The Swiss Private Banking sector

Forward with strength and confidence

A personal assessment by Jürg Frick (2)
August 2016

Introduction

Dear reader,

This is my second analysis of the future of Swiss banking. The first, published in 2014, discussed the mistakes of the past and how Swiss banks, regulators and politicians could make Swiss banking successful again.[1] In this current assessment, I will first provide an overview on how far we have progressed along that path during the past two years and then cover the three core areas of banking (business models, customers and relationship managers) in more detail. A number of topics concern the overall banking sector while others relate to private banking, which of course plays a prominent role in Swiss banking.[2] The selection and prioritisation of topics corresponds with my own personal assessment regarding their importance.

I look forward to your feedback, opinions and suggestions.

Jürg Frick

1. Deloitte (2014), The Swiss Banking Sector, Back to the Fast Track
2. For an overview see Deloitte (2015), The Deloitte International Wealth Management Centre Rankings 2015

Jürg Frick is a Senior Partner and Vice Chairman at Deloitte, and has been a banker and consultant for over 40 years. He was a founder and Senior Executive Partner of a consulting firm acquired by Deloitte in 2010.

Jürg Frick has 40 years of experience in the financial services sector including international responsibilities for a US bank, positions as Managing Director and Head of the Middle East and parts of the Far East as well as Head of Asset Management for a large Swiss bank, and as CEO of an insurance company.

Through the expansion and sale of his own consulting company with 150 employees, Jürg Frick has a tremendous wealth of knowledge and a vast network of contacts within the financial services sector as well as in other industries.

What has changed since my last analysis?

Fortunately, my optimistic prediction has come true: all the challenges I identified as problems in my 2014 analysis have in the meantime been addressed by bank management teams and are now in the implementation phase (the following list is not conclusive and the order is roughly based on my own view of each item's importance).

US tax programme

At this point, 100% of all banks in Category 2 have settled their tax disputes with the USA and paid either hefty or manageable fines to the Department of Justice (DoJ). Individual banks in Category 1 also managed to find a conclusion and to once again look to the future. The important thing is that the banks have learned their lessons and can be more careful going forward.

Regulations

Given the proposed implementation of FIDLEG (Financial Services Act), Swiss enthusiasm to add another "Swiss finish" to the new regulations has diminished. Concerns about the financial sector are understandable and I am aware that the associated rules are necessary. However, to use them as justification for bad results would be oversimplifying things – in the meantime, external solutions have been found to help reduce internal inefficiencies. Furthermore, these regulations cannot be used to serve as an excuse because they apply to everyone involved. Indirectly, these developments force banks to evaluate and adapt their operating models. Many banks I know have faced these challenges and, as a result, are currently changing the way they do business.

What worries me, however, is that banks tend to overreact by treating existing or new customers from abroad in an unreasonably strict manner. On this subject the compliance departments exert a lot of influence: business sense and a realistic assessment of risks lose importance, especially since various far-reaching compliance regulations can, on an international level, result in competitive distortions. For example while the Swiss apply strict rules regarding money laundering, the rules governing the same topic in parts of the USA lag far behind. Asymmetrical agreements such as FATCA 2, which requires full disclosure of data from Switzerland to the USA, but not in reverse, only serves to further diminish the competitiveness of Switzerland. Why Switzerland agrees to such deals is not clear to me.

Capital requirements

The large Swiss banks are frustrated by the overly high capital requirements and disparate playing field in comparison to international competitors. As an "old-school" banker, I am all for optimal capital investments on the one hand and favour "overcapitalisation" on the other – but I am definitely against speculative endeavours at the expense of shareholders. For more than 40 years it has been proven that no business model based on speculation can be successful in the long-term. As such, the discussions about higher leverage ratios make sense to me. High levels of capitalisation can also be used as a strong asset in the acquisition of new customers in the private banking sector – this argument always helped me greatly in my efforts to win new clients.

Too big to fail (TBTF)

In terms of the "too big to fail" argument, global companies and domestic regulatory bodies (i.e. bailout mechanisms) are at loggerheads. Banks are not too big in that sense; they are part of a global network, that is, they are customised for the global market. The financial world itself is a globally intertwined and interdependent network in which one either plays a role in the whole construct or one is not involved at all. At the moment, the large banks are trying to get to grips with the subject of new business models and structures, although they should already be aware of the fact that in a global financial crisis these measures will not be effective because the individual units cannot be completely separated in legal terms, i.e. exist independently of one another.
In a time of rather scarce resources, I consider it a grave error to perform organisational exercises merely for the sake of conducting exercises, and in doing so, squandering shareholder money. By keeping their affairs in a healthy state, realistically assessing risks and maintaining sufficient equity capital, banks could proceed in a much more pragmatic way.

Market access

The rather clumsy manner in which Switzerland behaved in terms of market access and the associated uncertainties, has improved in recent years.
I do not share the concern regarding MIFID II because I am convinced that professional and experienced private bankers have long since internalised the various aspects of the directive. There are also tool-based solutions that can be integrated into everyday processes. New regulations should not simply be booked as additional administrative costs without the banks getting some sort of benefit from them. A quick and pragmatic implementation of MIFID II can prove to be a supporting argument for sales and a boost for the reputation of the Swiss financial sector. This will strengthen the image of Swiss banks in the long term – both at home and abroad.

Investment banking

In terms of the question "how important is investment banking in comparison to private banking", I am of the opinion that investment banking is an indispensable supporting element of private banking. Every private bank that manages a certain amount of customer capital requires a product developer to correspond to clients requirements and to achieve optimal support. For smaller banks, however, the costs of such services can not be justified. For that reason, smaller banks need to consider whether they want to be a retail bank, a product bank, an investment bank, a universal bank or a managed solution provider. On this topic, I would advocate for banks to cooperate more effectively, to provide products to third parties, to jointly develop products and to refer customers whom they are unable to serve. In this regard too, much has changed in the Swiss banking market: the two big banks have reduced their investment banking activities and have shifted more prominently towards the private banking service. Short-term speculative transactions have also been dramatically reduced. However, it is deplorable that the people responsible for the misguided deals of the past were not taken to account for the losses they caused – the banking system would have billions more at their disposal today. Had those people been forced to face the fallout of their activities personally, many of those deals would not have been realised.

Inefficient structures (cost/income ratios > 85%)

Much has also happened with regard to inefficient structures. All C-level personnel will have noticed by now that cost/income ratios of > 85% are no longer viable. This has caused banks to merge and institutions to be sold or liquidated. In the meantime, the financial sector only counts around 250 institutions, with a predicted 190 to 200 by the end of 2017 – a dramatic reduction along the lines of my predictions from 2014. Attempts are still being made, primarily on subordinate levels, to hold on to existing structures, but the ultimate consequence of such efforts will be to risk the very survival of the bank. Such situations call for rigorous decisions to be made at management level.

In this context I would like to refer to our study "Industrialisation – Unlocking the Efficiency and Agility of the Swiss Banking Industry" (publication date August 2016), which clearly highlights the fact that the Swiss banking sector still has immense potential to improve its current levels of efficiency.

Technology

Technology is another area that has seen dramatic changes. Only companies with the capital to do so can replace outdated technologies, but the subject of sourcing (or a transformation of the value chain into a value network) is slowly taking hold, which is a good thing. Technology is there to support the processes and the people who work with those processes. It is not an ideology. It only adds value when it is implemented efficiently. So why don't we cooperate more here in tiny Switzerland and use the technology from three centres: German-speaking Switzerland, Western Switzerland and Ticino? Neither IT nor digital solutions alone are the answer to winning new customers. It all depends on what the digital solutions contain. The same goes for robotics software. These new technologies have the potential to fundamentally change our banking environment. Robotics will help automate processes without having to outsource them. Machines equipped with such technologies will also be able to learn and to help reduce the repetition of mistakes we have already made.

These topics are on everyone's mind, and fintech companies are popping up all over the place, but unfortunately a lot of banks do not seem to have any clear strategy on these topics.

Outsourcing abroad

Problems with quality and understanding – service expectations often disappoint

Many companies still consider the outsourcing of business functions (e.g. HR) to Poland, the Czech Republic, Ireland or India as a viable solution for streamlining operations. Over the short term it reduces costs, but I know from personal experience that these decisions will definitely be regretted in five years' time.

Depending on the location, the level of quality, understanding and even enthusiasm for providing services will not be up to scratch and the expected savings during the first years will wither away only to be eaten up by the costs of re-integration. Therefore, the solution here needs to be to seek options in the Swiss market and to adopt a long-term focus.

Customers and employees

The greatest capital of a bank is its customers and employees. These are part of any bank's strategy, but these two most important assets are often woefully neglected. I still clearly remember how the mood among customers and employees at a large bank worsened dramatically during the financial crisis. Said bank has since managed to reinvent itself; pride and self-confidence have returned, and the customers and employees once again believe in the future. Swiss bankers think long-term because they know that it takes a long time to build a basis of trust with customers. However, this insight is not shared to the same degree by all foreign institutions. When different cultures clash within a bank, there is an increased risk of dissonance. This Gordian knot can only be untied if all sides work together to set and achieve common, long-term goals. There is a lot of evidence that this is slowly becoming the reality. Managers who do not treat their own colleagues with the necessary respect, who do not coach or motivate their teams and who do not let them take part in the overall success, are no longer needed. There are of course still numerous bad examples in the banking world, but I am also convinced that we are on the right path in this regard.

The announcement that in the future remuneration will to some degree be aligned with profits is, in my opinion, not only sensible but also positive. It is a mystery to me why shareholders and owners of a bank receive less dividend payments than management and employees. This question does not arise in SMEs, family-owned businesses or a professionally run company. It remains to be seen if the lesson will be learned in this area.

There are other good examples that could help the Swiss financial sector gain momentum. The topics mentioned above are just some of the things that are currently happening, but it is obvious that a lot has happened and a lot has changed.

What can we expect over the next three to four years?

After years of stagnation, a lack of courage, too much self-doubt and the desire to hold on to old habits, I am convinced that the next three years will see full confidence restored and that bankers will once again be able to focus on the following:

- prioritise customers,
- enhance the banking experience for customers in new realms,
- communicate with customers more quickly, with more confidence and with better content,
- use social media to shape the perception of the bank as a platform for bringing together business partners with similar or common interests,
- use fintech solutions to carry out more complex, more factually substantiated and faster analyses of investment and decision-making processes before making the findings available to the target groups in question,
- optimise internal banking processes in such a way that the execution of said processes can be shifted to the customer (mobile payments, alternative credit platforms, automated digital on-boarding, digital transactions, access to algorithms and analytical models of banks, mutually beneficial and exchangeable investment strategies via common platforms, access to crowd funding platforms etc.),
- at the least double the number of customer contact points using technological solutions provided by internal or external suppliers.

On the one hand, this list is not conclusive, but on the other it gives the initial impression that the human element will be replaced by technology in the future. To a certain degree, and in some cases, this is actually a good thing. Considering the fact that the base of all the above listed activities is primarily administrative and internal organisational, it is perhaps understandable that "innovations" are not such a bad thing – and are especially beneficial for customers. In the very cautious banking environment, fintech initiatives also add a bit of pressure, and that pressure will in turn inspire banks to tackle those changes more quickly and ambitiously. Fintech companies will not replace banks, though. That bubble too will burst at some point because in Switzerland the financing opportunities for these start-ups are very limited.

Naturally, the fundamental question is whether globalisation and technological advancement are a curse or a blessing. Our challenges in the future will be totally different compared to the challenges we faced 20 or 30 years ago. Technology probably bears more inherent risk than people generally seem to assume. For example it is still not clear to me how we are going to fight cyber-crime in the future. In addition, I am personally still critical towards the required and in the meantime accepted transparency in the sense of "transparent citizens and customers" due to the current lack of data protection. When people rhapsodise about cloud solutions, my immediate thought is security risks and intelligence services. Not every new technology makes sense for use in the banking business.

On the other hand, these new technologies definitely create opportunities as well. They help banks to bundle offers, approach more customers, use social media to build and benefit from networks, work more efficiently, implement updates faster and cheaper, and use different platforms to increase expertise among employees.

This of course requires more significant adjustments in the operative banking model and the associated value chain. However, it seems certain that processes can be optimised, reduced and outsourced to third parties and abroad; and that increased contact with customers as well as improved content, for the purpose of providing consulting services, will lead to increased revenues and reduced costs.

In my opinion, as mentioned earlier, all of this should be made possible by the fact that in three to four years we will only have a reduced number of banks (approx. 200) and a significantly lower number of asset managers (external asset managers: approx. 500). This will happen because some banks will have forfeited their licenses, others will be either bought or sold, and some will merge as equal partners. I also expect completely new conglomerates to be formed, for example when three or four private banks with different geographical alignments merge their activities and, therefore, become respectable players on the market. Discussions in this vein are already underway, which is why banks with similarly complex structures and similar sizes will combine their service centres, for example the two major banks, or all of the cantonal and other regional banks. We can assume that this trend will take place among private banks as well.

Another consideration regarding the current Brexit vote in the UK: viewed through the lens of Swiss banking, I see rather minimal effects due to this vote. What will happen is that a certain amount of businesses in the UK will be outsourced to Germany, Dublin or even Edinburgh (insofar as Scotland wants to return to the EU).

For us Swiss it is a question of exchange rates, but the SNB has a pretty good handle on that element. What is not clear, however, is how much extra (slightly negative) pressure will be placed on interest rates. This means, in turn, that mortgage rates will remain low for years to come and that they will remain low even if inflation comes into play, which does not seem likely at the moment. Regarding the other problems, such as market access for banking: these will remain and Brexit will have no influence on them.

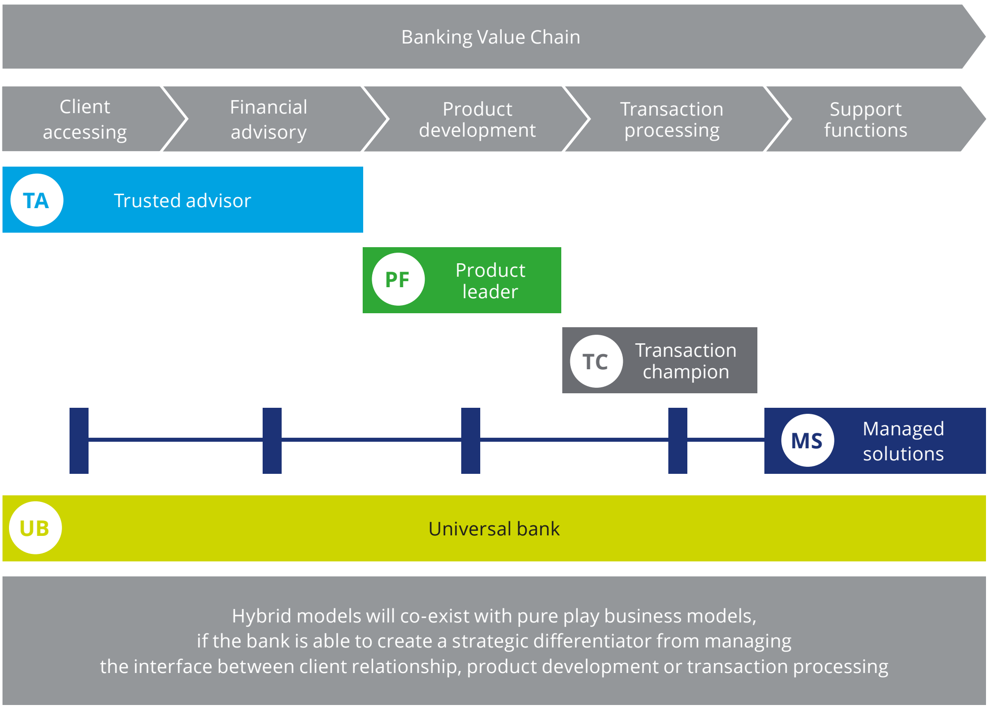
In my opinion, the most important change to be made is in the mindset of bankers in general. The maxim needs to be: to want to do business, to be aware that every business involves a certain level of risk, that risk/reward decisions need to be made, and that bankers will once again be gauged according to this benchmark. If you are overly careful, entrepreneurship is suffocated. We can view this in a clear Kantian way: have the courage to make use of your own powers of reason. Banking will always involve risks, but by applying healthy common sense it is possible to greatly reduce those risks.

It is my view that three areas play a decisive role in banking: business models, customers and relationship managers. This is why I will discuss these topics in more detail below.

Business models

The following chapter will cover five new business models that will establish themselves in the future of the banking sector. In addition, I expect specialisation in the Swiss banking sector. Business models are presented in more detail in our study “Future Business Models for Swiss Banks” (2016).

The following will hopefully illustrate how the corresponding business models could be structured in terms of content. Naturally they need to be adapted to the individual needs of each bank.



Source: Deloitte study: Future Business Models for Swiss Banks, 2016

1. The Trusted Advisor (TA) business model

As a "Trusted Advisor", banks will take advantage of diversification by increasing their share of customer revenue.

An overview of the banking model:

Customer segments	• Customers with limited time and/or limited financial resources • Customers looking for high-value, professional financial advice (investment, taxes, financing)
Customer relationships	• Building sustainable customer relationships based on trust and the reputation of the institution • Maintaining personal networks
Channels	• Integrated, seamless omni-channel approach across branch offices, Internet, mobile phones and telephones • Offering direct access to consultants and product specialists
Revenue streams	• Consultancy fees (asset-oriented, time-oriented, fixed fees) • Net interest
Strengths	• Excellent customer experience (customer-oriented focus) • Trusted advisor • Pool of specialists/experts

Source: Deloitte study: Future Business Models for Swiss Banks, 2016

Core activities	• Services and products tailored to individual customer needs • Investment in customer experience and related services • Intelligent omni-channel management
Core resources	• Customer specialists (with strong networks) and product experts • Open product architecture platform • Advanced analysis tools for risk and need-based offers
Main partners	• Service providers close to banking services (e.g. tax experts, lawyers, concierge services) • Suppliers of special products
Cost structure	• Higher operating costs (lower costs for standardised services and personnel, but with more success-oriented components for customer relationship managers

Weaknesses	• Higher costs for customer acquisition • Limited internal knowledge regarding processes and product development

2. The Product Leader (PL) business model

Banks which use the "Product Leader" model will focus on developing innovative products in order to quickly win market shares at premium prices.

An overview of the banking model:

Customer segments	• Own customers or customers from third-party providers of financial services • Professional investors (e.g. insurance companies, pension funds, external asset managers)
Customer relationships	• Managing B2B partnerships (tailored product development) • Using the brand, reputation and service as proof of quality to win new customers
Channels	• Sales channels through third parties (e.g. EAMs, other banks) • eChannel • Standardised interfaces with B2B partners
Revenue streams	• Management fees (through product) • Transaction fees • Consulting fees / signing fees

Strengths	• Innovation-driven model • Able to generate premium prices • Agility (short time to market)

Source: Deloitte study: Future Business Models for Swiss Banks, 2016

Core activities	• Conduct research and develop new products • Recognise trends and identify customer needs • Attract and maintain special talents
Core resources	• Creative product experts and competent research department • Strong marketing department • Agile multi-purpose processing system
Main partners	• Fintech providers • Research boutiques and innovative thought factories • Transaction champions
Cost structure	• High fixed costs (agile multi-purpose technology) • High operating costs (non-scalable product development and research costs)

Weaknesses	• Limited efficiency • Low barrier to entry (competition) • Dependency on key talents

3. The Transaction Champion (TC) business model

Banks with the "Transaction Champion" model focus on the use of economies of scale through partnerships with other providers.

An overview of the banking model:

Customer segments	• Companies and private customers looking for cost-effective offers • Customers of a non-traditional financial service provider • Banks that aren't big enough to offer a cost-effective operation
Customer relationships	• Processing specialist in partnership with smaller banks and non-traditional financial services providers • Seamless integration of proprietary services into the customer offering
Channels	• Standardised interfaces (e.g. APIs) • Self-service on the Internet, mobile apps, call centres • Key account management
Revenue streams	• Transaction fees or • Revenue-based fees (percentage of partner revenues) or • Fixed service fees
Strengths	• Excellent and efficient, integrated processing capabilities • Economies of scale

Source: Deloitte study: Future Business Models for Swiss Banks, 2016

Core activities	• Winning new customers / business volume to make economies of scale a reality • Constant industrialisation of the proprietary offering • Agile acceptance of new banking services / standards
Core resources	• Efficient and agile processing system • Bank processing, banking sector and banking technology experts • Key account managers
Main partners	• External financial service providers that need a bank as a partner • Global correspondent banks • Product leaders
Cost structure	• High fixed costs (significant investment in technology and processing capacities) • Low variable (operating) costs due to scalable processes

Weaknesses	• Risk that the proprietary offering will become a mass-market product • Limited brand awareness on the end customer side • Limited ability to offer tailored solutions

4. The Managed Solutions Provider (MS) business model

As "Managed Solution Providers", banks will pin their hopes on building economies of scale by serving other providers with banking solutions.

An overview of the banking model:

Customer segments	• Banks or other third-party providers of financial services • Professional investors (e.g. insurance companies, pension funds, external asset managers)
Customer relationships	• Managing B2B partnerships • Using the reputation and potential efficiency improvements to win new customers
Channels	• Standardised interfaces with B2B partners • Key account management
Revenue streams	• Transaction fees or • Revenue-based fees (percentage of partner revenues) or • Fixed service fees

Strengths	• Transform emerging customer needs into intelligent solutions • Economies of scale within a specific area of expertise

Source: Deloitte study: Future Business Models for Swiss Banks, 2016

Core activities	• Winning new customers / business volume to make economies of scale a reality • Constant industrialisation of the proprietary offering • Identifying customer and end customer needs
Core resources	• Experts with in-depth specialisms • Banking sector and banking technology experts • Key account managers
Main partners	• Providers of special expertise • Transaction champions
Cost structure	• High fixed costs (significant investment in technology and processing capacities) • Low variable (operating) costs due to scalable processes

Weaknesses	• Risk that proprietary offering will become a mass-market product • Limited brand awareness on the end customer side • Dependence on special experts

5. The Universal Bank (UB) business model

In the "Universal Bank" model, all the various areas of the banking business will have to reach a size that allows for the lowest cost levels while increasing overall efficiency.

An overview of the banking model:

Customer segments	• End customers across customer segments, including private, institutional and corporate clients • Third-party banks
Customer relationships	• "One-stop shop" for customers • Brand and reputation (stability)
Channels	• All channels
Revenue streams	• Net interest • Transaction fees • Consultancy fees
Strengths	• Control over a large portion of the value-added chain • Large share of the customer's financial resources (insight into customer needs) • Possibility to optimise the use of the balance sheet

Source: Deloitte study: Future Business Models for Swiss Banks, 2016

The model that is right for each bank will reveal itself in the future. I recommend – in addition to the generic customer segments defined in the various business models – to shed some light on the actual individual customer requirements. Customers are real people and they are better served with practical approaches than with theoretical models.

Core activities	• Allocation of resources • Consultancy, transaction processing and product development • Commercialisation of proprietary capabilities
Core resources	• Customer relationship management • Process experts
Main partners	• External product suppliers • Outsourcing providers / transaction champions • Network with similar providers
Cost structure	• Very high fixed costs due to branch office structure and technology (if not outsourced)

Weaknesses	• Company needs to be big enough to cover the reasonable cost margins • Lack of a clear focus, competing priorities and conflicts of interest • Capital-intensive

Requirements from a customer perspective

So how do these needs manifest themselves from the perspective of the customer? Here, too, it can be debated whether the efforts of banks to employ digital, robo-advice, robotics and, in general, fintech solutions are actually in the best interest of the customer, and more importantly for which customer? Is it still timely to segment customers into retail, affluent, high net worth individuals (HNWI, or premium customers), ultra-high net worth individuals (UHNWI) and family offices and to have them split into regions and countries in the name of globalisation and technological possibilities?

Or should there be a classification according to completely different criteria instead? Is not the main point to bundle the same needs, the same interests, the same risk capacities and the same risk appetite and to then define and develop products and services based thereon?

Our customers have changed just like we have. In addition to cultural needs and idiosyncrasies as well as socio-demographic developments of individual regions or countries, the individual customer life cycle also has to be taken into consideration, even if they are completely different for each region, country, stage of development, economy and alignment.

Below I will allow myself to digress in terms of customers from different regions because, for example, a Europe oriented on tradition, history and the long-term can not be compared with the Middle East or Asia. On this basis, there will be demand for other types of advice, products and services which in turn need to be represented by other personalities. These variants are of course also not conclusive, but they definitely provide food for thought in terms of structuring customer service organisations.

Europe

In Europe, two generations are clashing at the moment. Firstly, there are the older people, who possess substantial assets saved over many years and which they have secured for coming generations. Thanks to advantageous pension systems they are looking forward to a relatively comfortable old age. Secondly you have Generation Y, who is trying to face the new requirements of the day while simultaneously embracing short-term ideas to challenge the long-term orientation of their parents and grandparents. They have different views on working with banks and their representatives and take advantage of future banking interactions through their own networks.

It is still of the utmost importance for these customers to have personal contact, that all generations are involved in financial decisions, and that the appropriate tools are in place to help Generation Y. This is of course difficult given the limited market access. As such, I advocate for Switzerland to sign the financial services agreement with the EU as quickly as possible. Otherwise the insular mentality will rapidly lead to isolation.

For European customers our traditional private banking services, discretionary and advisory accounts, special funds, private equity, metals, real estate and art are still suitable.

Middle East

Because of its traditional Islamic influences, the Middle East has little interest in discretionary accounts (asset management clients) and is more inclined toward direct investment opportunities and material assets. As a result, it is vital to have an investment banking arm for this kind of clientele. Cash, gold, commodities, real estate, art, shareholdings and specially tailored products and solutions are in much greater demand than asset management. Due to the fact that the first generation of entrepreneurs, who made their money through building and expanding industrial activities and was, until recently, still actively involved in the businesses the second generation had to wait until they were much older to be given management responsibilities.

Therefore, this generation is only slowly getting up to speed and the alignment of banking services for this upcoming generation should not require anyone to reinvent the wheel. Furthermore, in the traditional family hierarchies of the region, great attention is still being paid to the opinions of fathers and grandfathers, even after they have left the active business. The sons and (less frequently) daughters often orientate themselves on the body of knowledge of the parental generation, thus maintaining the old course. It can be presumed (or hoped) that the third generation or even Generation Y will breathe new life and innovation into the region.

Winning new customers in the Middle East primarily requires one thing: patience and a demonstrable desire to really understand the culture. This long-term mindset pays off doubly in the end: as a “new family member”, the banker is always involved and will be consulted on all manner of topics. If you can help, you get the job. What is more, as a family member you will never be left in the lurch. I also advise not to underestimate the cultural hierarchy in the region. Of the six different classes that exist, the ruling family is in class 1; sheikhs or other important business people close to the family are in class 2; the Swiss, Germans and English are in class 3; the rest of the locals are in class 4; the rest of the western world is in class 5; and all citizens from the east or south are considered domestic help and belong in class 6. With this knowledge in mind, in order to be successful, it is important to make careful decisions when selecting the right people to work with you in this part of the world.

Does the Middle East need a large set-up of our banks? I am still of the opinion that the most promising way to proceed is via representative offices. In principle, for customers of this region it is not that important where their assets are situated. The fact that the "leading" families all have an outpost or two in Europe or the USA is common knowledge. Therefore, I only see a requirement for offshore relationships in the context of this region.

Increased compliance standards in the Middle East are also not to be underestimated. The better you understand the culture, families and their networks, the less effort it will be. Looking at the 200 largest families in these countries, all of them need to be categorised as PEPs (politically exposed persons) due to their proximity to the ruling families. Indeed, without this proximity, their rise within the hierarchy of the nation would have been impossible.

A similar analysis can be applied to **Russia and its bordering states.** Their philosophy and requirements are often very similar to those from the Middle East. Politically speaking, however, the Middle East is more easily appraised and more transparent than Russia, and therefore less risky.

Asia

Asia is an emerging market and is growing faster than any other market. The number of future millionaires in India and China as well as the growing number of successful business people in Indonesia, Malaysia, Hong Kong and Singapore also strongly points towards securing a piece of that pie. The cultures of Asia are neither comparable to those of Europe, the Arab world, Russia nor the USA, etc. Building a successful business in Asia requires in-depth knowledge of the region, large amounts of capital, patience, the right people and the right services. In Switzerland there are very few banks that can afford this.

Without investment banking one cannot grow fast enough in Asia. In order to do this though one requires vast amounts of resources. Asians are generally not shy of taking risks, but they require heavily leveraged transactions and expect their banks to invest with them. They focus on commerce, foreign exchange, shareholdings, commodities, stocks and derivatives. Therefore, resources are always volatile. Securing long-term asset values is not yet part of the game in Asia, which means demand for traditional asset management is pretty limited. Furthermore, in such a short time, customer loyalty has not yet been established. It is also not clear whether Asian customers would rather deal with expats or local relationship managers. However, we know from other cultures that confidential information is only reluctantly passed on to locals and that the Swiss are preferred.

However, this varies in terms of affluent customers. This segment can only be managed effectively and efficiently provided the technological tools are in place: digital channels and robo-advice with limited support from relationship managers. It makes sense to build up this segment by involving locals.

What do customers expect from Swiss private banking?

One thing is certain: customers want to place emphasis on their traditional needs, namely, quick and uncomplicated access to their relationship managers and services. They also want to build or expand the foundation of trust with their relationship managers, who will serve them long-term. Depending on regional origin, the type of support required varies and calls for different types of consultant personalities.

Customers are generally loyal, not least due to the transfer costs.
They change banks when:

- performance is weaker than the market average over a longer period of time,
- their orders are not executed correctly or fast enough,
- they see a lot of cancellations in their account statements,
- they are not informed about events in an honest and timely manner,
- no new ideas are presented to them,
- the minimum requirements regarding technological tools are not met (electronic banking, asset management app, timely information about all kinds of transactions etc.),
- they can't reach their relationship manager,
- their relationship manager displays a lack of specialist knowledge,
- they have to question the reputation of their bank,
- they realise that their contacts are exclusively dedicated to the sale of products and services,
- they see that their banker is more likely to withdraw when faced with the unexpected rather than to help proactively.

Since relationship managers play a central role, I will go into this sales channel in more detail below.

The end of the traditional relationship manager

In the past, individual relationship managers were primarily focused on a bi-directional arrangement with customers. In the future, the emphasis will be on bringing together individual customers and their interests with the bank taking on the role of mediator, organiser, director and initiator. In doing so, regions, national borders and cultures will lose importance. The only goal will be to offer interested parties the same services and the same deals at the same time, even if the concept of a "bank" as a platform has actually been made obsolete by technical tools. Nowadays these are called "peer-to-peer" platforms, but I remember the era of "barter deals", which were made only through one's network while the bank was used as a processing platform for the transaction.

The relationship manager of the future will receive a new profile. "Network gaming" is the new magic word or "Which ideas do I need to apply to get my network to work together?" This means that the banker of the future will have to act more as a source of advice and ideas and less as an agent for processing orders. But the prerequisite for this is that the relationship manager knows his customers inside and out. It will not suffice to just sell products the bank is offering. He himself will have to develop new product ideas because he knows what his customer wants. Does he need his own bank to do that? No, not at all. Such products can also be developed and made available by third parties.

Especially the new technologies such as social media and others are ideally suited for implementing this paradigm shift. This means renewed pleasure in client contact and one's network – but it also requires that you possess a network in the first place. The question here is who made the effort to build and maintain a network? It takes time and energy. Did the bankers use their time wisely or did they focus mainly on internal business, thereby forgetting to attend to and maintain their most important commodity: their customers. Unfortunately I am convinced that the banks do not know the actual needs of their customers well enough, and that far too often they thought from the inside out instead of from the outside in. This has to change urgently. Bankers who miss this train will no longer have any perspectives for the future.

Robo-advice is likely to become standard for asset management among retail and affluent customers. However, for affluent customers there will always be a need for relationship managers because this customer segment places higher value on personal consultation. For HNWI and UHNWI this will not be an issue, other than as a source of information. This means that digital, robo-advice and robotics will establish themselves as the standard for banking institutions and must be offered – both for cost-saving reasons as well as for simply keeping up with the new standards. For many institutions, however, investments in future technologies on their own will not be financially viable. For this reason, new solutions concerning sourcing will be critical, thereby opening up new value chains. As a result we must assume that in the Swiss banking sector a significant number of jobs will be lost. But on the other hand completely new profiles and positions will emerge.

The response to whether relationship managers will be completely replaced by technological solutions is a clear "no". The strength of private banking lies in the relationship manager, who defines part of the USP of a bank. Modern technology will help relationship managers to do their jobs more effectively in the future. IT is still not the core business of a bank, but depending on the business model, investments in IT have to be made cleverly and expediently. Specialist companies can support banks on that front. Here too my personal credo applies: I am happy to let technology help me so that I can spend more time taking care of my customers. IT can be bought, but customers can not (except of course through an asset deal).

Some final comments

Although many of the elements in our industry are set up in a rather negative and cautious manner, with reasons ranging from results, inactivity and inefficiencies in the market environment to regulations and increased risks, we must not forget that it is precisely this environment that offers us enormous opportunities for our industry. Fintech initiatives apply pressure for change; digital and robotics will become the norm and operating business models will emerge, separating the wheat from the chaff.

In my long career I have seldom seen opportunities such as these allowing you to distinguish yourself from competitors. Thinking about our core competence – customer service – we can conclude that the best way forward is to invest in a few goal-oriented changes, outsource as much as necessary and work together with competent partners.

A better opportunity to do so will never come around again.

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/ch/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte AG is a subsidiary of Deloitte LLP, the United Kingdom member firm of DTTL.

Deloitte AG is an audit firm recognised and supervised by the Federal Audit Oversight Authority (FAOA) and the Swiss Financial Market Supervisory Authority (FINMA).

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte AG would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte AG accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2016 Deloitte AG. All rights reserved.

Designed and produced by The Creative Studio at Deloitte, Zurich. J10551