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Deloitte Affluent Study: Affluent clients overestimate their own financial literacy – Swiss banks could capitalise on huge market potential

Retail banking for less affluent clients on the one hand and private banking for the wealthy on the other – the huge area in between is being largely ignored by Swiss banks. These are the findings of an exclusive survey by Deloitte. The respondents claim to have sound financial knowledge, but their investment decisions do not back this up, since they are letting tax savings and yields slip through their fingers. Affluent clients want low fees and a bank that is available to them for life as a financial coach with a specific advisory function, since their priority areas are retirement provision and supporting their families. With tailored, digitally assisted advice, Swiss banks could exploit attractive growth opportunities in this market segment. However, to do so, they would need to define a strategy, offer transparent prices and push ahead with digitalisation.

According to the federal government, around a quarter of adults in Switzerland have between 200,000 and 2 million francs in assets. This means they are classed as 'affluent' by the banks, but on the whole they still do not qualify for traditional private banking services. Although this middle segment makes up around 40 per cent of financial assets in Switzerland and the corresponding investment volume is set to increase to around 750 billion francs by 2025, no meaningful market data for this segment had been available until now. With the 'Swiss Affluent Clients' study, the audit and consulting company Deloitte Switzerland has filled this gap.

'Our study shows that most Swiss banks do not have a strategy for satisfying the specific needs and requirements of people in this middle wealth group. However, the needs of these clients are stable, and the market offers huge untapped potential that could be monetised,' says Jean-François Lagassé, Financial Services Industry Leader at Deloitte Switzerland and Global Wealth Management Leader, summarising the results of the study for Swiss banks.

Fees remain crucial

For almost three-quarters (74%) of the respondents, low fees are the decisive factor when choosing a bank. Seamless and cutting-edge banking services across all channels – such as online banking, a mobile banking app and personalised advice – is a further important factor in this decision.

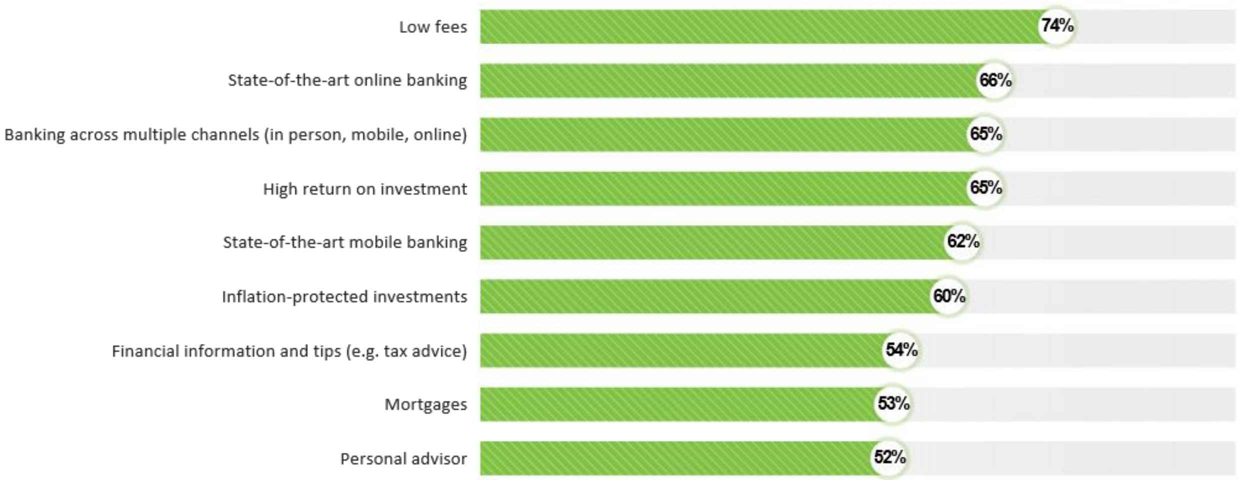

Figure 1: *What is important for you when choosing a bank?*

Currently, only a quarter (25%) of these affluent clients make use of the advisory services offered by banks, and only one fifth (21%) have their savings managed by their bank. More than a third (35%) handle orders such as buying and selling shares without seeking advice. This is not due to a lack of trust in their own bank. On the contrary: Traditional banks continue to enjoy a high level of trust (76%), while only eight per cent of those asked would entrust their money to a technology company. 'The lack of tailored, relevant investment advice, as well as the low level of integration into the various customer channels, are the most noticeable shortcomings of Swiss banks when it comes to serving this special, affluent client segment,' explains Patrik Spiller, Head of Swiss Wealth Management at Deloitte.

Major contradictions in financial knowledge

The reason for the lack of interest in active advice is therefore not a lack of trust in the banks. It seems far more likely that these clients, on the one hand, do not feel they are adequately served by the banks and, on the other hand, believe they have enough investment expertise themselves. 71 per cent of these clients are confident in their ability to assess the level of risk they should take. Almost two-thirds (63%) believe they can hold their own in a discussion about financial matters. More than half (55%) believe they have the skills to invest their own savings and that they can estimate how much money they will have in retirement.

However, this self-assessment about their own financial literacy is not reflected in the investment decisions of these affluent clients. Only 28 per cent of those surveyed set themselves clear earnings goals when investing, and only 16 per cent understand more complex financial instruments such as derivatives (see Figure 2). Furthermore, three-quarters (75%) invest their money in shares, but only just under half (48%) invest in funds or EFTs (exchange-traded funds) that would be particularly suitable for the surveyed segment. Moreover, 31 per cent do not have a pillar 3a account, even though having one would help enormously in accruing retirement assets and also offers considerable tax advantages.

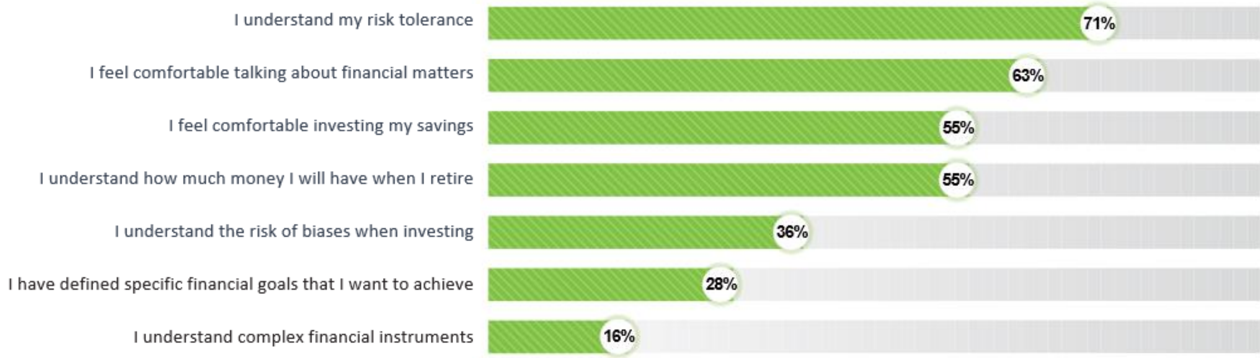

Figure 2: How confident are you in financial planning and wealth management?

Potential for the third pillar and sustainable investment

These contradictions highlight the untapped potential for banks in two areas: tax-efficient savings and sustainable investing. For the third pillar alone, approximately half a million extra clients could be acquired. The same applies to sustainability: Almost three-quarters (72%) say that sustainability (ESG) is important or very important to them. However, only twelve per cent have invested more than half their money in assets described as sustainable.

When these affluent clients were asked about the financial topics that are most important to them, retirement provision (59%) easily came out top. Providing for the family comes a close second with 45 per cent. As the results show in both parts of the survey, these two issues remain their most immediate concerns, despite the war in Ukraine and rising inflation. 'Retirement provision and the financial security of the family are traditional topics that the banks are highly familiar with. This offers a great opportunity. As partners for wealth planning in these important life phases, they can provide clear added value for people with medium-sized fortunes,' explains Spiller.

More tailored solutions thanks to data and analytics

According to the study, these affluent clients also believe there is a lack of investment ideas tailored to their individual needs. To be able to offer personalised products for these clients as well, Swiss banks should make better use of client data and also employ AI to analyse it. This will increase customer satisfaction and is also cost-efficient. Simple and comprehensible fee structures create transparency and are easy to communicate.

'Clients value the opinion of their advisor, of course, but they also want to find suitable investment solutions themselves – ideally via online banking or with a smartphone app. To be successful in the middle segment, Swiss banks need to devise a clear strategy with attractive fees on the one hand and ramp up their mobile and digital channels on the other, so that they can offer their clients tailored and efficient support,' adds Spiller.

About the study 'Swiss Affluent Clients'

For the study, 300 affluent Swiss bank clients were asked at the end of 2021 about their knowledge of financial matters and their concerns, as well as how their specific needs were being met by their banks. The focus was on clients aged 45 or over, since they represent the largest market segment by far. At the end of 2022, the survey was repeated with a further

150 persons from the same target group. The results had hardly changed despite the outbreak of war, the energy crisis and inflation. As well as analysing the results of these two surveys, the author also analysed the offerings of five banks: Vontobel Volt, Vermögenszentrum VZ, VIAC, Alpian and Stableton.

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Contact: Michael Wiget	Contact: Kevin Capellini
External Communications Lead	External Communications Specialist
Tel.: +41 58 279 70 50	Tel.: +41 58 279 59 74
E-mail: mwiget@deloitte.ch	E-mail: kcapellini@deloitte.ch

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