

# The Future of Swiss Private Banking

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Using regulation to restore confidence in the industry and enhance Swiss private banks' competitiveness

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**Turning regulation into value**

**STRENGTHENING WHOSE HAND?  
THE IMPACT OF NEW REGULATIONS ON BANKS AND CLIENTS**

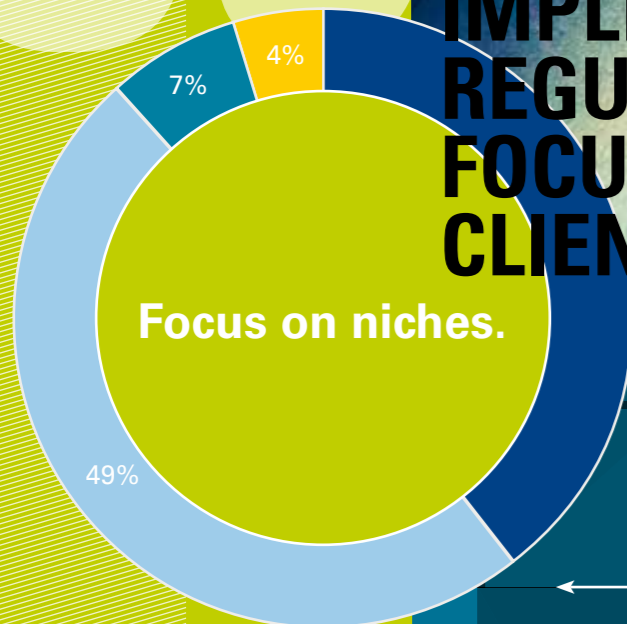
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**VIEW TRANSNATIONAL REGULATION AS CRUCIAL TO YOUR BANK'S SURVIVAL**



**IMPLEMENT REGULATION PROMPTLY, FOCUSING ON ADDED CLIENT VALUE**

**Focus on niches.**



**GOVERNMENT AND REGULATION**  
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## Turning regulation into value

**A study by KPMG AG Switzerland**  
in cooperation with the Institute of Management  
at the University of St. Gallen.

**Core team:**

KPMG Switzerland  
Philipp Rickert, Partner and Hans Stamm, Director

University of St. Gallen (HSG)  
Prof. Dr. Dr. Tomi Laamanen

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**Philipp Rickert** and **Hans Stamm**, KPMG Switzerland

## Introduction

Greater protection of clients' assets has been high on regulators' agendas since the 2008 financial crisis. For private banks, this means a wealth of new and expanded transnational regulation, some of which has already passed into Swiss law. Respondents in our last private banking study – «Success through innovation» (2013) – envisaged a transformation of their industry. They cited regulation alongside profitability concerns, potential scale benefits and technology-enabled opportunities as a key driver of change. Our new study demonstrates how regulation in particular is at the center of this transformation, and we discuss how Swiss private banks can turn regulation into value.

As the Swiss private banking industry depends heavily on access to foreign client bases and markets, the negative implications of not securing an international level playing field would be severe.

Switzerland's governmental, regulatory and banking industry bodies must therefore engage positively, proactively and in a coordinated manner with the development of transnational regulation. Importantly, they must find an appropriate, principles-based approach to local implementation.

It is then down to market participants to use regulation as an impetus to innovate business models and improve client satisfaction, particularly by creating value for clients through superior service quality and professionalism. Doing so will restore confidence in the industry and allow Swiss banks to more effectively seek out new growth opportunities.

We hope you find our insights in this study interesting, and we would invite you to discuss with us their implications for your organization.

# PROGRESSIVE, ADVANCED REGULATION STRENGTHENS INTERNATIONAL COMPETITIVENESS

The determinants of the competitiveness of an industry sector or cluster in a given country were first introduced in Harvard Business School Professor Michael E. Porter's book, «Competitive Advantage of Nations». We believe these determinants remain of utmost relevance for the private banking industry.

Known as the «Diamond model for the Competitive Advantage of Nations», his model comprises four inter-connected elements relating to a particular sector and country:

- 1 **Firm strategy, structure, and rivalry:** the intensity of competition;
- 2 **Demand conditions:** the nature and level of advancement and sophistication of the clients of the products and services;
- 3 **Related and supporting industries:** the existence of other sectors that support the industry's success; and
- 4 **Factor conditions:** the existence of an educated workforce and other factors of production required.

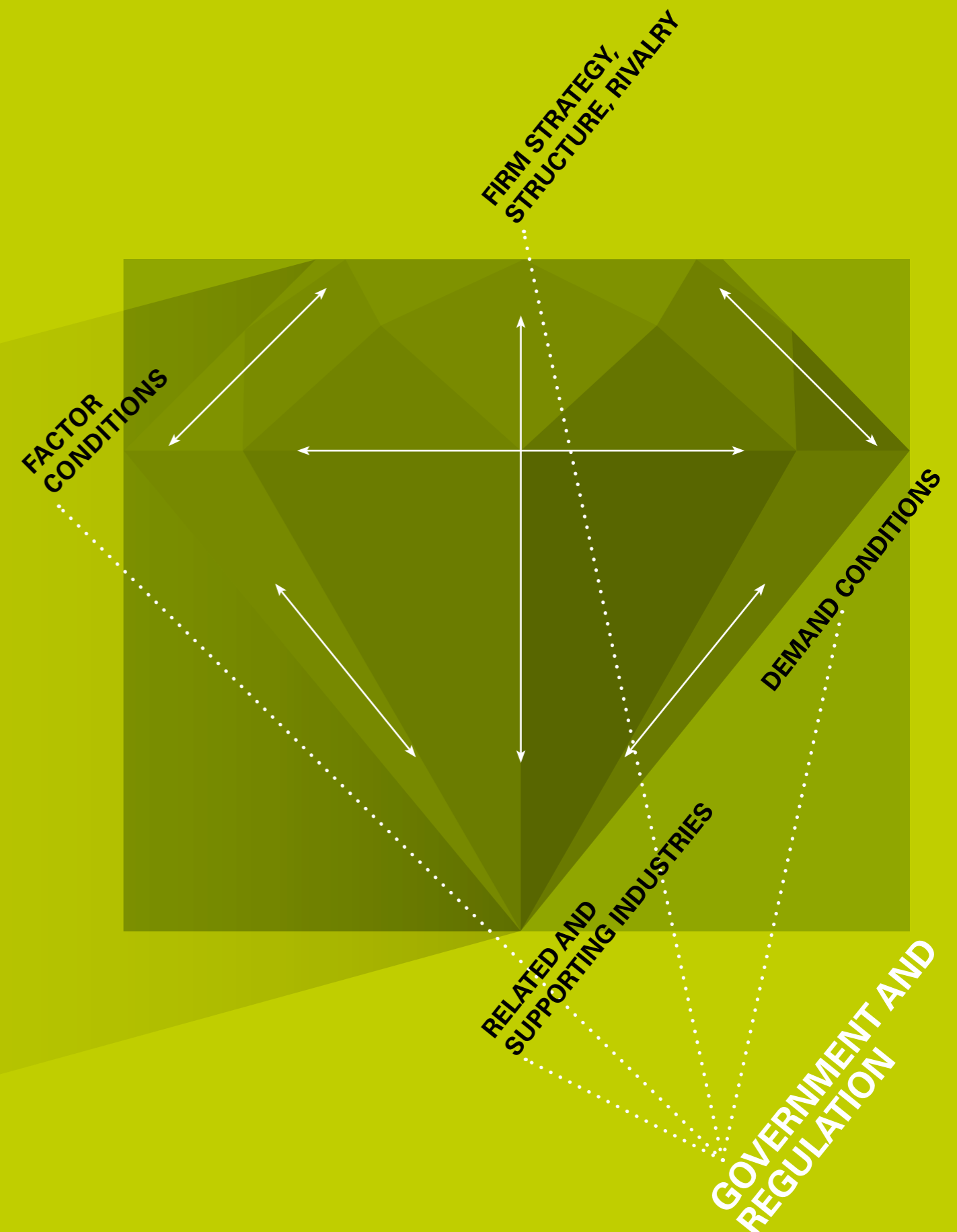
In addition, **government influence** interacts with the other four.

The more favorable the factors are for the development of an industry sector or cluster, the more internationally competitive it becomes.

The more competitive an industry in a particular country, the more competitive the winning firms become when competing internationally.

Similarly, the tougher and more demanding are the customers, the more advanced and sophisticated are the processes the industry sector will produce.

Taking into consideration Professor Porter's model, together with our own insights and experience, we argue that: the more progressive and advanced the regulation aimed at the Swiss private banking industry, the stronger the banks can be expected to become internationally. This because they must learn to cope with the regulation, develop more sophisticated processes and business models, and innovate more than their foreign counterparts.



# VIEW TRANSNATIONAL REGULATION AS CRUCIAL TO YOUR BANK'S SURVIVAL

Swiss private banking remains an export-led business. Swiss governmental, regulatory and banking industry bodies must play a proactive role in shaping transnational regulation to ensure an international level playing field and restore the industry's superior reputation.

## ADOPT AN APPROPRIATE AND PRINCIPLES-BASED REGULATORY APPROACH

Transnational regulation should apply to all Swiss private banks in the interests of client protection and confidence. However, implementation should be appropriate and principles-based.



## **IMPLEMENT REGULATION PROMPTLY, FOCUSING ON ADDED CLIENT VALUE**

Adapt your strategies and seek ways to generate further value for you and your clients. Communicate the value of regulatory-driven changes positively to clients to improve confidence and trust. Do not discharge the banker's responsibility by hiding behind regulation.

## **RETHINK YOUR BUSINESS MODEL TO REALIZE EFFICIENCIES AND PURSUE GROWTH**

Significant investment will be needed in digitalization to comply with new regulation. Use the opportunity to redesign your business model, innovating to position the bank for future growth.



# EVOLVE THE RELATIONSHIP MANAGEMENT APPROACH AND CLIENT COMMUNICATIONS

Fulfill clients' expectations for their RM to be a personal coach, to take on a more sociable role, and to have at his disposal a range of technologies to enhance the client experience and convenience, while complying with applicable regulation.

## UTILIZE TECHNOLOGY FOR EFFECTIVE OPERATIONALIZATION

Form a seamless triangle between regulatory requirements, client expectations and your bank's operational excellence. Use digitalization and big data to enhance service quality and provide transparent pricing models while delivering cost efficiencies.

# VALUE

## Client Satisfaction TRANSNATIONAL REGULATION

### EXECUTIVE SUMMARY

As an export-based industry, the survival of Swiss private banking depends on its access to an international client base in relevant markets. Adoption of transnational regulation is especially critical as the foreign onshore business gains importance while the offshore business declines. Transnational regulation should therefore not be seen as an option. Rather, it is central to a sustainable and successful Swiss private banking model.

Successful adoption of transnational regulation requires proactive engagement by Swiss governmental bodies, FINMA and banking industry groups such as the SBA. They must seek to positively shape regulation, uniting to ensure an international level playing field on which Swiss banks can demonstrate their competitive advantages of professionalism, high service quality, and political and economic stability. Implementation of regulation should be on an appropriate, principles-based manner, however, and banks that do not comply must be held accountable.

For their part, banks should embrace and implement regulation fully and promptly, with the ambition of increasing value and experience for their clients. In addition to securing their ability to access foreign clients, regulation can deliver a range of advantages. It will help banks to enhance their USPs in core markets, adapt strategies and seek new ways to generate value for both bank and client. Choosing to over-comply with client regulation in particular will produce higher levels of client satisfaction. Technology is a key enabler of this change – but while digitalization is a top issue on banks' agendas, it is not being applied as much as it should be. Banks must become more technologically savvy, standardizing and digitalizing core processes (which will yield cost efficiencies) as well as introducing

a range of communication channels that clients increasingly expect. Clients want their RM to be a personal coach, to play a more sociable role, and to have at his disposal a range of technology-based tools to add more value during meetings and other interactions. Such tools, incidentally, will be helpful in gaining access to new generations of clients and those at a geographic distance such as in emerging markets.

Implementing change is the first step. Communicating it is also vital. Banks must clearly articulate the value of regulatory-driven changes for clients, including higher service quality, helping clients better understand their risk appetite, more tailored solutions through the bank's use of big data and, crucially, greater transparency over products and pricing models. Regulation should not be used as an instrument to shift responsibilities for financial activities from the bank to its clients. Proactively embracing regulation will help restore clients' trust and confidence in Swiss private banking. It will facilitate higher service quality at competitive rates, connecting banks and clients more effectively. It will also cement the competitive advantages of Swiss banks on the global stage and secure Switzerland's role as a leading wealth management hub.



# Business Model

# CHANGE

## Relationship Management

## DIGITAL

### Priority agenda for action

We have combined our own insights with the results of our interviews and online survey. The result is a number of action points that Swiss private banks and their regulators, industry bodies and relevant governmental bodies should consider in helping the industry to turn regulation into value.

#### Use regulation to secure the **competitiveness** of Swiss private banks...

- Ensure strict supervision and controls when introducing transnational regulation into Swiss law, to achieve an international level playing field.
- Adopt a united voice between Swiss governing bodies, FINMA and the banking industry. Shape a common agenda and participate proactively in transnational regulatory developments to help maintain Switzerland's preeminent role.
- Ensure reciprocity of market access through transnational regulation, to secure continued access for Swiss banks to foreign client bases as well as foreign banks' access to Switzerland.

#### ...while helping banks **protect clients' assets and restore trust**

- Implement transnational regulation in an appropriate, principles-based manner rather than on a prescriptive rules basis.
- Ensure early and proactive involvement of banks in discussions with FINMA and Swiss governmental bodies when creating new regulation in order to achieve good regulatory standards that are centered on the client rather than on regulators and banks.
- Proactively engage in a cultural change within the bank to secure client benefits when introducing new regulation.

#### Acknowledge regulation's use in **enhancing your business model and seeking sustainable growth...**

- Redefine business models and focus clearly on core competencies, markets and services. Consider collaborations, strategic alliances and outsourcing for non-core activities.
- Ensure your strategy is aligned with regulation, forming a seamless triangle between regulatory requirements, client expectations and operational excellence.

#### ...creating efficiencies and differentiation by **digitalizing operations...**

- Assess the changing needs of different client segments. Clients increasingly expect their private banks to provide the same level of digital sophistication as they get from retail banking.
- Reassess the respective merits of being a first mover versus taking time to see which technologies will be successful before investments are committed.
- Consider joining forces with technology providers to co-create solutions that fit the core banking platform and respond to the bank's specific needs, e.g. for suitability, on-boarding and the client advisory process.

#### ...taking advantage of the potential of **big data...**

- Ensure your IT system is capable of giving you better access to, and analysis of, client data.
- Collect structured data to enhance the effectiveness of targeting existing clients, increase transparency, and reduce the knowledge drain when an RM leaves the bank.
- Redesign pricing models, keeping them simple and transparent in line with clients' increasing price sensitivity. Clearly articulate to clients the value of the new pricing models.
- Bring in an expert from another industry to deliver insights to improve segmentation, use and analysis of client data, product offering, and pricing model sophistication.

#### ...and recognizing **the role of the board of directors and senior management** in implementing regulation

- Consider which skill-sets and expertise the BoD needs to adequately supervise regulation implementation and sustainable compliance.
- Define at a BoD level the implementation strategy and principles, in particular to what level (over-compliance or minimal compliance) upcoming regulation will be introduced.
- Help RMs understand and comply with regulation, seeing it as an opportunity rather than a threat or hindrance. Equip and

empower them to seize opportunities such as helping clients through the voluntary disclosure process.

#### Dramatically improve **client communications...**

- Assess the quality of your client communication. Ask clients how they wish to communicate and build specific clusters such as face-to-face, electronic or a combination thereof.
- Support the RM by providing electronic devices such as tablets to lead through the client's portfolio and enable him to simulate outcomes.

#### ...and fundamentally change **the RM's role and profile** to enhance client satisfaction

- Strengthen the RM's role, making him the client's «mini family officer» and sparring partner. Set up training modules to equip the RM to better serve a more sociable and inter-personal relationship. Ensure the RM develops an in-depth knowledge of the client.
- Free up the RM's schedule to spend more time with the client and improve service quality. Where appropriate, delegate work to specialists in property advisory, insurance advisory, pension plans etc. Replace manual processes with a simple and automated client onboarding and client advisory process.
- Ensure the RM's incentivization is in line with the bank's strategy and culture in this new regulatory environment.

**ONLY  
26%  
THINK**

THAT IMPLEMENTING  
TRANSNATIONAL REGULATION  
WILL MAKE SWISS  
**BANKS  
MORE**

**COMPETITIVE.**

**RESPONDENTS HAVE REDUCED  
THE NUMBER OF ACTIVELY COVERED  
COUNTRIES BECAUSE OF  
TRANSNATIONAL REGULATION.**

**58%  
77%  
OF  
THINK BANKS**

**CAN LEARN** FROM  
OTHER INDUSTRIES HOW TO  
LOWER ADMINISTRATIVE COSTS  
DUE TO STREAMLINED PROCESSES  
AND DISTRIBUTION CHANNELS.

**9 OUT OF 10  
RESPONDENTS**

THINK THAT THE  
IMPLEMENTATION OF  
REGULATION IMPROVES  
THE REPUTATION OF  
THE SWISS FINANCIAL  
CENTER BUT

**ONLY 3 OUT  
OF 10 THINK**

IT IMPROVES CLIENTS'  
CONFIDENCE IN THE BANK.

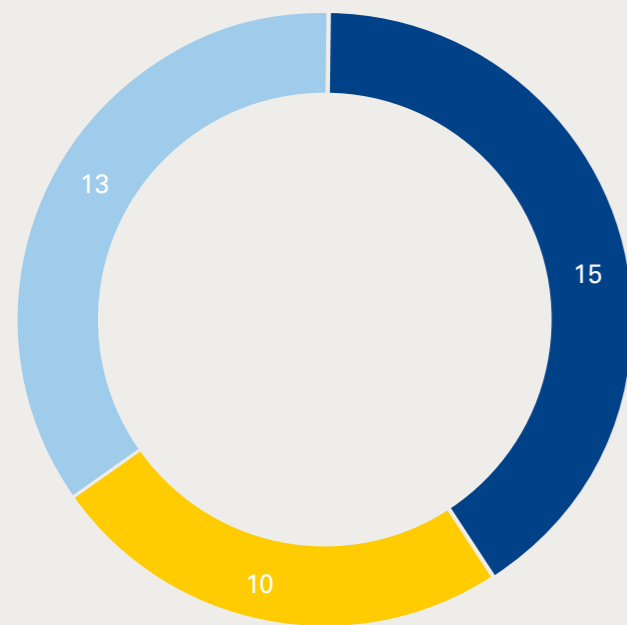
**ONLY 1  
OUT OF 4**  
RESPONDENTS  
OFTEN USES  
ELECTRONIC  
DEVICES  
DURING CLIENT  
MEETINGS.

**73% THINK  
THAT  
IMPLEMENTATION  
OF TRANSNATIONAL  
REGULATION SHOULD BE  
IN AN APPROPRIATE,  
PRINCIPLES-BASED  
MANNER.**

## Methodology and glossary

This study is based on a combination of qualitative interviews and a quantitative online survey. A total of 50 banks in Switzerland and Liechtenstein were included in our study.

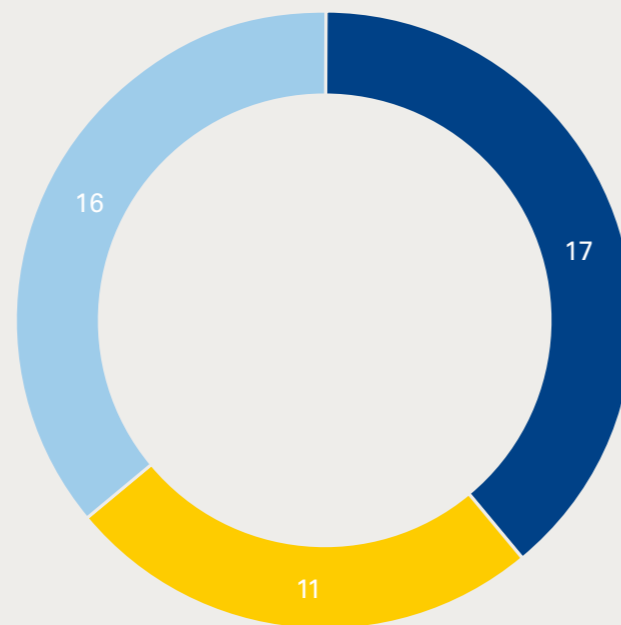
**Interviewed banks by bank type**



### Face to face interviews

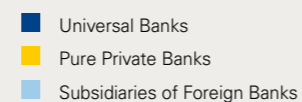
Interviews were conducted with C-level executives at 38 private banks, private banking operations of universal banks (including cantonal banks) and Swiss subsidiaries of foreign banks.

**Online survey respondents by bank types**



### Online survey

44 private banking executives completed the online survey.



**Chart sources** All charts and graphics are sourced from KPMG and / or the University of St. Gallen based on the results of the interviews and survey, unless specifically stated otherwise.

### Key findings:

- Throughout this publication, the «Key findings» sections are based on the results of the interviews and survey. They are not necessarily the views or positions of KPMG and / or the University of St. Gallen, whose views may be found in the «Our insights» and «Agenda for action» sections of this publication.

### GLOSSARY

AEoI	Automatic Exchange of Information
AuM	Assets under Management
BoD	Board of Directors
CDC	Client Data Confidentiality
CHF	Swiss Francs
CISA	Collective Investment Schemes Act
FATF	Financial Action Task Force
FIDLEG	Swiss Financial Services Act
FINMA	Swiss Financial Supervisory Authority
FSB	Financial Stability Board
HNWI	High Net Worth Individual
M&A	Mergers & Acquisitions
MiFID	Markets in Financial Instruments Directive
OECD	Organization for Economic Co-operation and Development
RM	Relationship Manager
SBA	Swiss Bankers' Association
UHNWI	Ultra High Net Worth Individual
USP	Unique Selling Proposition

### DEFINITIONS

- The terms «banks», «banking», «private banks», «private banking» and «wealth management» are used interchangeably for the purpose of this publication. All refer to private banking unless specifically stated otherwise.
- «Swiss private banking» refers to the private banking industry in Switzerland and Liechtenstein.
- Pure private banks: refer to banks that operate exclusively in the wealth management field.
- Universal banks (including cantonal banks): refer to banks offering a range of private, retail and corporate banking services.
- Swiss subsidiaries of foreign banks: refer to the private banking or universal banking subsidiaries in Switzerland of non-Swiss banks.
- Transnational regulation: refers to regulation issued by international regulators and organizations such as the OECD, EU and FSB. It is a combination of 'hard laws' and directives, as well as softer rules such as guidelines, standards and rankings.
- Big data refers to large data sets that are difficult for commonly utilized software tools to capture, manage, process and analyze. It typically relates to substantial volumes of structured and unstructured data.
- For ease of reading, we refer to RM and client throughout the publication as «he» or «him». In this context, this refers to both he or she, or his and her.

# Detailed study results

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## **Restoring trust and securing Swiss banking preeminence**

The events of 2008 contributed to a legitimacy crisis in the global banking industry. A severe decline in the public's confidence and trust was accompanied by serious questions over the appropriateness of banking business practices and structural failures to address key stakeholder requirements. Key concerns surrounding the private banking industry regarded tax morality and transparency.

As a consequence, recent national and transnational regulatory developments seek to establish an international level playing field by effecting cultural and behavioral change throughout the industry. New regulation aims to restore confidence in the private banking business model, allowing it to fulfill stakeholder demands and prosper as a sustainable business.

**«BANKS WILL REMAIN  
PROFITABLE THROUGH  
REGULATION»**

Interviewee from a universal bank

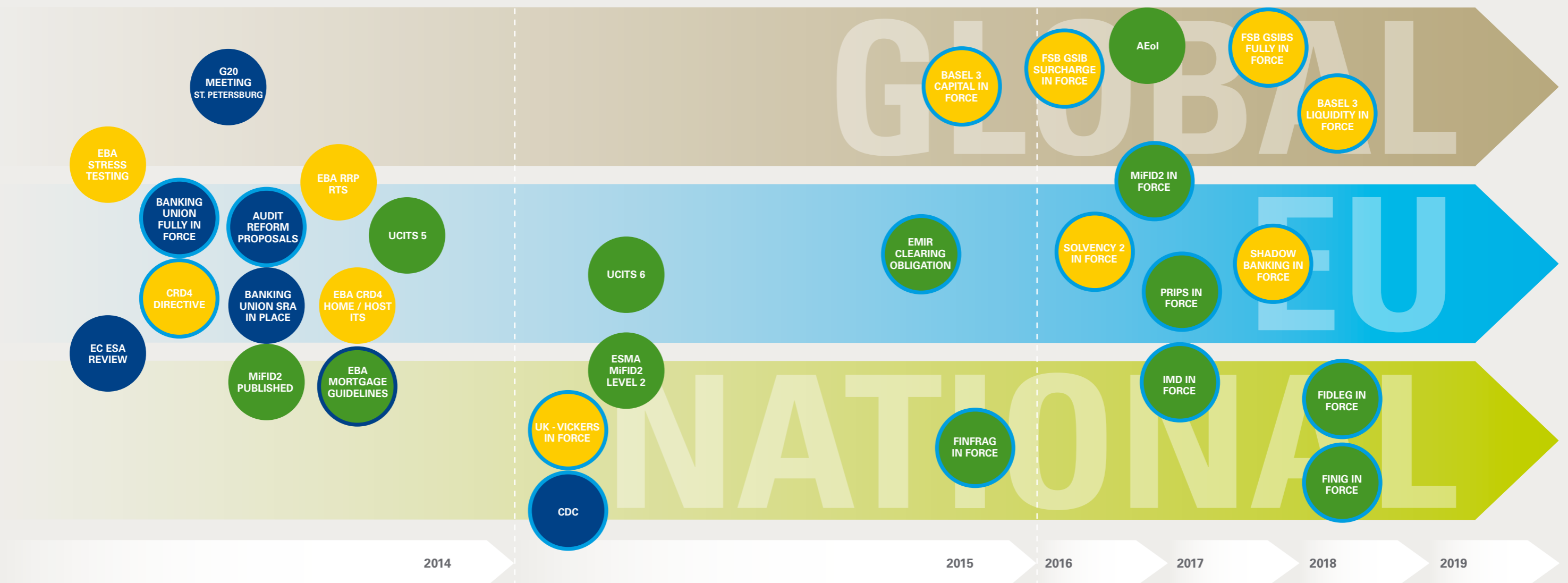
**«ADOPTING TRANSNATIONAL  
REGULATION IS CRUCIAL  
FOR SWISS PRIVATE BANKING  
TO SURVIVE. HOWEVER,  
ONLY THOROUGHLY THOUGHT-  
THROUGH (AUGENMASS)  
REGULATION WILL LEAD TO  
ADDED VALUE  
FOR CLIENTS AND BANKS»**

Interviewee from a pure private bank

## A wealth of transnational regulation

Transnational regulation refers to regulation issued by international regulators and organizations such as the OECD, EU, FSB and FATF. It is a combination of 'hard laws' and directives, as well as softer rules such as guidelines, standards and rankings. The private banking industry has seen a recent surge in transnational regulation, such as OECD Art. 26.

- Systemic risk and capital buffers
- Governance and supervision
- Clients and markets
- In force
- Consultation



## Enhancing the competitiveness of Swiss private banks

Transnational regulation is an effective framework to eliminate, control and monitor uncompetitive business practices such as legal and regulatory arbitrage and circumvention. It can provide reciprocity of market access, securing Swiss banks' access to foreign clients and markets. It also establishes an international level playing field on which Swiss banks can demonstrate their superior competitive strengths. Full, appropriate and prompt compliance with transnational regulation is necessary to drive the maximum benefit for Swiss private banking. It is also key to Switzerland's status, competitiveness and reputation as a sustainable, leading hub for global wealth management.

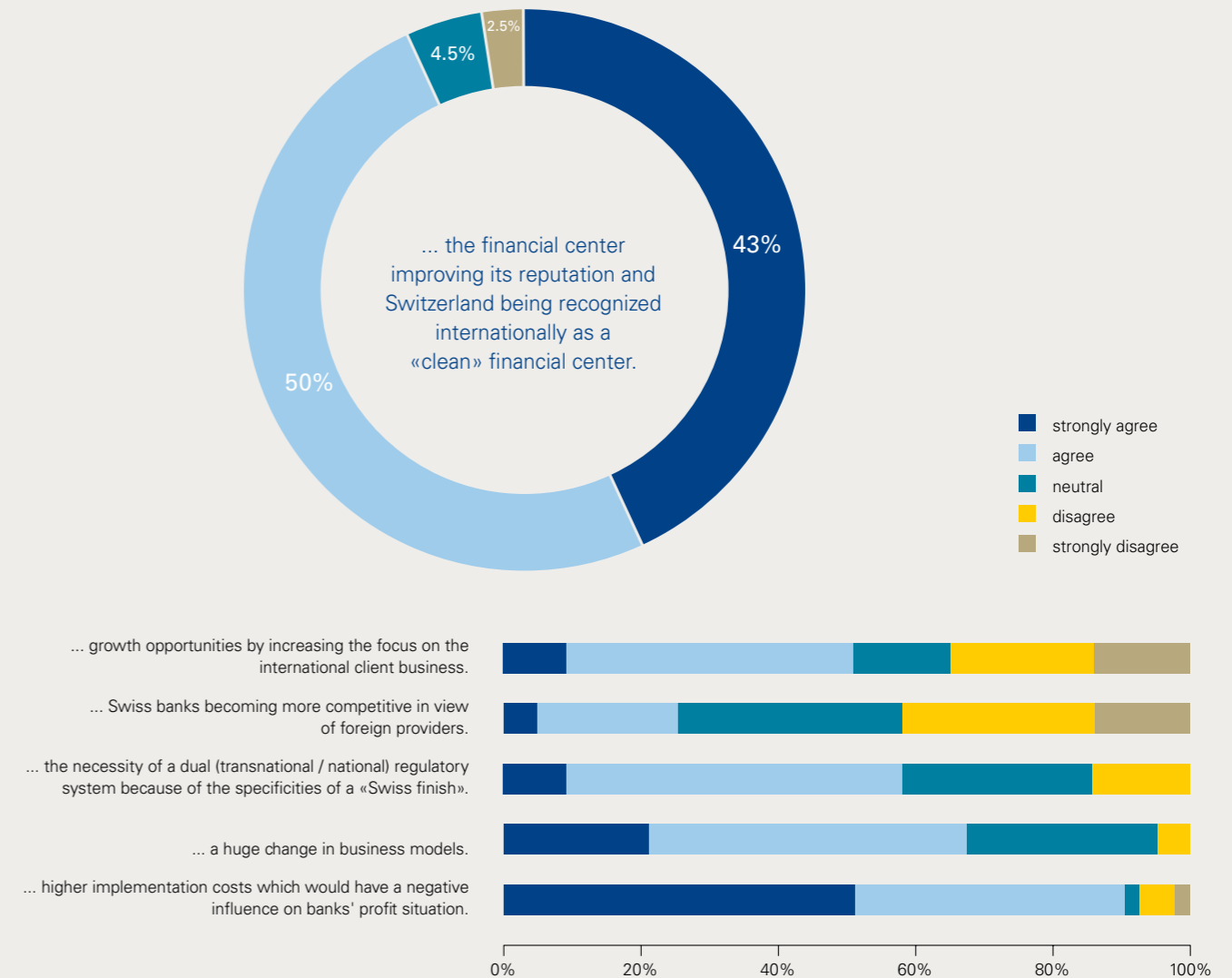
### Key findings:

- Most banks interviewed believe that a comprehensive, regulated playing field framework would enhance the industry's reputation.
- Almost all respondents are of the opinion that implementing transnational regulation in Swiss law will improve the reputation of the Swiss financial center. It will create additional growth opportunities by leading to an increased focus on the international client business.
- Respondents generally acknowledge that the financial crisis made it necessary to revise and expand regulation and supervision. Due to the increasing volume and extent of transnational regulation, however, banks expect the Swiss regulator and the SBA to participate more proactively in co-creating transnational regulation.

### Our insights:

- We believe that only a strong collaboration between Swiss regulatory authorities and international institutions will lead to an international level playing field. Active engagement by Swiss representatives in the creation of new rules will strengthen Switzerland's position.
- In our opinion, transnational regulation presents an opportunity to bring Swiss private banking in line with international standards as well as providing reciprocity of cross-border market access.
- Adoption is the only way for Swiss banks to remain internationally competitive. Full, appropriate and prompt compliance is needed to avoid costly delays and to enhance both efficiencies and added value for clients.

The adoption/implementation of transnational standards would lead to...



### AGENDA FOR ACTION:

- Ensure strict supervision and controls when introducing transnational regulation into Swiss law, to achieve an international level playing field.
- Working groups comprising delegates from across Swiss governance bodies and industry representatives should contribute to the creation of global standards and to Switzerland's response to these standards. Achieving an international leadership role in selected important topics is essential.
- Ensure reciprocity of market access through transnational regulation, to secure access for Swiss banks to foreign client bases as well as foreign banks' access to Switzerland.

## Helping Swiss banks to protect clients' assets and restore trust

The recent financial crisis and increasing demands for tax transparency have seen the adoption of transnational regulation such as MiFID and AEOI into Swiss law in addition to home-grown regulation. This is necessary to restore clients' trust and confidence in a private banking business model whose reputation is considered damaged. An appropriate, principles-based approach to implementing regulation is required, however.

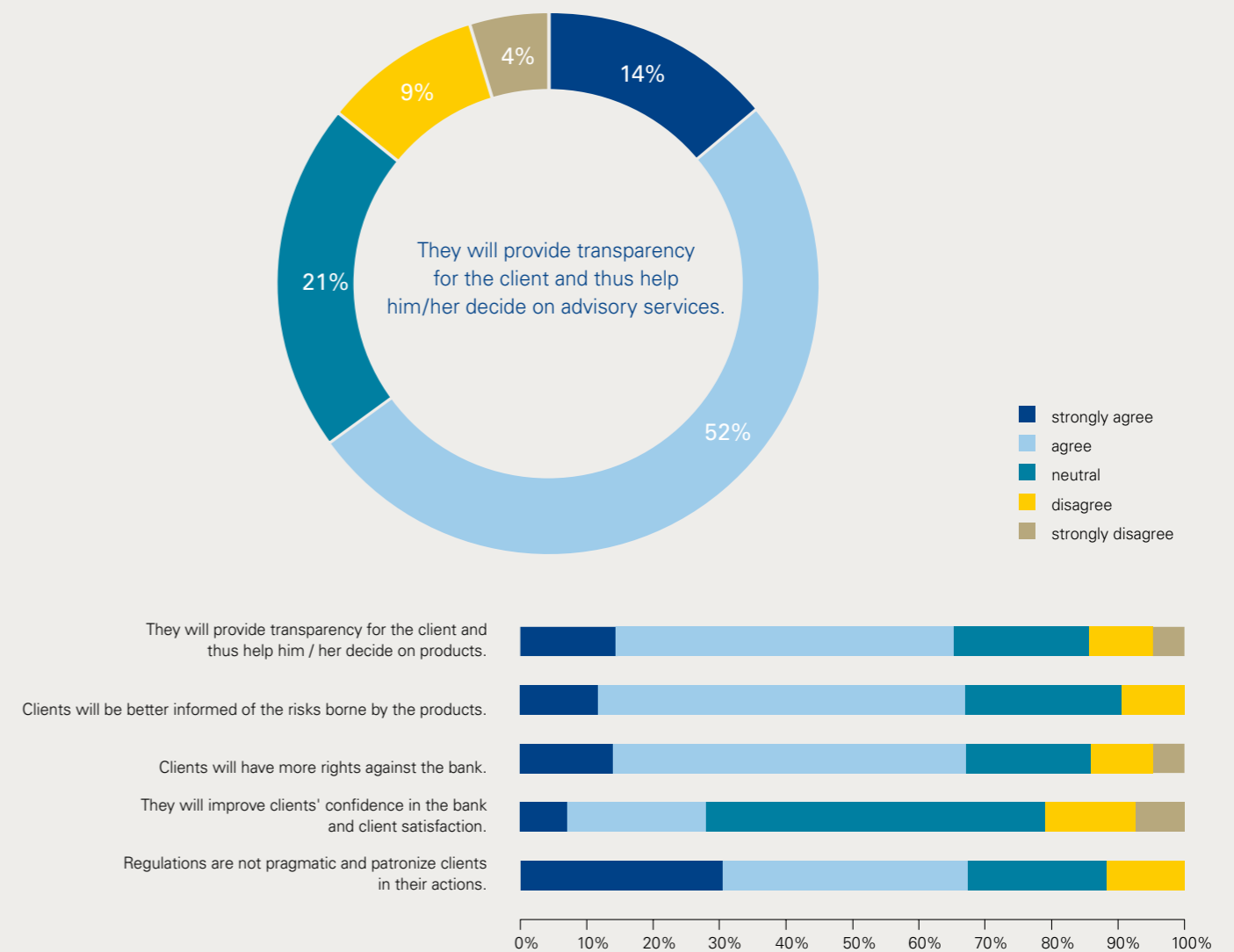
### Key findings:

- Most respondents believe that present regulatory developments will increase transparency for clients by encouraging banks to help them decide on products and services and understand associated risks. This will also strengthen clients' rights vis-à-vis banks.
- Only a minority feels that new regulation will restore client confidence in the private banking business and in banking generally.
- Most respondents believe that regulation is inappropriate and patronizes clients. Furthermore, it disproportionately shifts responsibility to clients, allowing bankers to hide behind regulation.
- An appropriate implementation of regulation is considered critical to growth. The Swiss regulator should take into account differences between banks, in particular differences based on the bank's business model.
- Further, banks are of the opinion that a lack of differentiation prevents the market from developing with regard to new types of banks, products, distribution systems etc. A «one size fits all» approach to regulation is inappropriate and could hinder future success.

### Our insights:

- Both present and future regulatory developments are necessary for the private banking industry to meet stakeholders' demands and to prosper.
- Proactive and early involvement of banks in the process of creating new regulation is necessary.
- Regulation should first and foremost protect the trusted relationship between banks and their clients.
- In our opinion, banks underestimate the potential for regulation to improve client confidence, especially among foreign clients. While responsible business practices play a key role, proactive implementation of new regulation will lead to a higher standard of service. It will improve the attractiveness of banks to clients, provided banks use regulation to place the clients interests at the center of their activities.

Consequences of regulations on client protection



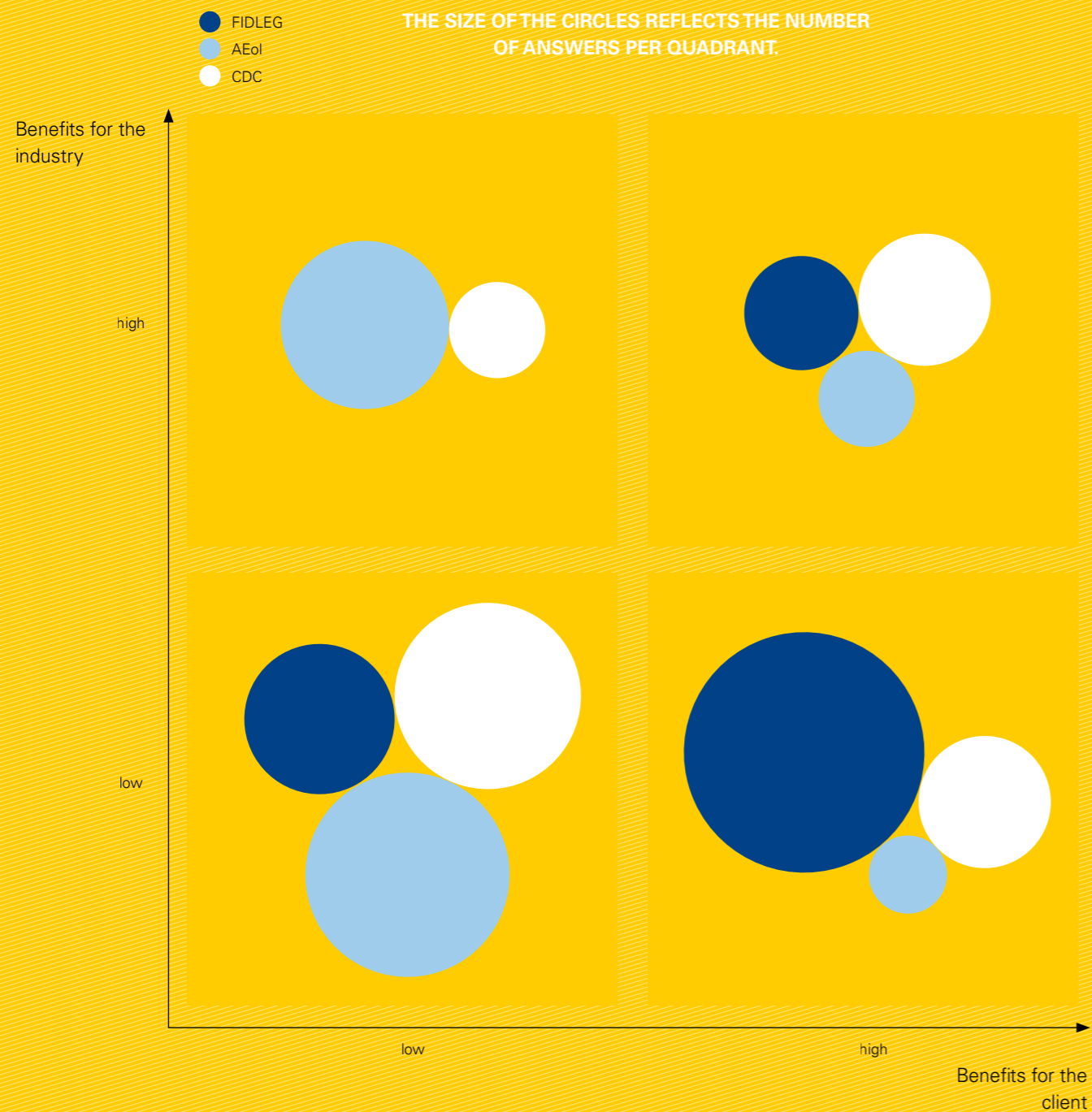
### AGENDA FOR ACTION:

- Seek a principles-based approach that assures an appropriate implementation of regulation, involving regulators deciding what should be regulated and banks how it should be implemented. There should be a collaboration to operationalize regulations.
- Ensure early and proactive involvement of banks in discussions with FINMA and Swiss governmental bodies when creating new regulation in order to achieve good regulatory standards that are meaningful for clients rather than for regulators and banks.
- Proactively engage in a cultural change within the bank to secure client benefits when introducing new regulation.



## Strengthening whose hand?

The impact of new regulations on banks and clients



### FIDLEG

(the Financial Services Act) aims to improve client protection and create a level playing field. It contains rules regarding the provision of financial services and financial instruments, and facilitates the enforcement of clients' claims against financial institutions. It is expected to take effect in 2018.

- 50% of respondents are of the view that new FIDLEG regulation benefits the client more than it benefits the bank through enhanced transparency and protection. Swiss subsidiaries of foreign-owned banks favored FIDLEG more, as these banks are ahead of Swiss counterparts due to parent groups' needs to fulfill home country requirements.
- A further 30% see no benefit to either banks or clients. They consider that the client is patronized in making investment decisions due to a limited range of products and services. Banks incur high compliance costs. Clients with lower assets will pay proportionately more.
- Only 20% believe that the additional knowledge collated by banks on their clients allows the bank to better fulfill the client's needs.

### AEol

(Automatic Exchange of Information) involves the systematic and periodic transmission of taxpayer (individuals and corporations) information to the taxpayer's country of residence by the country in which the bank is domiciled. AEol will be implemented in Switzerland in January 2017, with the first exchange of information due in September 2018.

- 45% of respondents believe AEol benefits neither bank nor client. They argue that implementing and maintaining systems and tools to record the necessary data involves high cost and no value. Some raised concerns over data protection and confidentiality vis-à-vis access by foreign tax authorities.

- 35% of respondents are of the opinion that AEol benefits banks and the finance market by cleaning up issues and improving reputation. An international level playing field yields fresh opportunities. AEol allows banks to focus on their core business rather than tax matters.
- 15% think AEol benefits both client and bank, based on a combination of the above arguments. Clients appreciate the clear trend towards transparency and declared assets.
- The remaining 5% see an advantage of the AEol for the client but not for the industry.

### CDC

FINMA released a revision of its Circular 2008/21 on «Operational risks at banks» that defines requirements for the handling and protection of electronic client data (Client Data Confidentiality, CDC) within banks and securities dealers. It came into effect on January 1, 2015.

- 40% of respondents believe CDC benefits neither bank nor client. They view it as a necessity to ensure client data confidentiality. Security costs can be high, yet the AEol has rendered the topic less important.
- 25% of respondents think that CDC benefits both bank and client. Firstly, data confidentiality enhances the bank's reputation. Secondly, clients have trust and confidence that the bank is protecting their privacy against third parties. Some respondents noted that the client himself typically poses the higher risk due to sometimes being careless with banking data.
- 20% consider CDC benefits clients, while it only causes additional costs to the bank.
- 15% believe CDC advantages the bank through reduced reputational risk.

## Regulation as a key driver of strategy and the business model

Enhanced regulatory requirements oblige banks to take into account new variables when (re)defining business models to ensure compliance, competitiveness and value creation. Implementation costs can be high given the volume and scale of new regulation, diverting resources from the business or client-related activities. Rethinking business models, together with the necessary significant investments, can however lead to improvements in processes and efficiency. Many banks interviewed – especially smaller ones – have chosen to focus on improving processes, reducing geographic presence and cutting costs to adapt to new competitive realities.

While it is important to ensure cost-efficient operations in order to remain competitive (not least due to the cost impacts of a strong Swiss franc), cost cutting may be insufficient to survive in the increasingly transparent global private banking industry. Banks must not take their eye off growth opportunities represented by digital technology and access to emerging markets, for instance. Innovation can help in this regard, improving the bank's ability to pursue foreign clients.

**«CHALLENGE IS NOT THE  
REGULATION BUT  
THE DIGITALIZATION»**

Interviewee from a pure private bank

**«BIG DATA OPENS NEW  
OPPORTUNITIES, THERE IS  
LESS INEFFICIENCY  
SINCE CLIENTS CAN BE  
APPROACHED WITH TAILORED  
PRODUCTS»**

Interviewee from a universal bank

## Sharpening strategies and areas of focus

Regulatory change forces banks to sharpen their strategies in terms of business scope and scale, particularly given the increased focus on onshore business and the decline in offshore banking. The operational scale of larger banks enables them to absorb regulatory costs while continuing to invest in high growth markets, proactive digitalization and consolidation. Smaller and mid-sized banks must assess whether they have potential to grow into a large player or whether they should focus on a reduced number of geographies or customer segments.

### Key findings:

- Regulation and intensifying competition will cause the minimum size of a private bank to increase, according to respondents.
- Respondents believe the two most viable options for smaller banks are a niche focus or breaking up the value chain by collaborating with other institutions. Outsourcing is seen as an enabler of an even sharper focus on selected market niches.
- Most respondents view alliances and outsourcing as their main options in light of regulatory changes and the pressure to focus. While M&A is seen as part of the strategy toolkit, it is to strengthen established market positions rather than expand into new markets.
- Despite most future growth being expected from emerging markets, most respondents have reduced their international scopes: in terms of countries actively served and assets of foreign-domiciled clients. This is especially the case among universal banks, where a large majority has done so because of increased regulation.

### A clear choice: strategic positioning and differentiation

We asked interviewees to position themselves on a strategy map according to where they see their particular bank's own differentiators.

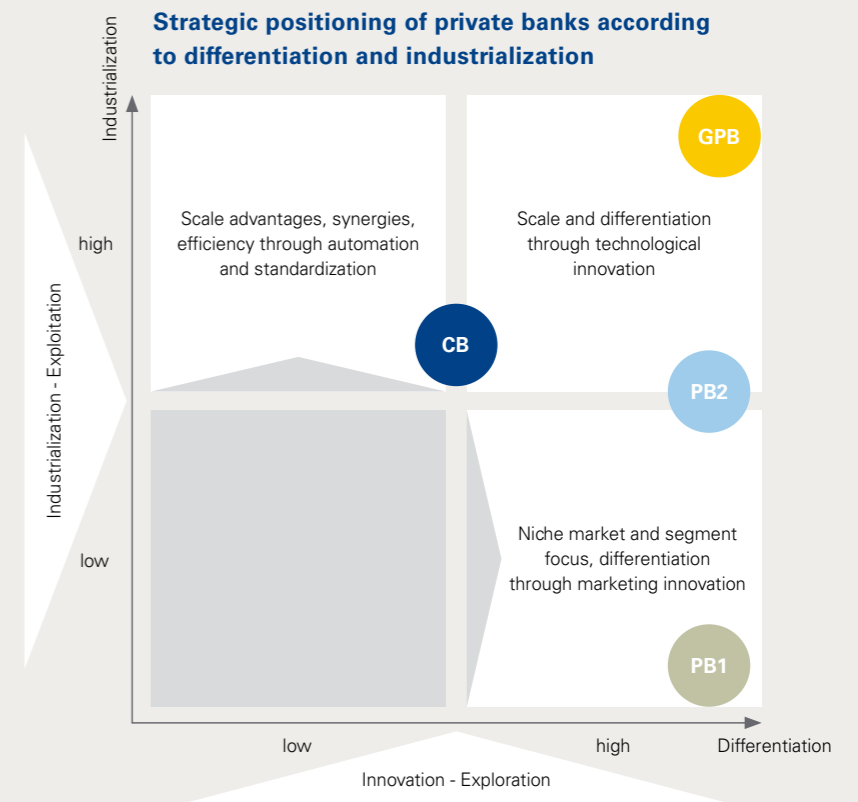
- Cantonal banks (CB) are predominantly positioned to benefit from a higher degree of industrialization enabled by their retail banking operations combined with differentiation through technological innovation and proximity to clients.
- Pure private banks split into two main clusters:
  - › PB1 banks have chosen a pure differentiation strategy with little or no desire to industrialize operations. These are mainly the smallest banks.
  - › PB2 banks have opted to combine client-based differentiation with technological differentiation.
- Large, globally operating Swiss private banks (GPB) and Swiss subsidiaries of foreign banks seek to combine operating scale, technological advancement and differentiation by focusing on selected key clients or client segments. Many have a particular focus on UHNWI clients and family offices.

**GPB:** Global private banks

**CB:** Cantonal banks

**PB1:** Private banks 1

**PB2:** Private banks 2



### Minimum size: the Swiss private bank of the future

Interviewees found it difficult to provide an absolute figure for the minimum size of a private bank, with the number being influenced by the bank's business model. They cited a lower sustainable minimum size for banks with a clear focus on particular client segments, a narrow product range and only domestic operations. The minimum size is less relevant for private banking businesses of cantonal banks and subsidiaries of foreign-owned banks due to synergies with other parts of the business.

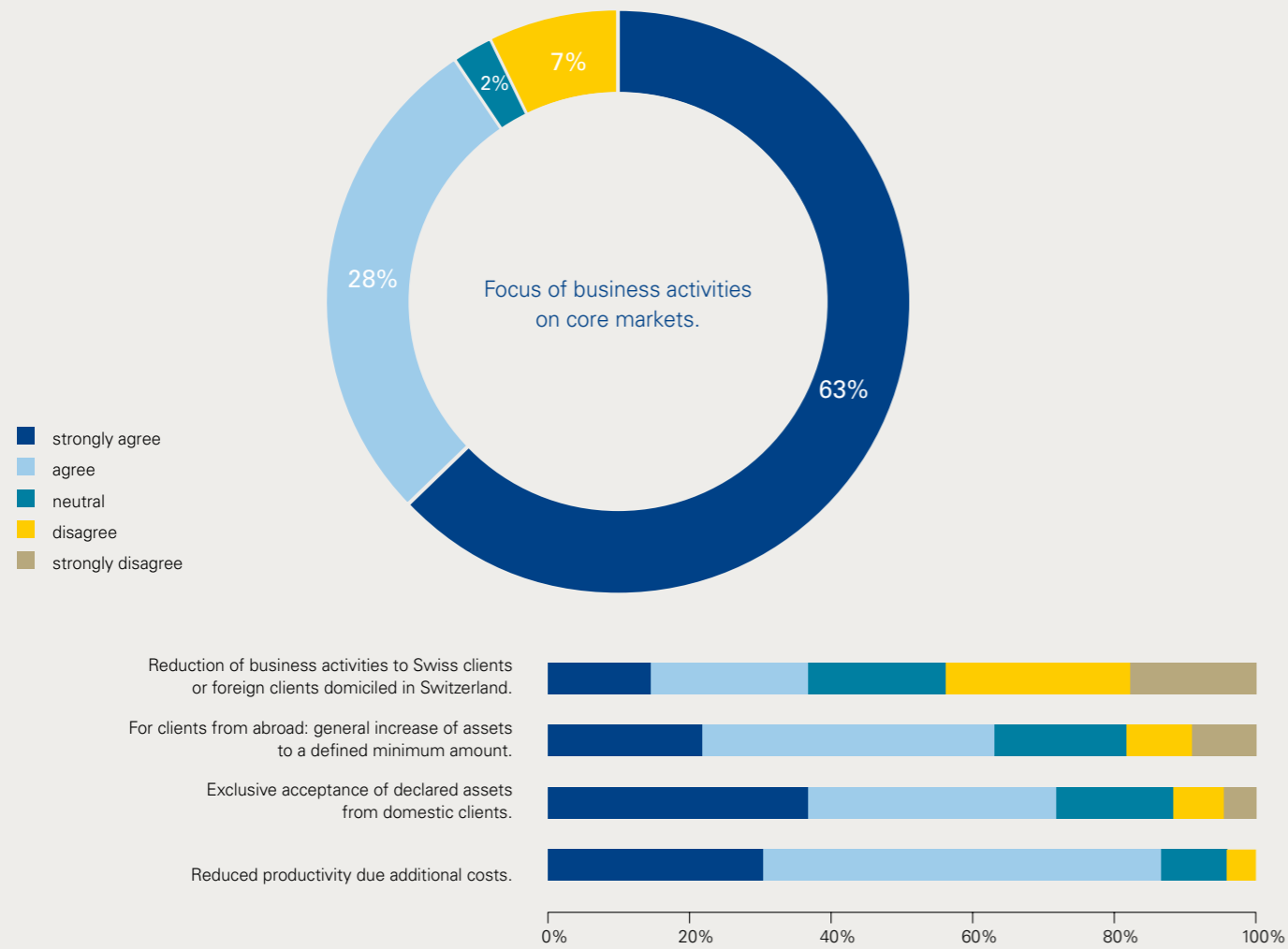
At the same time, most agreed that regulation will cause the minimum bank size to increase. Most consider that the future minimum private bank size will be more than CHF 5 billion AuM. Only one quarter of respondents foresee a private bank surviving long-term with less than that amount – and only then if it has a sharp strategic focus. More than half of respondents believe the minimum size will be above CHF 10 billion AuM.

Respondents were unanimous regarding strategic options for smaller banks. They see the most viable options to be a focus on smaller niches and a break-up of the value chain by collaborating with other firms and institutions. Many noted that

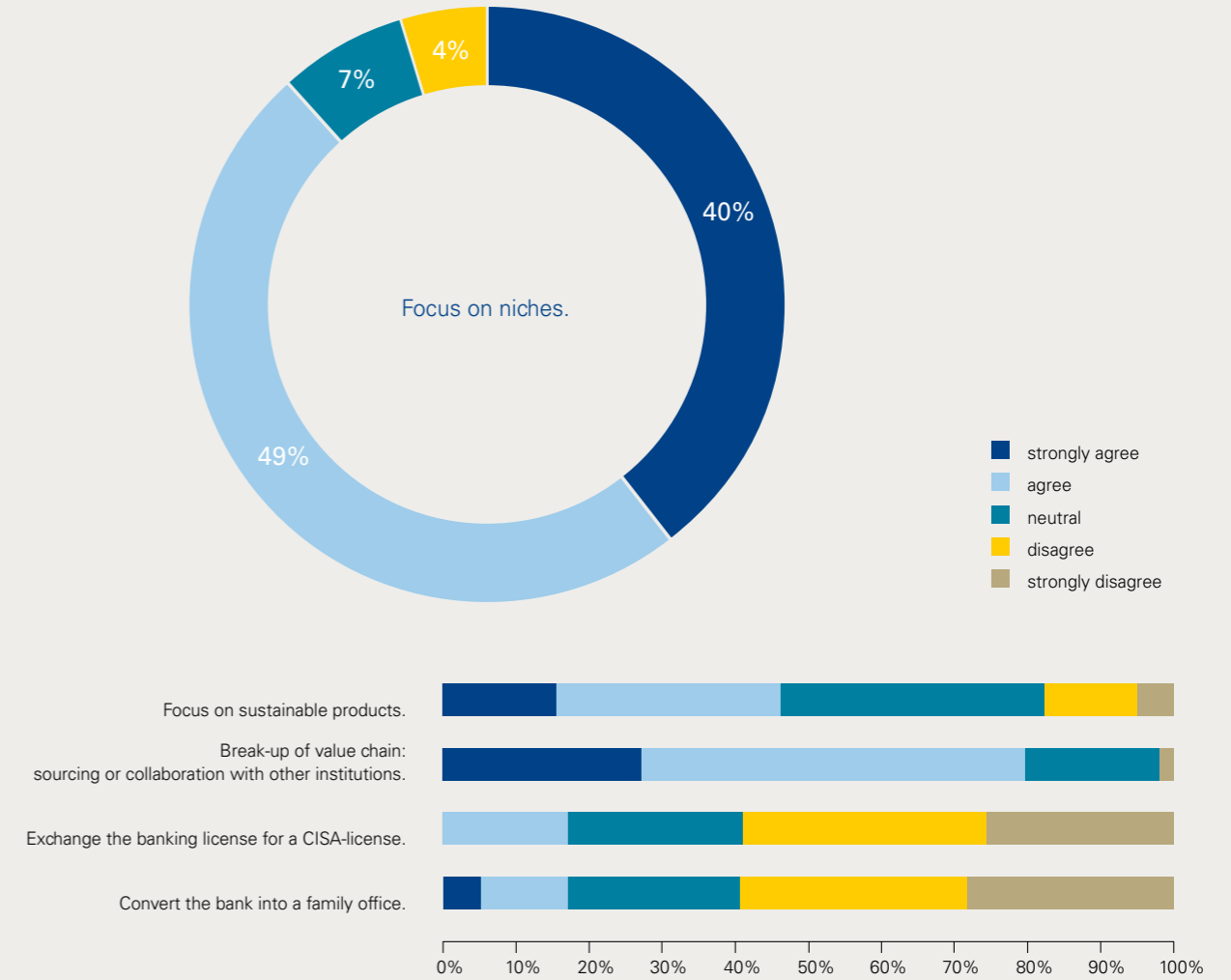
if this is unsuccessful, the other option would be to put up the bank for sale. Realistic short-term alternatives were considered to be exchanging the banking license for a CISA license or converting the bank into a family office.

In this context, we see three routes to success. A new regulation reduces a bank's productivity, a focus on core competencies becomes essential, and non-core activities should be outsourced or executed through strategic collaboration with business partners. A focus on key geographical markets is vital due to the need to develop different regulatory competencies for each covered country. Despite the fact that most future growth is expected to come from emerging markets (or at least from outside Switzerland) most respondents have chosen to reduce the number of countries actively covered and the assets of foreign-domiciled clients. With the exception of Swiss subsidiaries of foreign banks, respondents put more emphasis on attracting new clients than growing share of wallet. Finally, it is important to apply an appropriate client segmentation and to maintain a clear focus on key products and services. Enhanced regulation requires banks to adapt offerings. This demands a clear understanding of clients' needs.

**To what extent does increased regulation affect your bank's business model and strategy?**



**Which options are available to smaller banks in particular for strategic development?**



**Our insights:**

- Pressure on small Swiss private banks - even in their home market - will create opportunities for entrants from emerging markets to use M&A to gain access to Swiss private banking capabilities.
- In our opinion, small banks will increasingly become niche players. Differentiation will enable them to secure parts of the available profit pool, introducing true service and marketing innovation. Niche players excel as they understand new ways of meeting clients' needs. Banks that are unable to differentiate will disappear.
- Cantonal banks' private banking businesses benefit from stability and scale provided by the retail banking business. They are able to share investments made by the retail banking business in information technology infrastructure, for example.
- Consolidation and synergies are ways to deal with new cost and profitability realities. Fewer banks and more strategic alliances will dominate the future marketplace.

**AGENDA FOR ACTION:**

- Align business models with regulation. Ensure the bank's strategy fits the new regulatory environment, forming a seamless triangle between regulatory requirements, client expectations and operational excellence.
- Universal and cantonal banks: consider the extent to which information technology or other investments can be spread over private banking as well as retail operations while adding value to both.
- Redefine business models and focus clearly on core competencies, markets and services. Identify where scale effects may be achieved. Explore strategic collaborations with business and consider outsourcing non-core activities.
- Smaller banks in particular: differentiate further in order to survive profitably. A focus on niches and forming alliances is essential. Strategies should focus on domestic markets or clearly define the cross-border markets, service offerings and client segments.

## Creating efficiency and differentiation by digitalizing operations

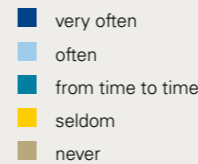
Digitalization offers opportunities for banks to become more efficient and to differentiate themselves from competitors. While Asian and North American banks have led developments in digital banking, this has also gained momentum in Switzerland. For many banks this has meant digitalizing back-office processes. We observe a clear trend towards digital technologies being increasingly adopted in interactions with clients in order to improve the client experience.

### Key findings:

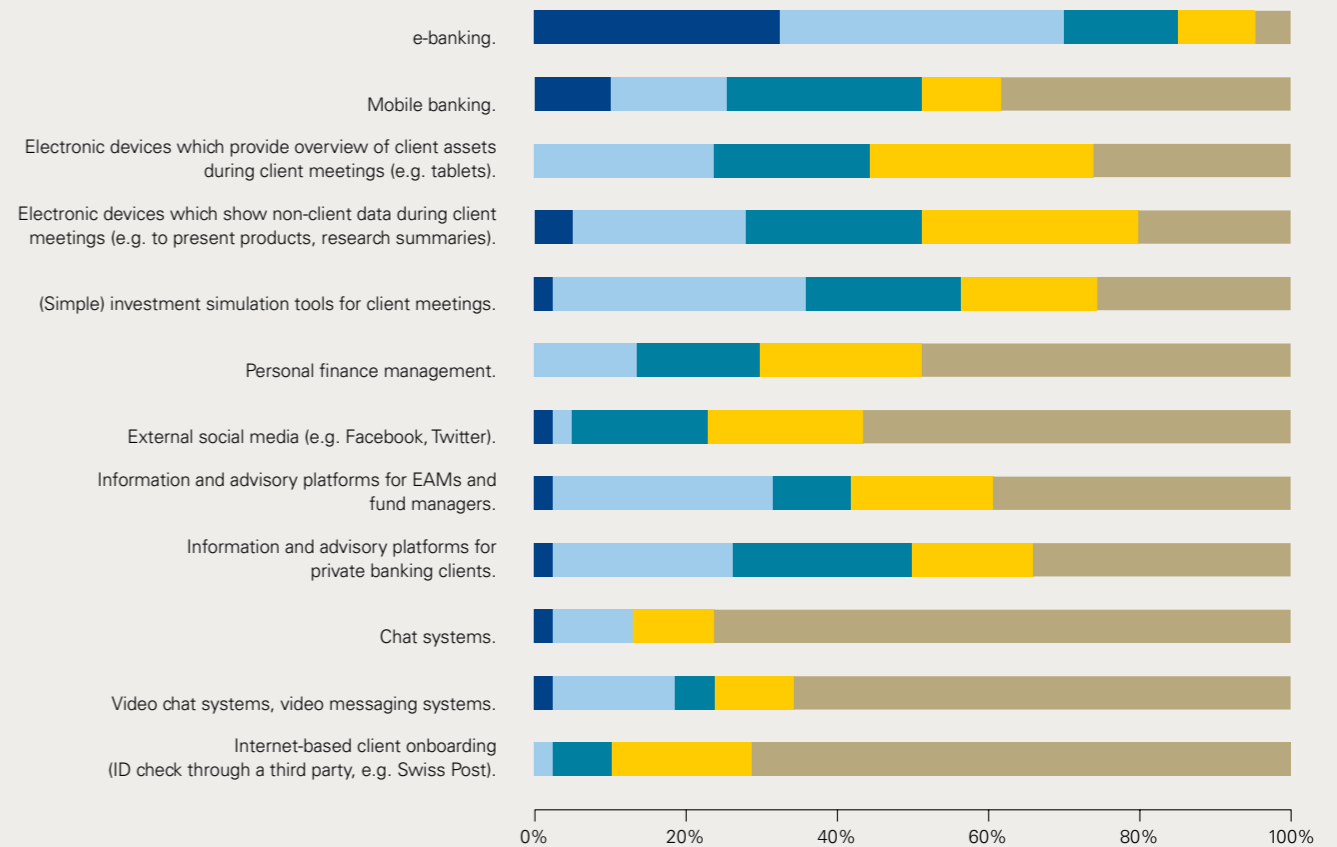
- More than half of respondents state that digitalization is a high priority on their strategic agendas. They cite it as gaining significance in the private banking value chain. However, although almost all banks recognize digitalization's importance, only a few have started work on it.
- Despite digitalization's perceived importance, several banks have opted for a follower strategy. They want to understand which solutions will be established as standard before they decide in which technologies to invest. Universal banks with retail banking operations seem to have taken the lead in leveraging their digital platforms also for their private banking clients.
- Respondents cite businesses such as PayPal as being potentially disruptive for the retail banking business, though they are not seen to yet represent any major danger for the private banking business as they target different customer bases.
- Despite digitalization being expected to create new information security risks, the majority of respondents state that they are able to deal with these risks.
- Some respondents argue that digitalization provides little added value to direct client interaction, in particular with larger clients, who still want direct personal contact with their RM.

### Our insights:

- Pure private banks, foreign banks and universal banks are increasingly digitalizing their operations, in particular suitability, client on-boarding, advisory and reporting processes. Yet, overall usage is still at a relatively low level. In addition to the more technology-savvy new generations, clients in different countries and regions progress with digitalization at different speeds. Many emerging market clients require their private banks to have advanced digital capabilities.
- Universal banks use digital technology more frequently than pure private banks and foreign banks. They see e-banking and mobile banking solutions as core elements of their offering.
- Pure private banks and Swiss subsidiaries of foreign banks focus their digitalization efforts on enriching existing communication channels. Information/advisory platforms and digital technology to support RMs in client meetings are among the preferred digital solutions.



Please indicate how often the following technologies are in use by your bank:



### AGENDA FOR ACTION:

- Assess the changing needs of different client segments. Digitalization is becoming increasingly commonplace in many areas of life. Private banking clients will increasingly expect their private banks to provide the same level of sophistication in the digital space as they get from retail banking.
- Reassess the respective merits of being a first mover versus taking time to see which technologies will be successful before investments are committed. The latter approach lowers risk but also reduces the likelihood of gaining a competitive advantage from digitalization.
- Consider joining forces with technology providers to co-create solutions that fit the core banking platform and respond to the bank's specific needs, e.g. for suitability, on-boarding and client advisory process.

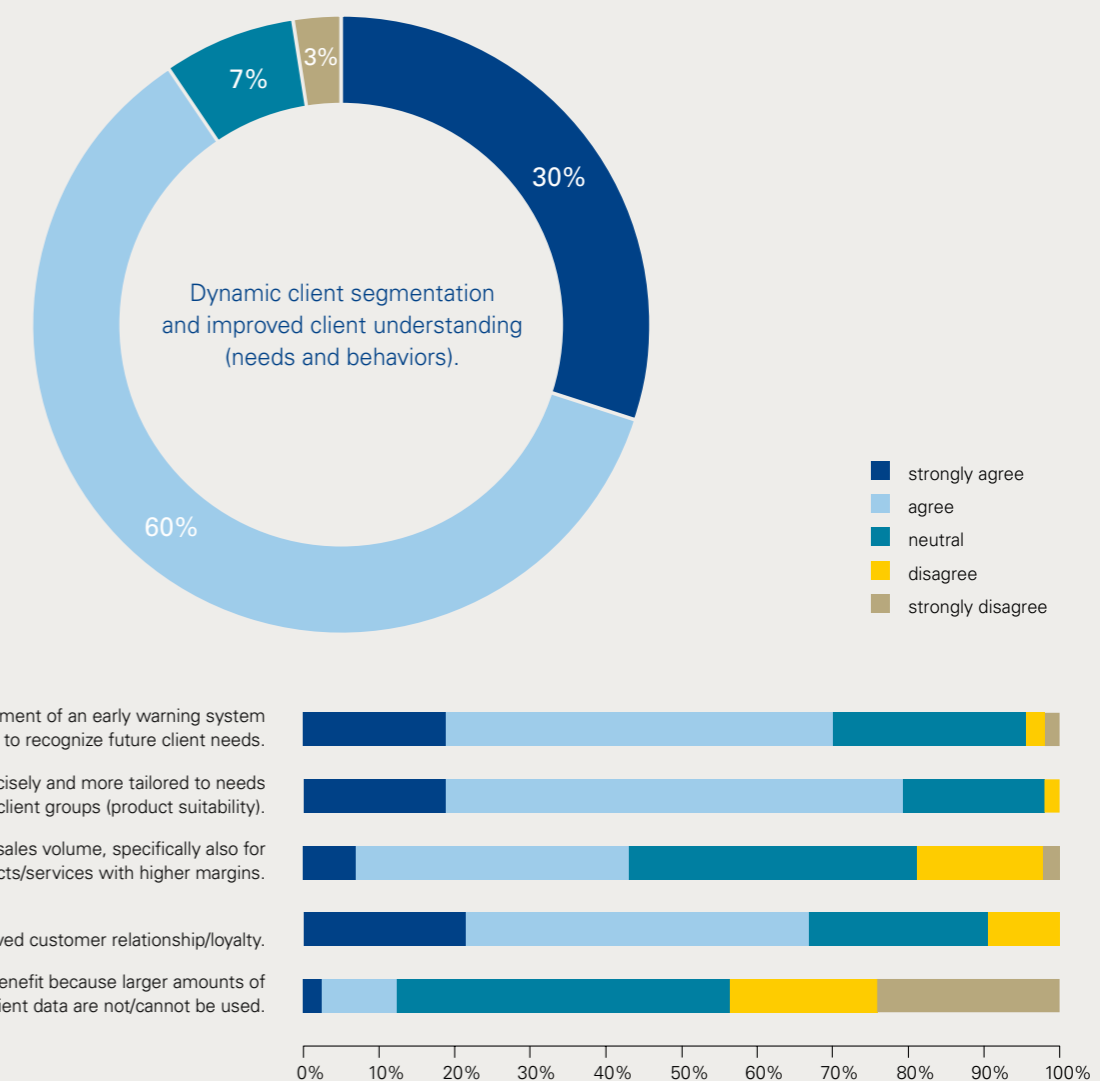
## Using big data to drive benefits

The regulatory environment requires banks to collect large amounts of data. A structured approach to new client data touch points and the sourced data facilitate a better understanding of client profiles. This enables banks to improve their behavior- and need-based client segmentation, to enhance matches between client profiles and services offered and to deploy new products and price models. The structured use of data encourages a lower dependency on RMs' information about clients and increases effectiveness when approaching clients. In addition, private banks are moving towards transparent pricing models and costs of products and services.

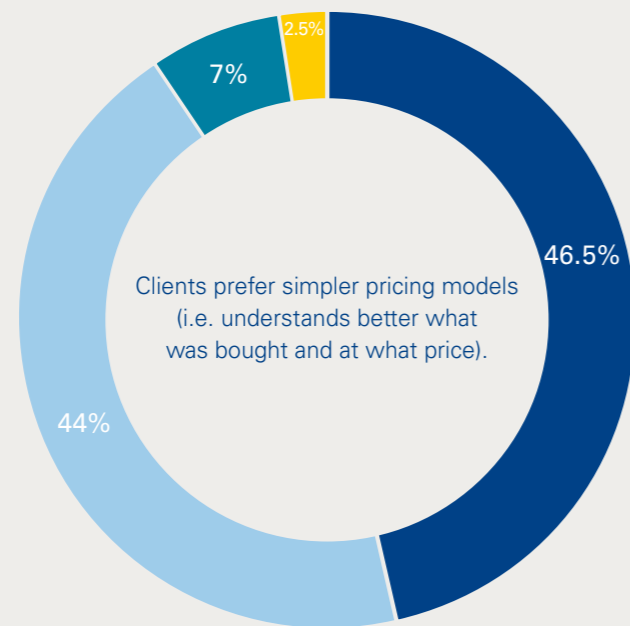
### Key findings:

- Regulatory frameworks require private banks to collect and store client data. Digitalizing this data and structuring it so it can be analyzed further is a challenge with which banks struggle. Banks understand the value of structured data yet generally make no use of it due to technological restrictions.
- A technology-supported and structured data collection and analysis of client data will help banks further differentiate themselves, recognize clients' emerging needs, and ultimately improve client satisfaction.
- Enhanced regulatory requirements lead banks to focus more on new and transparent pricing models, dynamic client segmentations and more personalized products and services.
- Pure private banks see less benefit than universal banks or Swiss subsidiaries of foreign banks from larger amounts of client data in respect of segmentation and product needs.
- Respondents appear to recognize the importance of enhancing front-end aspects but are investing more heavily in the back-end.
- The majority of respondents see the potential to learn from other industries how to better segment their clients, and how best to tailor and package products to individual client groups.

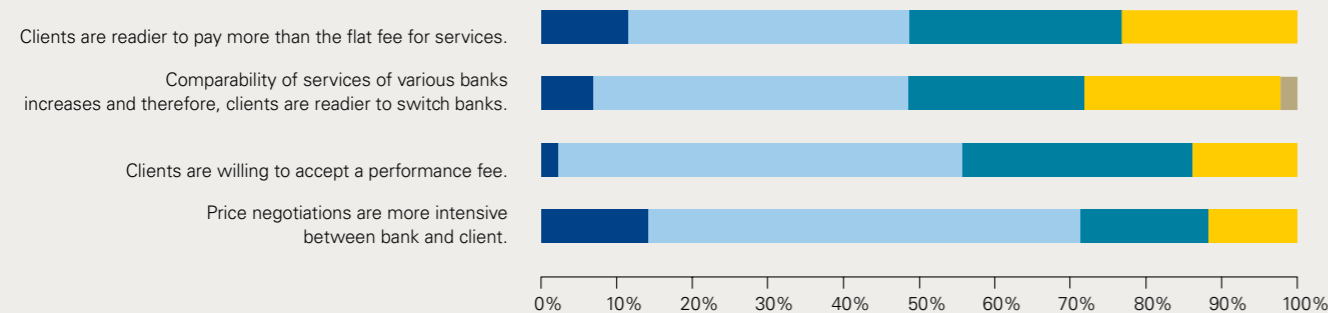
To what extent can the bank benefit from larger amounts of client data gathered?



**How do you think more transparent pricing models will influence the client's behavior?**



- strongly agree
- agree
- neutral
- disagree
- strongly disagree



**Our insights:**

- Using big data is necessary to remain compliant with regulation in an efficient manner and is helpful to demonstrate such compliance.
- Additional data gathered due to new regulation will add value to banks. It will help them differentiate through dynamic client segmentation and greater customization of otherwise standardized service offerings.
- Clients will benefit from better-tailored and personalized offerings that suit their needs, delivered across all touch points of the client interaction process.
- Private banks will be able to innovate pricing models, making clients more willing to pay for further non-traditional approaches such as advisory services, performance fees or time-based pricing.
- We expect price negotiations between banks and clients will become more difficult due to transparency of future pricing models and comparability to competitors' pricing strategies.

**AGENDA FOR ACTION:**

- Ensure your IT system is capable of holding and analyzing larger volumes of client data. Also ensure that it can make client data available in a structured form to allow targeted use.
- Bring in an expert from another industry to deliver complementary insights to improve the bank's segmentation, use and analysis of client data, product offering, and pricing model sophistication.
- Collect structured data to:
  - › Reduce the knowledge drain when an RM leaves the bank.
  - › Enhance the effectiveness of targeting existing clients with tailored services, products and communications.
  - › Increase transparency to enhance reputation and client satisfaction.
- Use additional data gathered to improve and tailor offerings and approaches. Assess whether package offerings are attractive to particular client segments, especially in light of the fact that future client segmentation will include dynamic aspects in addition to assets. These include needs, behaviors, life cycles, preferences and future wealth potential.
- Redesign pricing models, keeping them simple and transparent in line with clients' increasing price sensitivity. Consider the extent to which clients are open to non-traditional approaches such as advisory services, performance fees and time-based pricing.

## Recognizing the role of the board of directors and senior management

The board of directors (BoD) and senior management are key to effectively implementing regulation in the business. Senior management plays an important role in empowering and enabling staff, such as permitting RMs to focus on helping clients through the voluntary disclosure process. The right tone should be set from the top of the business. Over-complying with client-related regulation is to be considered a valuable exercise.

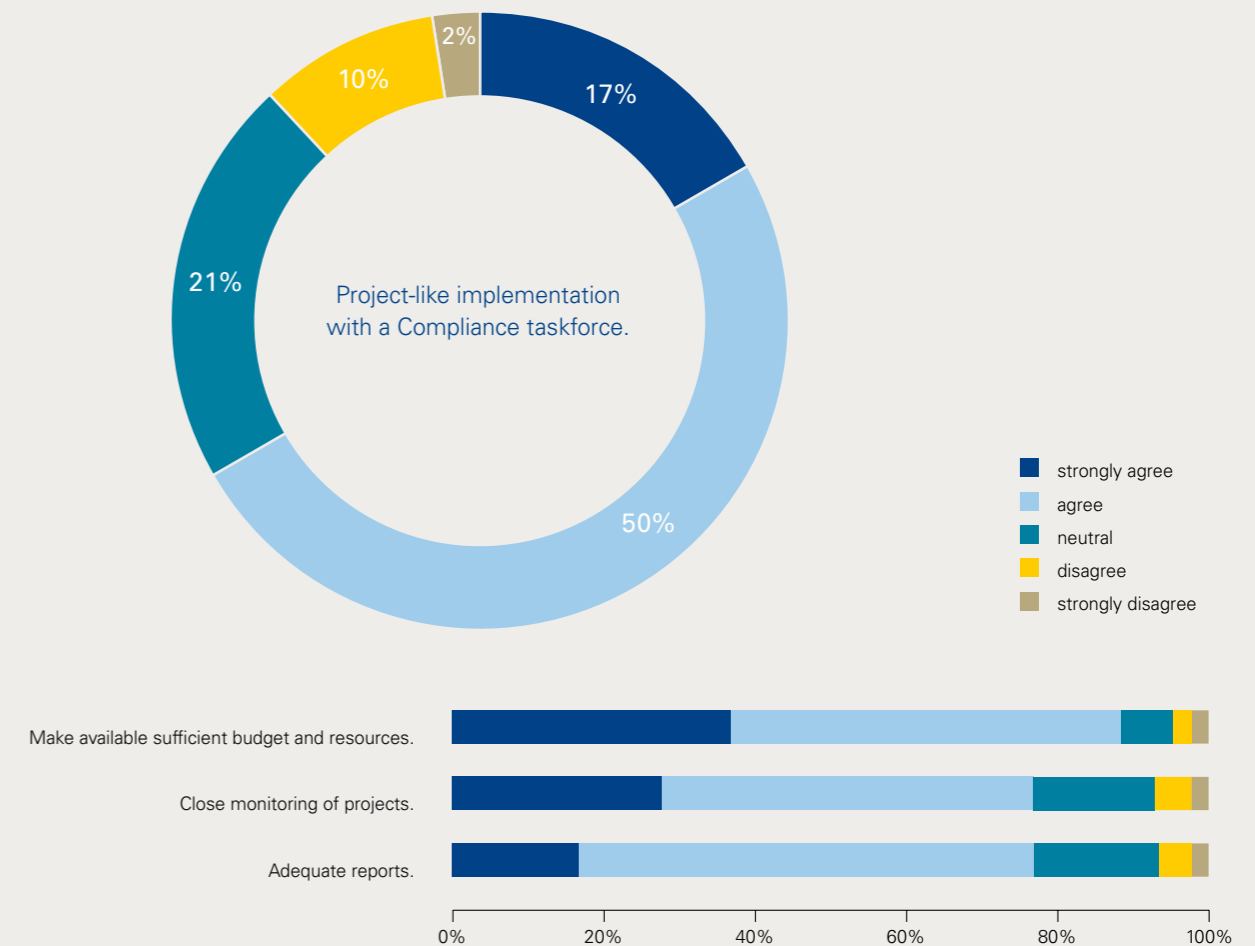
### Key findings:

- Respondents view regulation as a key topic for both the BoD and management and see substantial attention by these bodies as necessary. A majority believes that special task forces should be formed to achieve an effective and efficient implementation.
- Timely implementation of new regulation depends heavily on the internal risk analysis. Around half of banks initiate a project prior to the publication of final rules, while the other half designate themselves as followers.
- Respondents note that the extent of implementation depends on the regulation. With regard to client compliance and transparency, a large majority of banks say they would move beyond formal regulatory requirements and over-comply. For non-client related areas such as Basel III, fewer banks would do so.

### Our insights:

- Implementing regulation is a leadership matter, and the BoD is in the driving seat. Compliance with regulation is a question of proper business conduct. Proactive adaption of regulation strengthens a bank's reputation and motivates staff, leading to generally higher standards in the organization and to more efficient processes in particular.
- Banks need to consider the extent to which their BoDs possess the necessary skills and expertise to oversee and be ultimately accountable for regulatory implementation and compliance.
- Different degrees of implementing regulation are possible in a successful strategy. Implementation of client-related regulation should, however, go beyond minimum requirements.

To what extent will the following aspects be a challenge for the Board of Directors and management when implementing regulations?



### AGENDA FOR ACTION:

- Consider the BoD's skill-sets and expertise needed to adequately supervise regulation implementation and sustainable compliance.
- Define on a BoD level the implementation strategy and principles, in particular to what level (over-compliance or minimal compliance) upcoming regulation will be introduced.
- Establish a taskforce or special project team at senior management level, to take responsibility for ensuring all actual and future regulations are implemented professionally, efficiently and effectively.
- Ensure regulation is implemented or maintained in line with the agreed BoD approach and on a timely basis. Request appropriate reporting from the task force or special project team.
- Help RMs understand and comply with regulation, and to see regulation as an opportunity rather than a threat or a hindrance. Equip and empower them to seize opportunities such as helping clients through the voluntary disclosure process.



## Ensuring client satisfaction

through improved relationship management

Banking remains a business based on trust. It is of paramount importance that client satisfaction tops the industry's agenda. The bank must put the client at the heart of its activities, ensuring open and transparent communication. Ethical behavior, fair pricing, data protection and good organization will help generate client confidence.

At the same time, clients' demands are changing. They expect the RM to be a personal coach, providing support that goes beyond traditional service offerings. This involves putting the client at the center of the relationship and servicing his needs rather than being a «spreadsheet manager».

Although this yields opportunities for the bank to facilitate more fruitful communications, this «new normal» in client servicing requires a change in mindset regarding RMs. Banks must ensure that RMs are trained and equipped to serve such evolving needs, in particular those of new generations of clients.

**«THE ROLE OF THE  
RELATIONSHIP MANAGER  
WILL BE EVEN MORE  
COMPREHENSIVE  
THAN TODAY – HE WILL BE  
LIKE A «MINI FAMILY OFFICER»  
AND SPARRING PARTNER»**

Interviewee from a pure private bank

**«CLIENTS ARE BECOMING  
MORE DEMANDING  
AND ASK FOR REAL TIME  
INFORMATION ANYWHERE  
AND ANYTIME»**

Interviewee from a subsidiary of a foreign bank

## Dramatically improving client communications

While face-to-face communication remains an integral part of the mix, there is an overall increase in the frequency of bank-client communication through a greater range of channels. Ultimately, it remains at clients' discretion how they prefer to communicate with their RM.

Banks are therefore advised to revisit their communication strategy, in particular which channels are offered to clients. They should bear in mind the growing need to use technology to communicate with clients over great distances, especially in emerging markets.

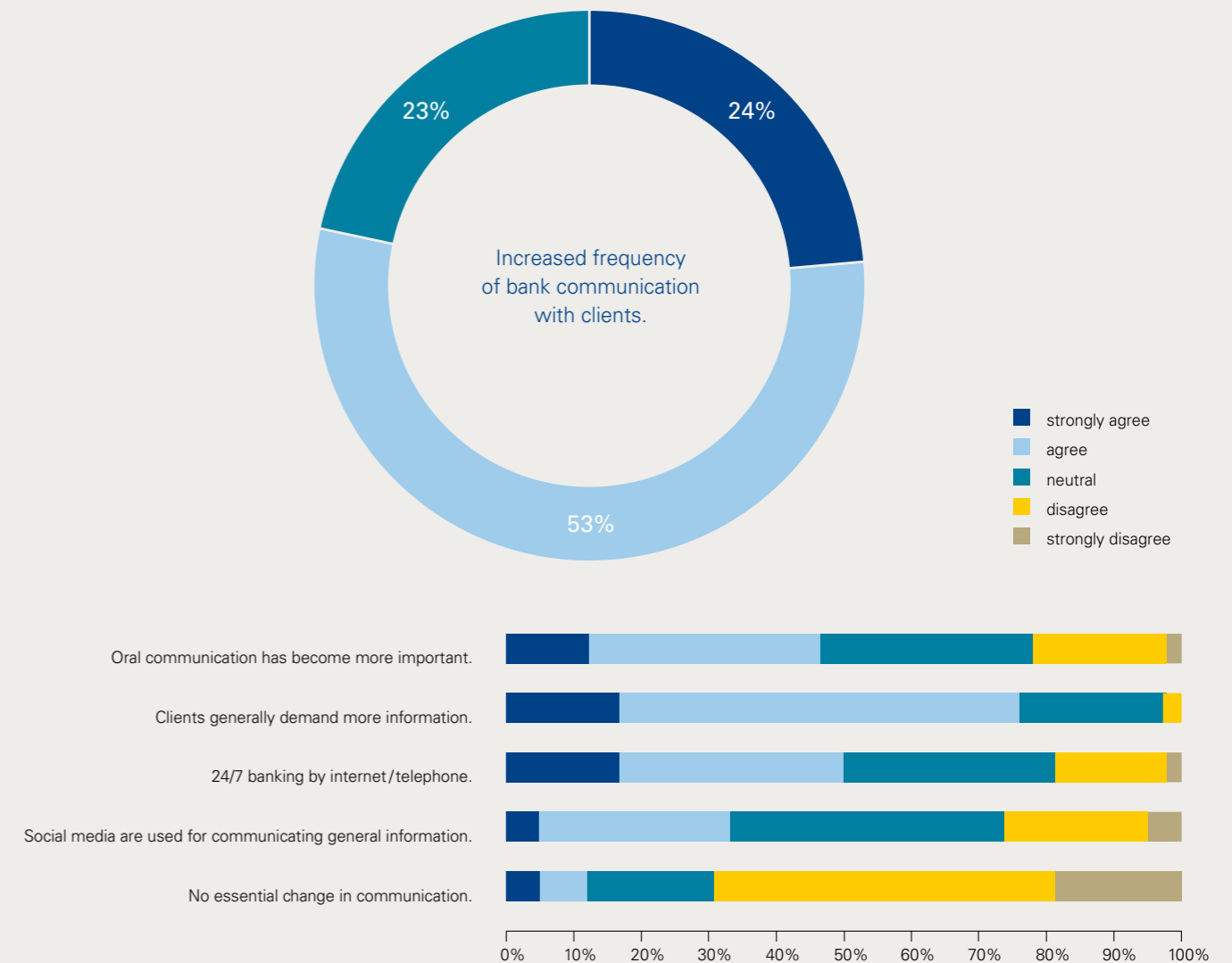
### Key findings:

- Digitalization is largely seen as a complement to existing communication. Clients generally use digital communication tools for private use, and now increasingly for business.
- Most respondents take the view that new digital channels will lead to a dramatic increase in digitalized communication between clients and banks. They nevertheless remain of the opinion that verbal communication does – and will continue to – play an important role.
- The pace and frequency of communication will also increase. The majority of clients demand 24-hour access to information. They want to be able to view vital information online at their convenience, irrespective of location and time.
- Respondents believe the role of social media in the provision of information will become more important, especially for exchanging thoughts on investment opportunities.

### Our insights:

- We see communication becoming more frequent and more intensive, triggered by the new wave of transparency and new means of electronic communication.
- We expect a revolution in client advisory communications. Client meetings will be much more effective as the RM will be equipped with digital tools such as tablets that enable him to demonstrate and simulate portfolio analyses and new strategies, among others.
- Regulation will help drive communication between client and bank by automating formal documentation matters such as investment recommendations and advisory protocol. This will yield greater efficiency and will increase the quality of client documentation.

To what extent will communication with clients change because of digitalization?



### AGENDA FOR ACTION:

- Assess the quality of bank's client communication. Ask clients how they wish to communicate and build specific clusters such as face-to-face, electronic or a combination thereof.
- Provide key clients with the same access rights to the core banking system as enjoyed by the RM or external asset manager (e.g. 24/7 telephone or online service).
- Support the RM by providing electronic devices such as tablets to lead through the client's portfolio and enable him to simulate outcomes. Client documents (e.g. advisory protocol) should be available on demand in a client meeting.
- Consider and develop usage of social media channels as a new means of interacting with clients for general information purposes.

## Fundamentally changing the relationship manager's role and profile

The RM represents the bank to the client and is the access point for the client's wishes. The RM's role requires excellent client service skills. Although this remains unchanged, the RM will play an increasingly central role going forward. Regulation will help fuel change in the RM's role and profile.

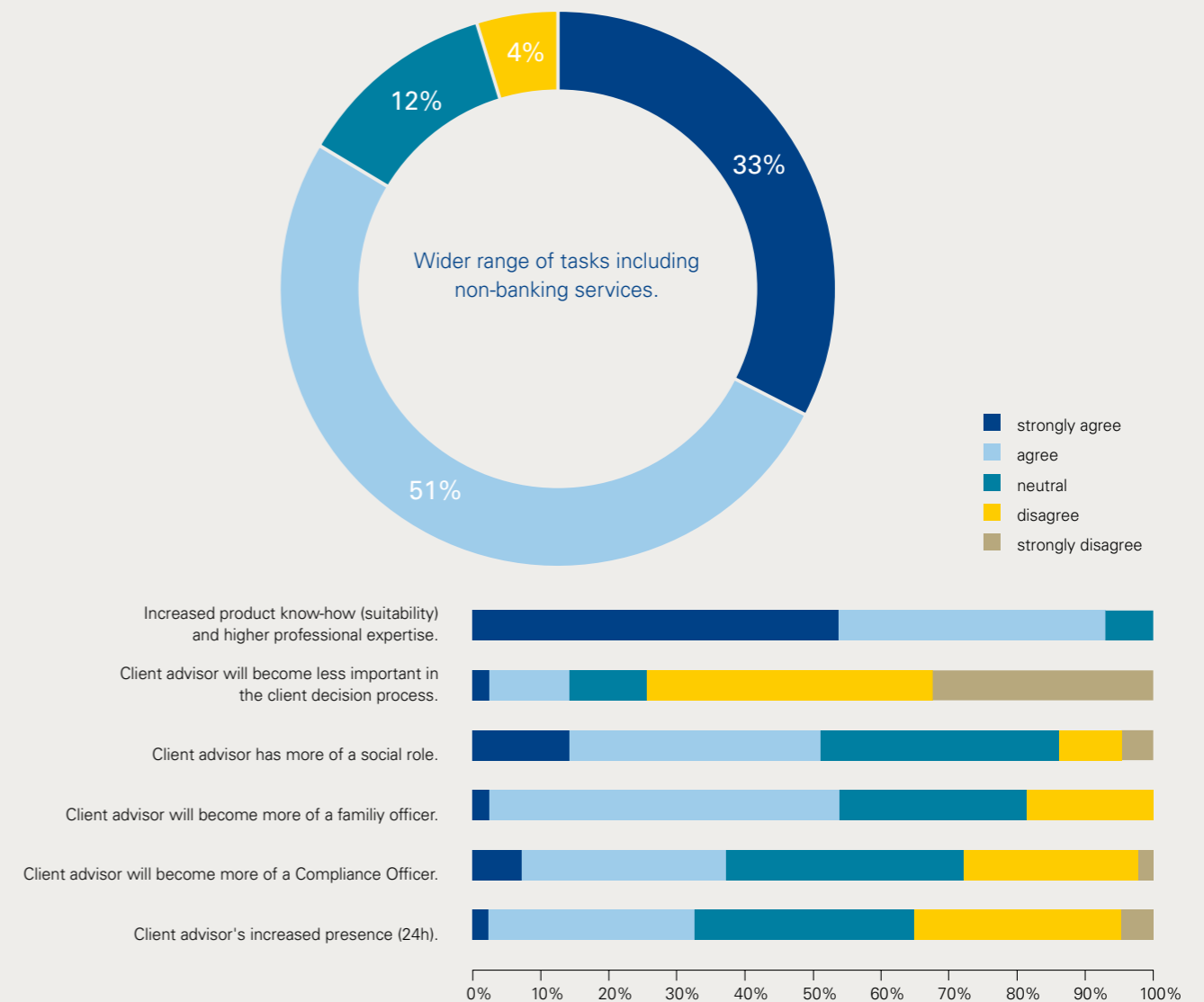
### Key findings:

- Respondents are of the opinion that the RM's role and profile will change dramatically and will be more comprehensive. The RM will need to become more of a generalist, have a strong personality, play a sociable role and have an excellent knowledge of his clients' behaviors, needs and family background.
- The RM also needs an adequate knowledge of products and services including non-banking services. His role should, however, lean towards facilitating and coordinating contact between the client and the bank's specialists across property, fund, pension plans etc.
- Regulatory requirements (e.g. cross-border, suitability) lead respondents to believe that an individual RM's role will be limited to a few target markets.
- Respondents expect a closer relationship between the RM and client to increase client satisfaction and confidence in the bank. An RM certification is not considered necessary.

### Our insights:

- We believe that the RM will remain key as the client's entry point to the bank. Adequate knowledge and social competence is essential to provide excellent client service.
- It is our understanding that clients want to have a «living» banking experience. They wish to enjoy the relationship with their RM, with RMs providing a more personable and sociable service. Overall, they expect a close relationship that is based not only on a business transaction. The RM's role will change from a «spreadsheet manager» to a real servicer of the client's needs.
- Clients expect the RM's advice to always be fully compliant with regulation in order to avoid a breach.
- It needs to be clear that conduct is a major risk for banks and than non-compliance cannot be tolerated.

To what extent do you agree with the following statements regarding the role of the client advisor in a changing banking world?



### AGENDA FOR ACTION:

- Critically assess the client advisory organization and processes. Strengthen the RM's role, making him the client's «mini family officer» and sparring partner. appropriate, work should be delegated to specialists in property advisory, insurance advisory, pension plans etc.
- Free up the RM's schedule to spend more time with the client and improve service quality. For instance, replace manual processes with a simple and automated client onboarding and client advisory process.
- Set up training modules to equip the RM to better serve a more sociable and interpersonal relationship. No matter how it is delivered, in-depth knowledge of the client is key.
- RMs must focus on their core competencies and the new expectations of them. Where
- Ensure RM's incentivization is in line with the bank's strategy and culture in this new regulatory environment.

**Philipp Rickert**

Partner, Member of the Executive Committee  
Head of Financial Services  
+41 58 249 42 13  
prickert@kpmg.com

**Jürg Birri**

Partner, Head of Regulatory Competence Center  
Financial Services  
+41 58 249 35 48  
jbirri@kpmg.com

**Matthias Bossardt**

Partner, Financial Services  
+41 58 249 36 98  
mbossardt@kpmg.com

**Cataldo Castagna**

Partner, Financial Services  
+41 58 249 52 85  
ccastagna@kpmg.com

**Olivier Gauderon**

Partner, Financial Services  
+41 58 249 37 56  
ogauderon@kpmg.com

**Christian Hintermann**

Partner, Financial Services  
+41 58 249 29 83  
chintermann@kpmg.com

**Mirko Liberto**

Partner, Financial Services  
+41 58 249 40 73  
mirkoliberto@kpmg.com

**Michael Schneebeli**

Partner, Financial Services  
+41 58 249 41 06  
mschneebeli@kpmg.com

**Hans Stamm**

Director, Financial Services  
+41 58 249 34 98  
hansstamm@kpmg.com

**Publisher**

KPMG AG  
Badenerstrasse 172  
P.O. Box  
CH-8026 Zurich

Phone +41 58 249 31 31  
marketsfs@kpmg.com

**Editorial Team**

Hans Stamm,  
Director, KPMG AG  
Dana Rulf,  
Head of Sales Financial Services, KPMG AG  
Bettina Neresheimer,  
Head of Marketing Financial Services, KPMG AG

Emmanuelle Reuter,  
University of St. Gallen  
Fabio Steiger,  
University of St. Gallen

**Visual Concept & Design**

Designport GmbH, Zurich

**Print**

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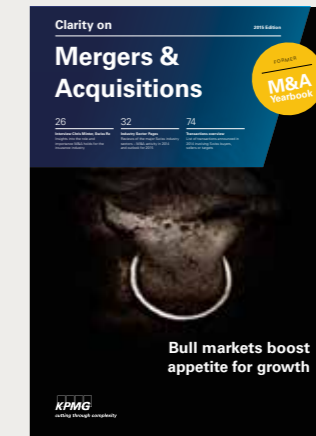
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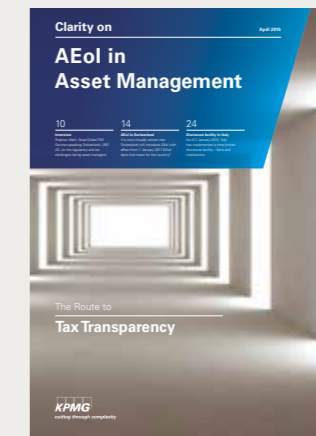
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