuM growth – In particular larger banks have benefited from scale and global reach



Shift in net new money flows – Large private banks as winners, reflecting successful Asian growth efforts and portfolio acquisitions



1) Managed customer assets according to annual reports 2) Increase in customer deposits according to annual reports divided by AuM

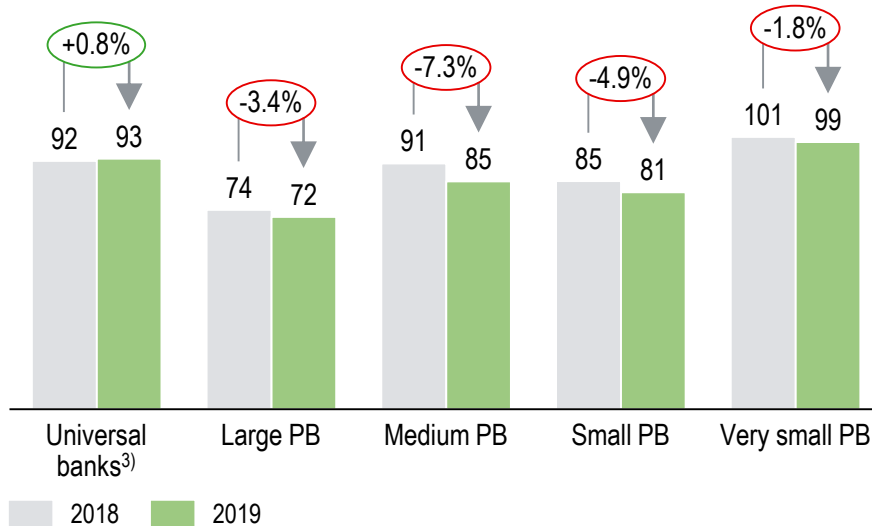
Negative gross margin trend continued in 2019 – Larger players improved efficiency, while foreign banks are struggling most

Performance review 2019 (2/2)

Negative margin trend continues – Most segments faced a further decline in margins with no change to the trend in sight

Gross margin¹⁾ [bps]

All	2018	90 bps	-3 bps
	2019	87 bps	

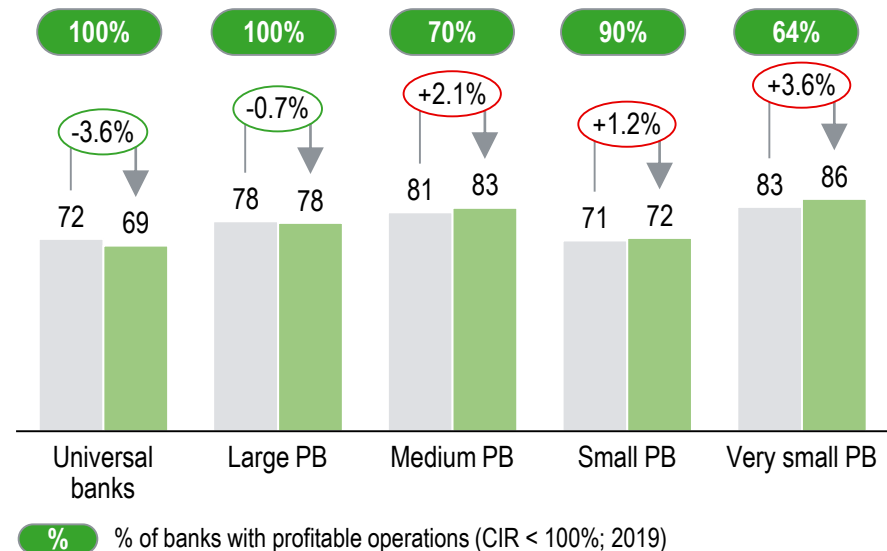


Average CIR increased in 2019 – However, larger players were able to increase efficiency, while foreign banks are struggling

Cost-income ratio²⁾ [%]

All	2018	78.6%	+1.3 pp
	2019	79.9%	

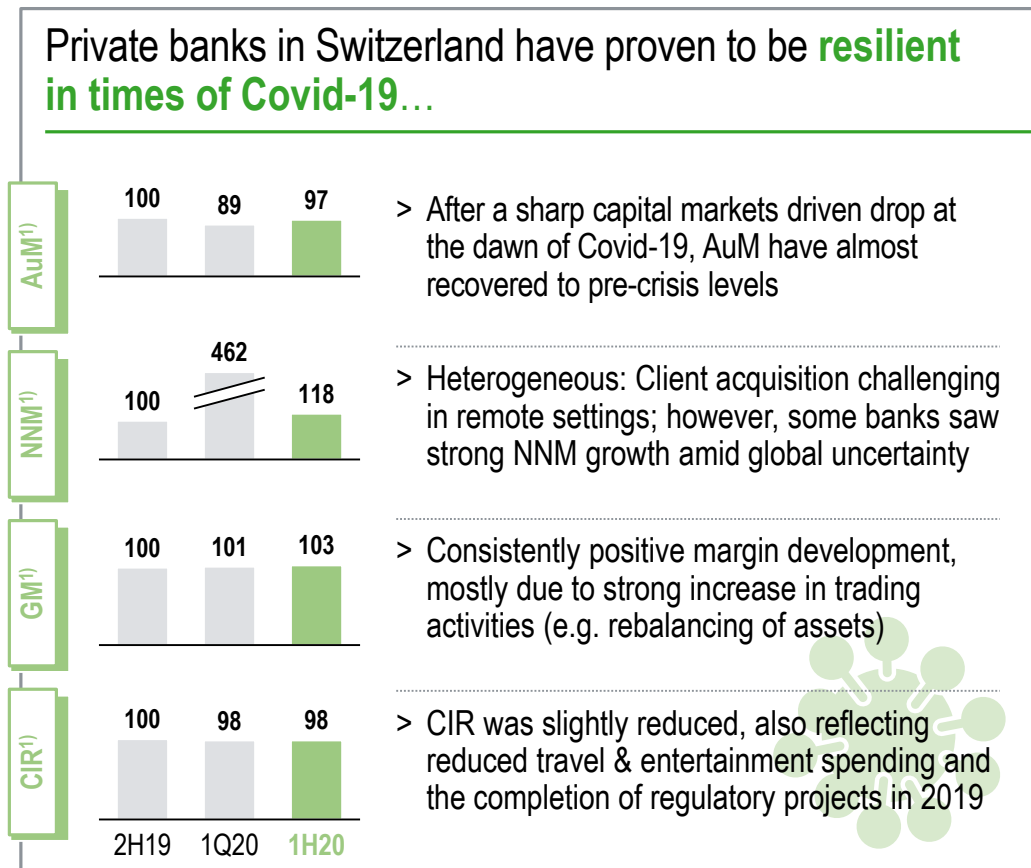
96% of domestic PBs vs. 60% of foreign banks' Swiss PB units with operating profit in 2019



1) Operating income/AuM 2) Operating expenses/operating income 3) Strong performance for Credit Suisse compensated for negative trend at UBS

Private banking performance has mostly been resilient to Covid-19 – Some developments have even accelerated during the crisis

Covid-19 and private banking performance



... yet the underlying **fundamental challenges will not disappear**

Private banking will be **less affected than other areas of banking**, but...

- > **AuM growth** is expected to **slow down** due to reduced market returns and clients (e.g. entrepreneurs) redeploying funds
- > **NNM growth** is also expected to **slow down** due to challenges with remote client acquisition and client stickiness
- > **Margin pressure** is expected to **continue** in the traditional business after a temporary increase in trading revenues

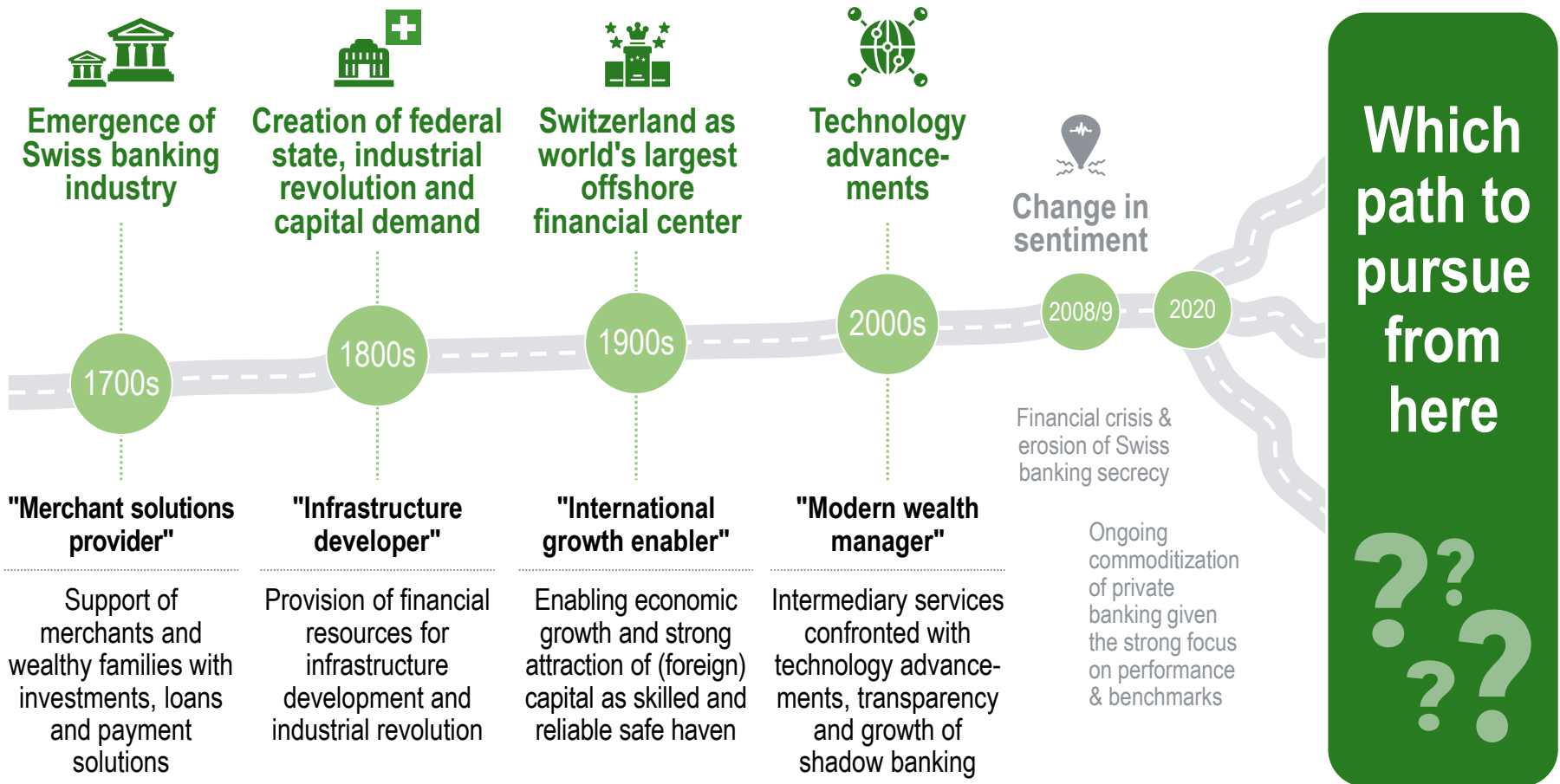
New opportunities have also become apparent due to the **"new normal"...**

- > **Service delivery** has become more flexible with an increased client acceptance of digital channels
- > **Remote working options** will increase employee attractiveness and reduce office space requirements
- > **Cost positions** (e.g. events) may **remain at reduced levels**

1) Indexed at 100 = 2H19. Average for UBS GWM, Credit Suisse WM/PB, Julius Baer, UBP, EFG, Vontobel WM. 1Q20 value based on UBS and Credit Suisse only

Private banks always had a distinct USP but recent developments have diluted their role in society – What's next?

Purpose in Swiss private banking



All indicators suggest that sustainability is transformational and will only grow from here on – Especially with the young generation

Growing relevance of sustainability

Even though there is no such thing as "the client", sustainability is in demand...

- > Continuously **growing relevance of sustainability**, confirmed by many indicators (e.g. number of media reports, search trends, initiatives/policies, UN-PRI¹⁾ signatories)
- > **80% of private banks** in Switzerland state that **clients are the key driver** demanding sustainability – and believe this trend will further **accelerate after Covid-19**
- > Despite the trends, private banks often still have only a **basic understanding of the individual needs of their clients** and respond to the demand in a **reactive way** with **basic** and **standardized investment products**

... and is top of the agenda for the next generation of clients!

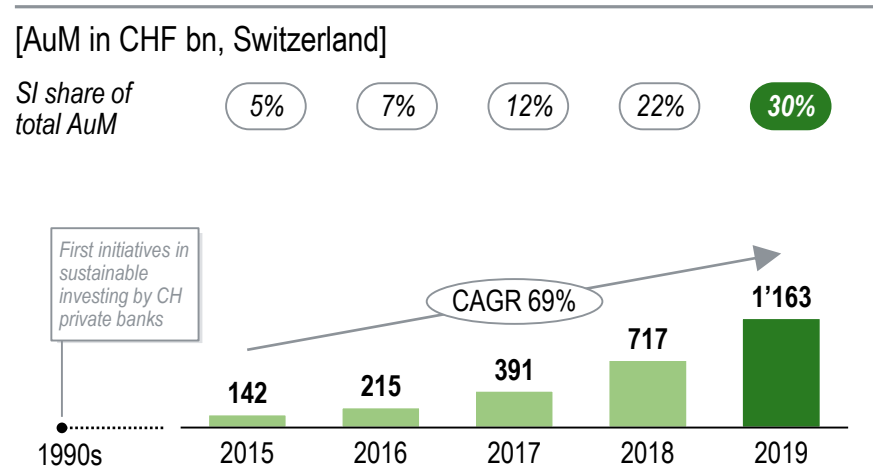
- > The **young generation** places great emphasis on sustainability as "**sustainability natives**" – however, personal preferences and **priorities vary**
- > Over the next decade, **USD ~40 trillion will transfer to women and millennials**, for whom sustainability is top of the agenda – even in emerging markets
- > Next generation clients demand **holistic advice on sustainability**, convenient ways to **invest** in line with **personal convictions** and **transparency on impact**
- > **81% of wealthy investors** align spending decisions with their **values** – banks that truly meet the client demand will also see increased **willingness to pay**

1) United Nations – Principles for Responsible Investment

Clear emancipation from niche to mainstream market – Focus so far on ESG risk mitigation rather than personal value-driven impact

Sustainable investment trends

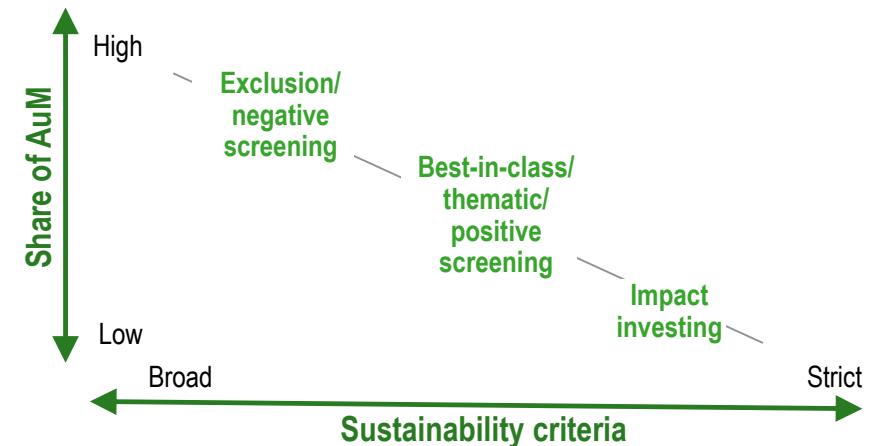
Development of reported SI AuM¹⁾



- > Substantial **growth of sustainable investments** in Switzerland, recently in particular in the **private segment**
- > Sustainable investments in Switzerland account for **~30% of AuM** (vs. e.g. 49% in Europe, 26% in US)
- > Recent findings of **ESG outperformance** and **regulatory trends** are expected to **further support growth**

1) Sustainable investment AuM as reported by 76 participants in an SSF survey

Sustainable investment methodologies



- > **Broad scope** of methodologies and **lack of standards** **limit transparency**, e.g. MSCI World sustainability can be 95% (based on exclusion) or 25% (based on best-in-class)
- > Predominant **exclusion methodology** is focused on **ESG risk mitigation** and as such part of a bank's fiduciary duty
- > **Private investors** mainly driven by personal values and convictions – **impact investing most suitable**

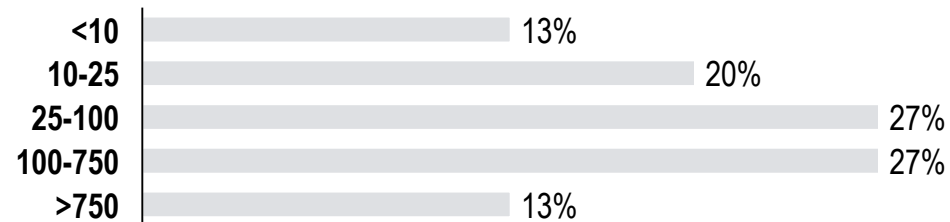
We surveyed a broad set of private banking players in Switzerland on their sustainability maturity – Results show three distinct clusters

RB sustainability maturity survey overview

Objectives

- > Capture the **view** of private banking professionals in Switzerland **on sustainability** (in a broad sense), its **implications for private banking** and the current **implementation maturity**

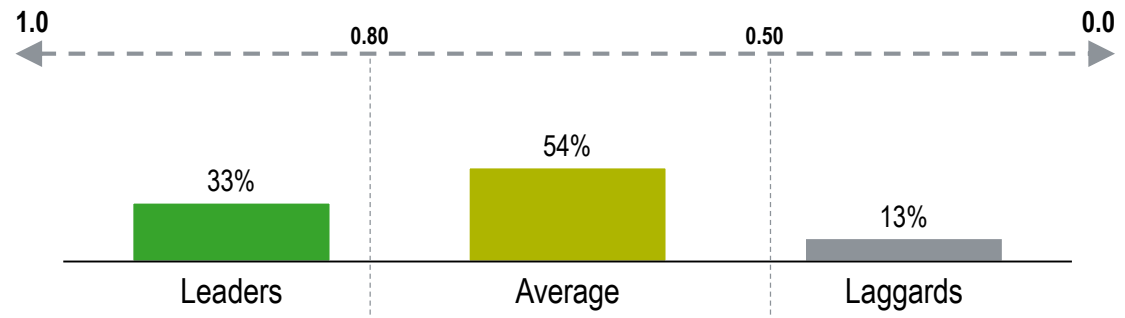
Participant profiles [AuM in CHF bn]



Approach

- > **Online survey** with 24 **sustainability-related questions** covering vision/strategy, business model and operating model
- > Respondents include **top management, strategists** and **sustainability experts**

RB maturity clusters¹⁾



1) RB maturity score benchmarks the survey participant responses on a scale of 0 (minimum) to 1 (maximum)

While all banks confirmed the relevance of sustainability, they have not yet managed to successfully engage their clients on the topic

RB sustainability maturity survey results



Sustainability on the bank's front page
 Banks have realized the relevance and most address it on their front page – however, tangible and transparent objectives or attractive client engagement remains the exception

Expanded investment product offering
 All banks are offering sustainable investments with various levels of sophistication – however, currently the majority of sustainability elements are part of the banks' fiduciary duty in the investment process rather than real change

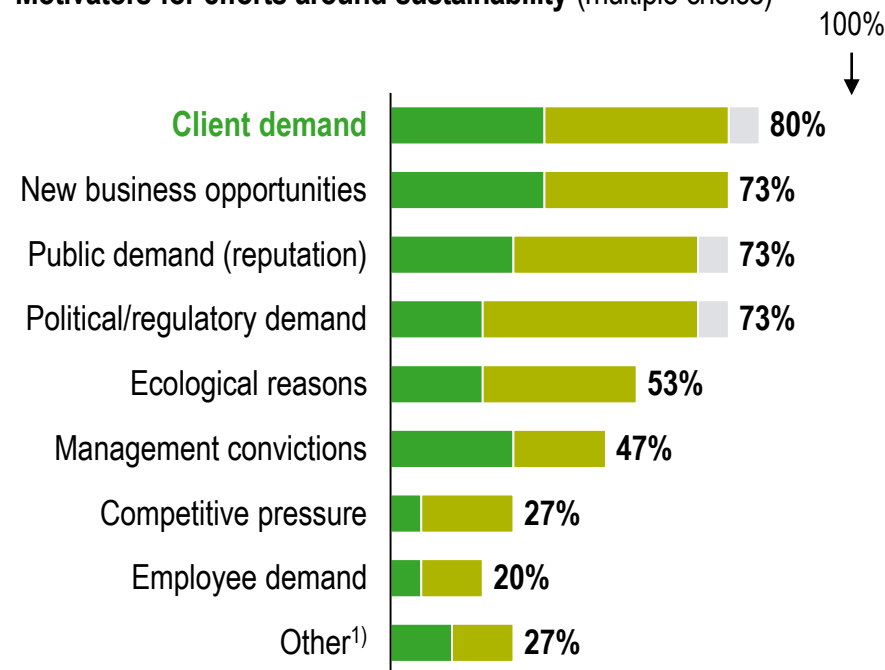
Sustainability not yet part of the DNA
 Only minor adaptations of the bank's operating model identified – current cultures and employees are often not fully comfortable with new sustainability topics yet

Clients and other external demands are key motivators for sustainability efforts – Management conviction is often still low

Survey results | Vision/strategy

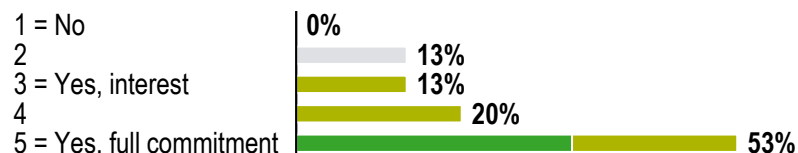
Motivators – Clients are the most important motivator ahead of other external demands; less than 50% state internal conviction

Motivators for efforts around sustainability (multiple choice)

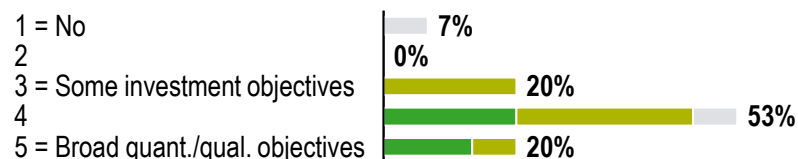


Priority & objectives – Sustainability is mostly high on the agenda; however, compensation is rarely linked to the defined objectives

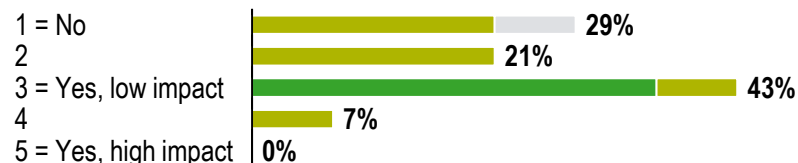
Is sustainability a central part of top management's priorities?



Have you defined concrete ESG-related objectives within the bank?



Are your management and employees' financial incentives linked to your sustainability/ESG objectives?



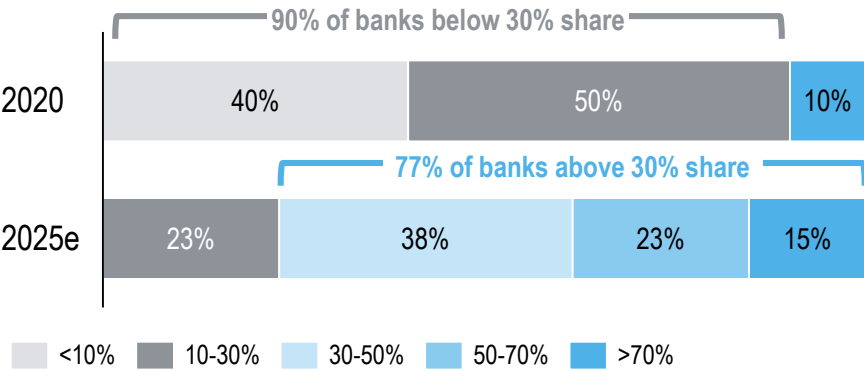
1) International initiatives (e.g. UN-PRI, UN-PRB, notion of fiduciary duty), Responsibility and Heritage

Banks expect an accelerated shift to ESG-compliant assets – Client engagement is still weak, while internal teams are mostly in place

Survey results | Business and operating model

AuM invested according to ESG criteria – Significant increase in ESG-compliant client assets expected over the next five years

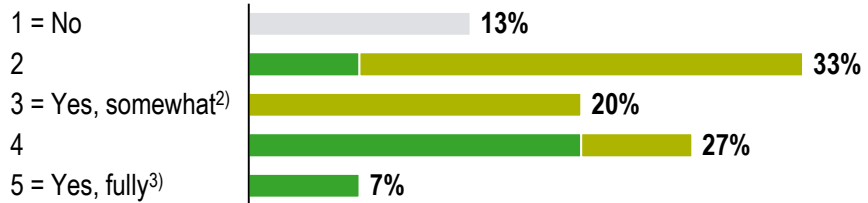
Share of client assets (AuM) invested according to ESG criteria¹⁾



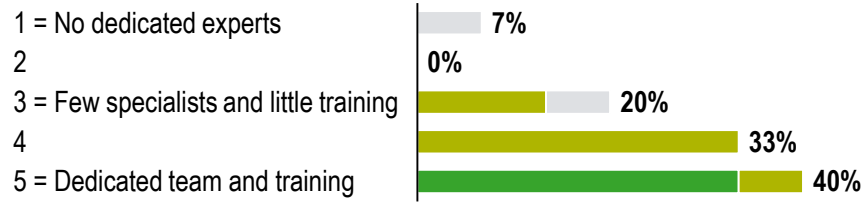
2/3 of the participants expect Covid-19 to **slightly accelerate the shift** towards sustainable investments

Client & employee engagement – Client engagement is low, while internal experts are available; RMs likely not comfortable with topic

Do you specifically target client groups potentially interested in sustainability (e.g. investment preference, age)?



Do you have dedicated sustainability experts (e.g. center of excellence, specialists) and staff training?



■ Leaders ■ Average ■ Laggards

1) Excluding replies with "n/a" 2) Via targeted marketing communication 3) Via targeted personalized offering and proactive engagement

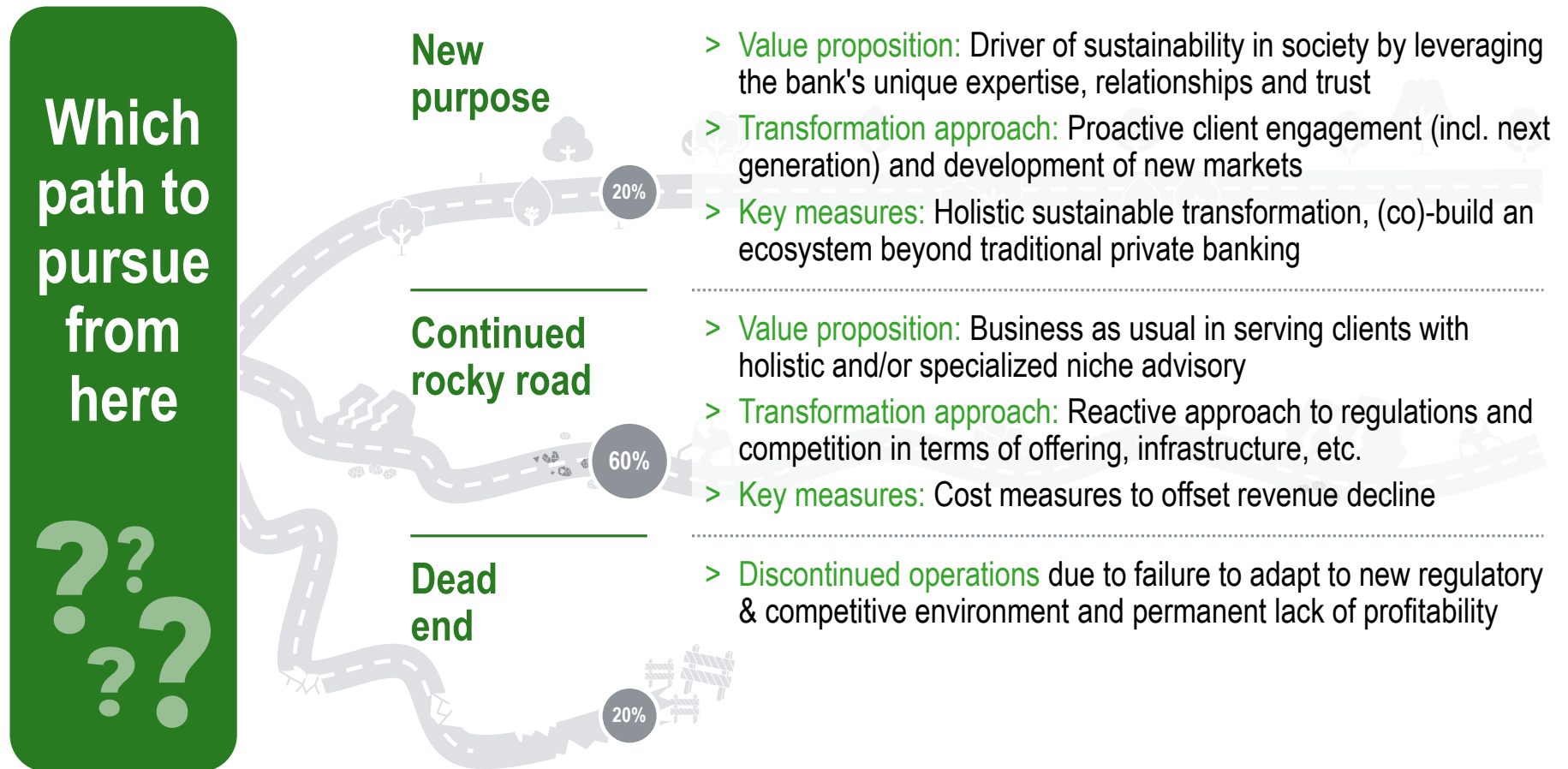
Most players face similar issues in embracing sustainability – As a consequence, still more talk than action towards clients

Main challenges for private banks around sustainability



Private banks that take a proactive approach towards sustainability and successfully engage clients will be rewarded

Scenarios for Swiss private banks



x Estimated share of private banks that will follow the respective path within the next 5 years

A clear positioning and a holistic sustainability approach allow banks to refine their purpose in line with client preferences

Requirements for new purpose

Clear positioning



Relationship

- > Positioning at the client interface
- > Focus on advisory and relationship mgmt.
- > Offering of third-party products/services
- > Transparent commissions & fees earning model

and/or



Product

- > Positioning as best-in-class provider of selected products and targeted services
- > Continuous focus on performance
- > Interest or commissions earning model

and/or



Technology

- > Positioning close to clients' IT systems
- > Focus on providing infrastructure and defining standards
- > License fees & commissions earning model



Holistic sustainability approach

Vision/ strategy

A clear **vision and concrete objectives** on how the **bank contributes to sustainability** vis-à-vis clients, employees, society and the environment

Business model

A business model that is **fully aligned to the sustainability objectives** and is **built around client preferences**

Operating model

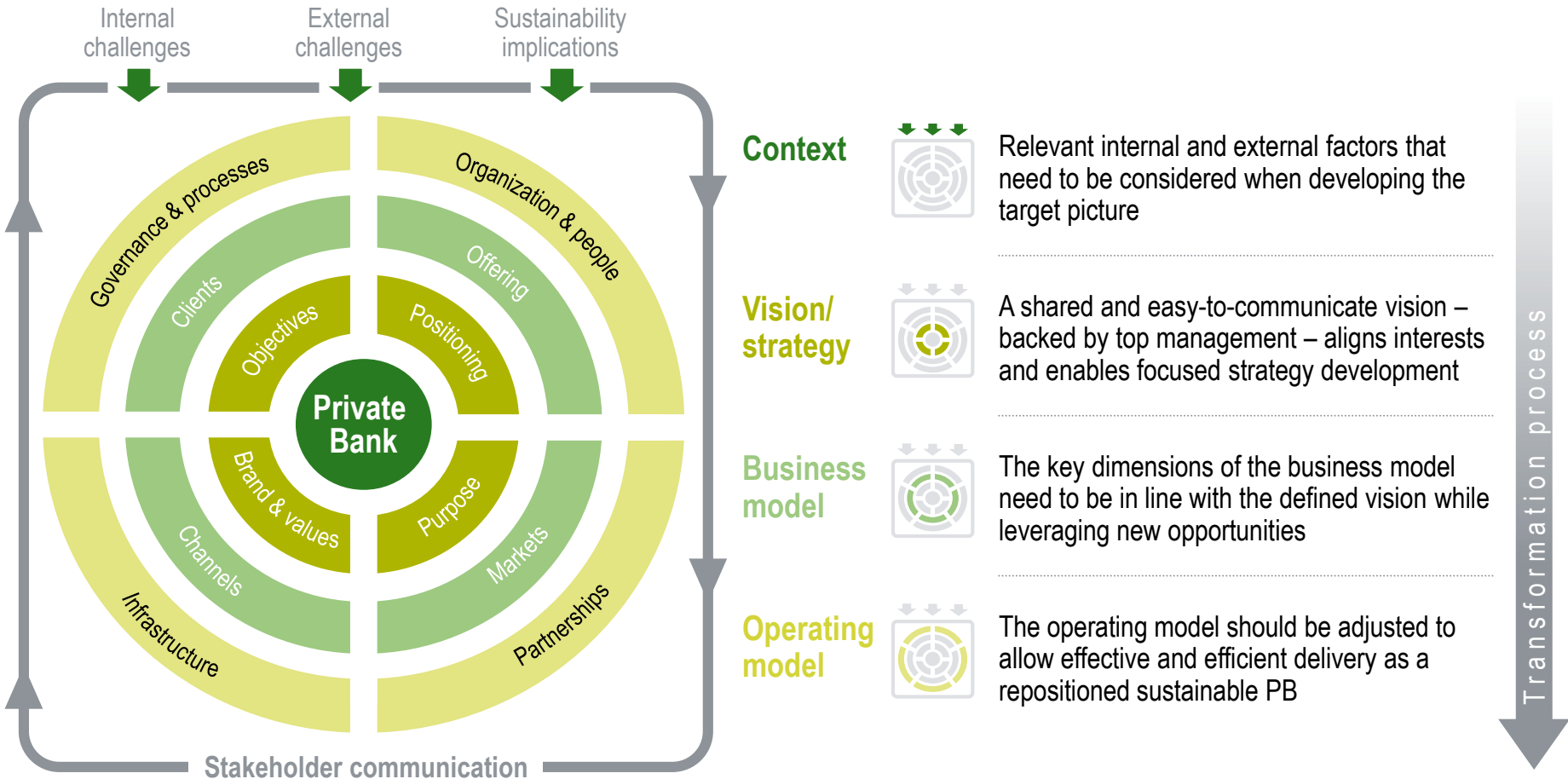
An operating model that ensures the **sustainable practices are operationalized** effectively and efficiently



A sustainable private bank combines a clear positioning and sustainable practices in order to meet client preferences and deliver sustainable shareholder value

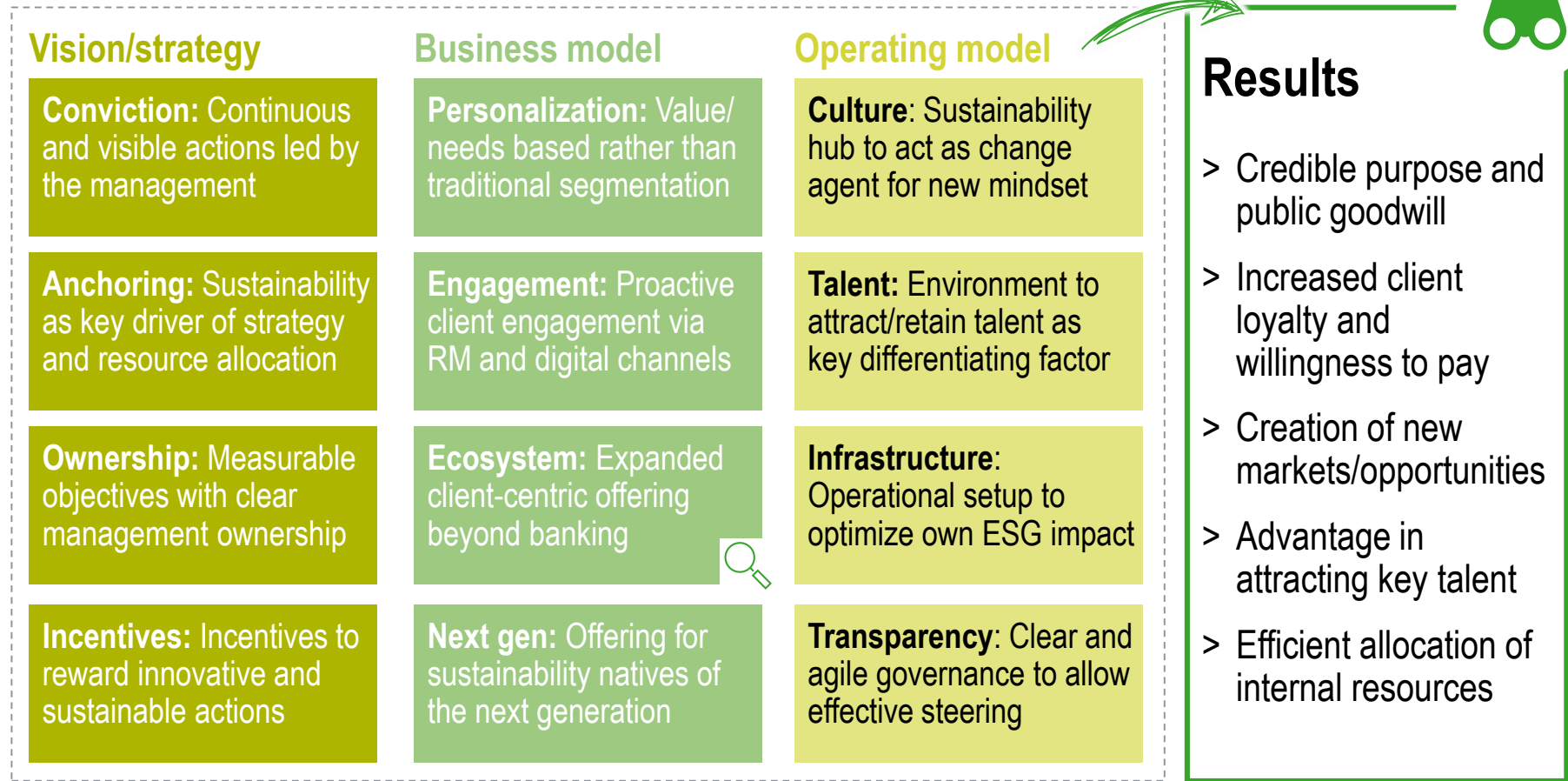
We recommend PBs follow a proven holistic approach that builds on sustainability to successfully transform their business

Roland Berger sustainable transformation framework



Measures need to be developed based on the individual starting point of the private bank – Holistic approach delivers best results

Key fields of action for transformation

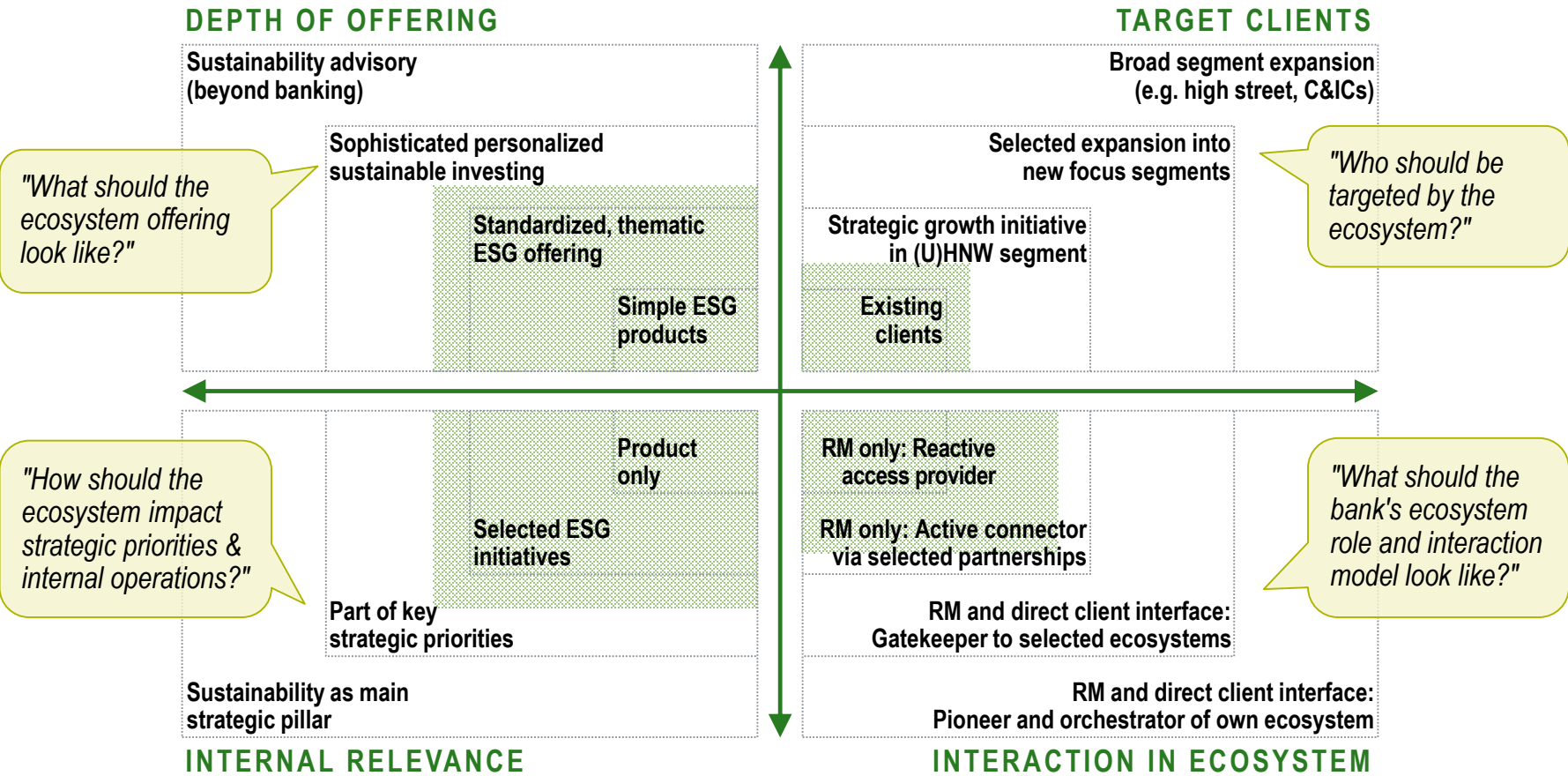


Deep dive on next slides

A comprehensive sustainability ecosystem would provide a clear purpose and client value add – Role to be defined per bank

Deep dive on sustainability ecosystem: Relevant parameters

Illustrative



RB assessment of current availability for private banking clients in Switzerland

Stakeholders may hold different roles in the ecosystem, including as client, value creation partner or knowledge provider

Deep dive on sustainability ecosystem: Selection of relevant stakeholders

Illustrative

Private & corporate clients

Demand for sustainability offerings and expertise

Family offices, trusts & foundations

Demand for sustainability offerings and expertise

Other banks & asset managers

Cooperation on sustainability initiatives

Sustainability Techs/FinTechs

Provider of technology and expertise

Employees

Demand for sustainable employer

Data & service providers

Provider of ESG data and expertise

Independent consultancies

Provider of expertise, co-creation of offerings

Academic institutions

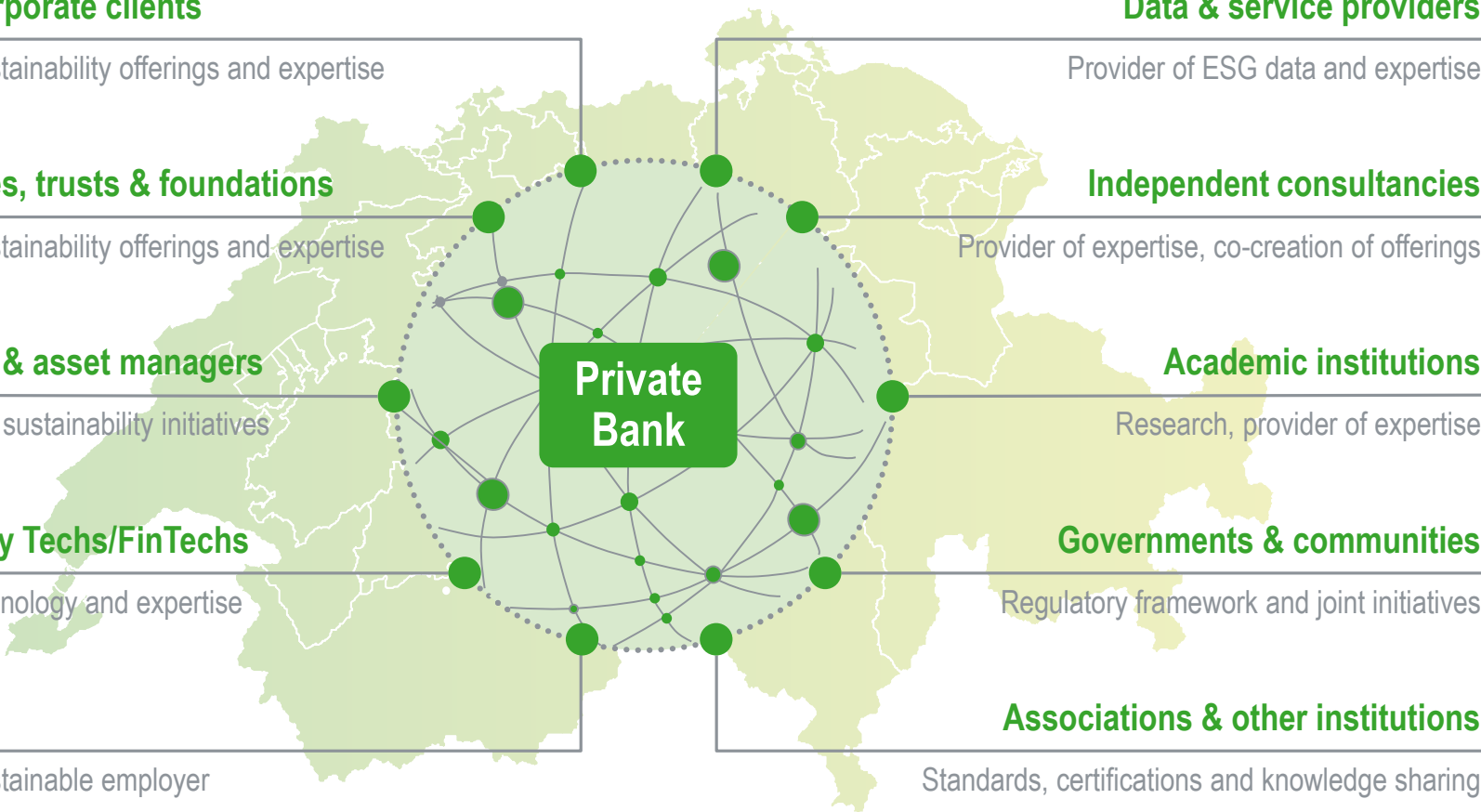
Research, provider of expertise

Governments & communities

Regulatory framework and joint initiatives

Associations & other institutions

Standards, certifications and knowledge sharing



A successful transformation enables revenue and profitability growth, increased client loyalty and the attraction of young talent

Sustainable transformation benefits for private banks

Client demand

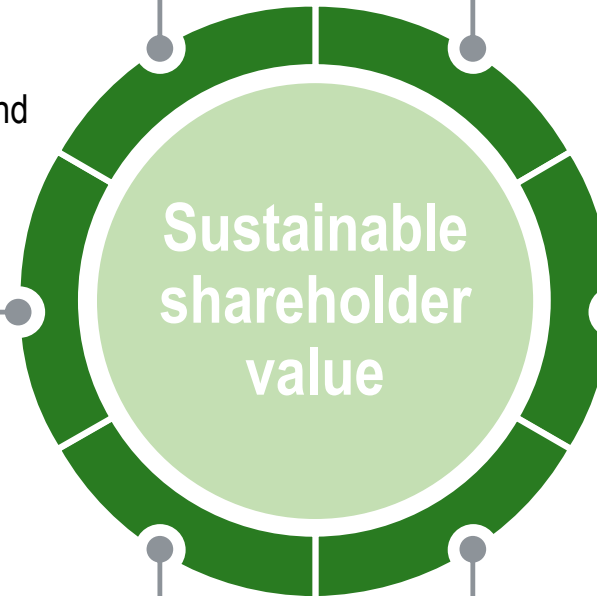
- > True understanding of clients and an offering that meets their needs and preferences increases client loyalty and willingness to pay

Public/regulatory demand

- > Public goodwill improves reputation, credibility and brand recognition
- > Proactive transformation prepares for upcoming regulatory requirements

Employee demand

- > Major advantage in attracting and retaining talent (esp. women and millennials) and as such provides a key competitive advantage



Sustainable growth

- > Opportunity to shape new markets and sustainability offerings – as well as growing together with existing and next generation clients

Strengthened bottom line

- > Measurable performance improvement by reallocating resources and restoring the clients' willingness to pay

Improved risk management

- > Avoiding the increasing cost of non-sustainable activities while minimizing reputational and operational risks

Depending on where you stand in your sustainability transformation, we can provide guidance and support in various areas



1) Incl. clients, offering, channels, markets

2) Incl. governance & processes, organization & people, infrastructure, partnerships

We see a unique opportunity to address current challenges, leverage persistent trends and contribute to the greater good

About us

Our promise

We are known for our **pragmatic and entrepreneurial work style**, combining **strategic thinking and implementation**

We support our clients with **deep industry expertise** and **proven methods** in their strategic re-alignment towards sustainability

Together with our clients we **make change sustainable**

Let's discuss



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Selected further reading



Sustainarama – How sustainability will change the world in 2050

What will our lives look like in 2050 – and what can companies do to ensure a livable future?



rolandberger.com/sustainability-2050

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