Roland Berger Focus

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Success in private banking: scale or niche?

Our 2017 update analysis on the Swiss & Liechtenstein private banking industry

Roland Berger

navigating complexity

Management summary

The private banking landscape in Switzerland and Liechtenstein has seen no let-up in the strain on industry players. That said, this update to last year's widely acclaimed study found that there are still winners and losers across the board – from the universal banks right down to the very small private banks.

Though market consolidation remains an enduring trend, the frenetic pace of recent years has abated somewhat. The industry's total profit pool, however, remains more or less unchanged over a six-year horizon. And with private banks being able to reduce their cost base on average but finding their income levels falling even faster – resulting in a higher cost/income ratio – banks of all sizes clearly need to work harder than before to achieve the same level of profit.

The strategies of success seem to be either scale or niche, given the marked tendency towards the poles. The private banking units of the two global, universal banks and the very small private banks turn out to be the most profitable in our sample, while medium-sized private banks are well and truly 'stuck in the middle'.

With AuM growth stemming mainly from the positive market performance, net new money being at a six-year low and gross margins seriously struggling in most size segments over the past year, several players have come under increasing stress.

We conclude that banks must remain committed to establishing the right business model for their specific situation. With four dimensions to be considered, private banks must respond to the changing client landscape with all of its new demands and they need to tackle digitization. They must increase efficiency in their business and operating model and they have to transform regulatory requirements into strategic differentiators. Doing so will put the banks in a position to enjoy lasting success in this tough market environment.

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Our 2017 update analysis

The Swiss & Liechtenstein private banking industry reveals many players in the market under increasing stress.

This report sheds light on developments in the Swiss and Liechtenstein[1] private banking market since the end of 2015. It presents a condensed update to the widely acclaimed study we published in Q3 2016 based on a five-year analysis of relevant key performance indicators across individual banks and bank segments. The update looks at whether the overall trends observed in the study have been reaffirmed or may even have accelerated, and examines whether there have been any significant changes. We built upon the same methodological approach and comprehensively analyzed the performance of Swiss private banks – now over a period of six years, from 2011 to 2016.

The study covered 54 private banks (as described in "Design of our study" at the end of the booklet) – including legally independent domestic subsidiaries of foreign banks with a clear and explicit focus on private banking, as well as the private banking business segments of universal banks or cantonal banks. The number of banks in the study scope changed slightly owing to the integration of BSI SA into EFG International and the exclusion of Banca Arner due to the reduced depth of published data. The assets under management in our sample totaled approximately CHF 5.4 trillion, accounting for more than 75% of the client funds managed by Swiss private banks. As a result, we consider the findings gained from the study to be representative. In analyzing the performance of banks of different sizes, we applied the same AuM buckets as last year and were also able to observe shifts between the segments. → A

TENSION IN SWISS PRIVATE BANKING INTENSIFYING

The outcome of our 2017 private banking market study paints in most cases an even more accentuated picture of the trends we observed a year ago:

> Although average gross margins continued on their downward trajectory, declining by 5 bps, private banks were able to keep revenues and profits stable overall – this year mainly due to substantial AuM growth driven by market performance and not because of any reduction in cost/income levels. The profit pool has been unchanged at around CHF 8.0 bn over the entire six-year period analyzed.

> In 2016, private banks could neither maintain the previously stable cost/income levels nor reduce them, i.e. CIR levels increased – with the exception of universal banks and large private banks, which saw their CIR further decrease on average.

> Private banks struggle to collect net new money. NNM decreased sharply (-56% vs. 2015), tremendously accelerating the development that has been ongoing since 2011. The NNM growth share collapsed to 0.7% of AuM (from 1.9% in 2015). And it is mainly the larger banks that are able to collect decent levels of NNM.

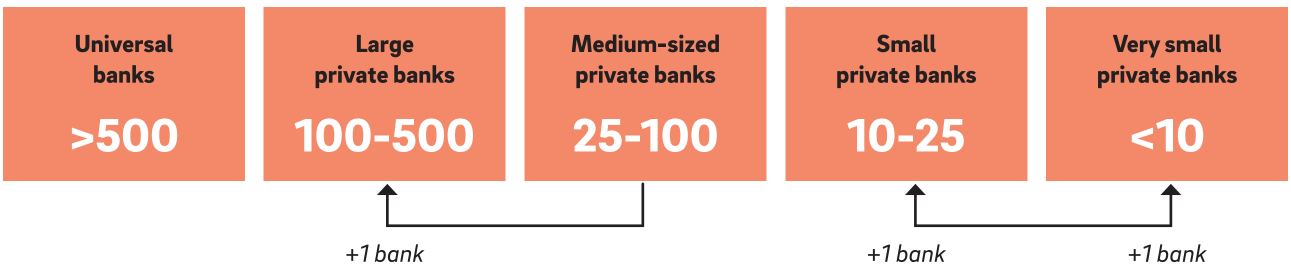
> The trend towards a two-class society is accelerating, with an even stronger spin towards the poles in terms of scale. Additional banks moved to winner positions but several players are struggling even more than in previous years.

> Once again, the medium-sized private banks exhibited the weakest performance of any segment, with decreasing AuM, largely negative NNM, massively reduced profit levels and more. On a positive note, banks in this segment did at least manage to stabilize gross margins.

> The prospects for small and very small private banks darkened slightly in 2016, especially with regard to profitability and, to some extent, AuM growth. Remarkably, the very small private banks were the only segment to increase gross margins – from a level that was already substantially higher than all other segments.

[1] For the sake of brevity, this report refers to both Swiss and Liechtenstein banks as Swiss banks.

A: Sample by segment size (CHF bn AuM) and movement of banks from 2015 to 2016.
The representatives in our sample were grouped by size.



Source: Roland Berger

> Interestingly, the very small banks also seem to outperform the others in terms of performance of invested assets, with an average performance of +6.7%.
> Ultimately, we again observed that size does not really seem to matter – there are attractive and successful niche markets and expedient business models producing winners and losers in every segment.

Overall, the industry continues to be challenged on many fronts and is still going through a vigorous process of transformation. Although client activity levels have seen an increase in 2017, serving to relieve the pressure on private banks somewhat in the short term, the need to proactively drive the transformation agenda and adapt business and operating models is no less pressing. Having largely prioritized the implementation of and compliance with regulatory requirements thus far, private banks must now extend their focus towards leveraging the opportunities of digitization. This is necessary on the one hand to further increase efficiency long term, and on the other hand it is a way for banks to improve client experience – carefully and with clear distinctions depending on their target client segments. All with the ultimate goal of perfecting client service and becoming to an even greater extent 'fit for the future'.

FURTHER CONCENTRATION AT THE POLES

The general distribution of client assets across the various size segments has remained more or less the same as last year. However, we were able to observe an even stronger movement towards the two poles of universal banks and very small private banks: While the client assets of the Swiss private banks in our sample increased from CHF 5,100 bn[2] to CHF 5,400 bn (+4.7%), there was a slight shift towards the two universal banks as well as the very small private banks.
The concentration at the poles further intensified as the two extremes grew most in AuM (universal banks by +6.3% and very small private banks by +8.4%), while large private banks (+4.7%) and small private banks (+0.5%) recorded lower growth. The segment of medium-sized private banks even had negative AuM growth of -6.4%.

[2] Last year's data has been slightly amended due to newly published information (e.g. UBS has changed their accounting standard and, therefore, reported different figures for 2015).

The AuM share of the universal banks' two private banking units increased to roughly 57%, up from 54% in 2015.

The 20 largest private banks in our sample still account for almost 95% of client assets, while the 34 smaller banks have a combined AuM share of just under 6%. The 10 smallest banks in fact account for not even 0.5% of private banking AuM (CHF 24.6 bn). The segment of very small private banks (20 banks) manages AuM of CHF 90 bn in total (1.7% of the AuM covered by this study).

Over the last year, there has been a small degree of movement between the segments: One medium-sized bank's acquisition of a competitor moved it up from the medium-sized to the large private banks group. Two banks also switched segments, one of them moving from small down to very small (with AuM decreasing by more than 10%) and another growing AuM slightly, taking it just over the threshold and into the small private banks segment.

Our observation that the Swiss private banking market will continue to consolidate and heighten its concentration at the poles remains as valid now as it was last year – especially owing to the influence of digitization and ongoing regulatory pressure.

'True scale' or 'real niche' seem to be the two mantras – positions in the middle are under serious pressure.

A VIEW OF THE EXTREMES – THE BIGGEST AND THE SMALLEST PLAYERS

This year, the largest private bank is 3,800 times bigger in terms of AuM than the smallest player in our sample, thereby extending the gap even further from last year, when the largest private banking unit was 3,300 times larger than the smallest private bank.

Interestingly, the highest gross margin increased by 4 bps to 190 bps, in a development that is somewhat counter-intuitive to the general market trend but consistent with the fact that several banks were able to increase their gross margin. At the other end of the scale, the lowest gross margin dropped from 40 bps to 22 bps, making it 8.6 times lower than the highest margin. → B

GROSS MARGIN – A DOWNWARD SPIRAL WITH SOME EXCEPTIONS

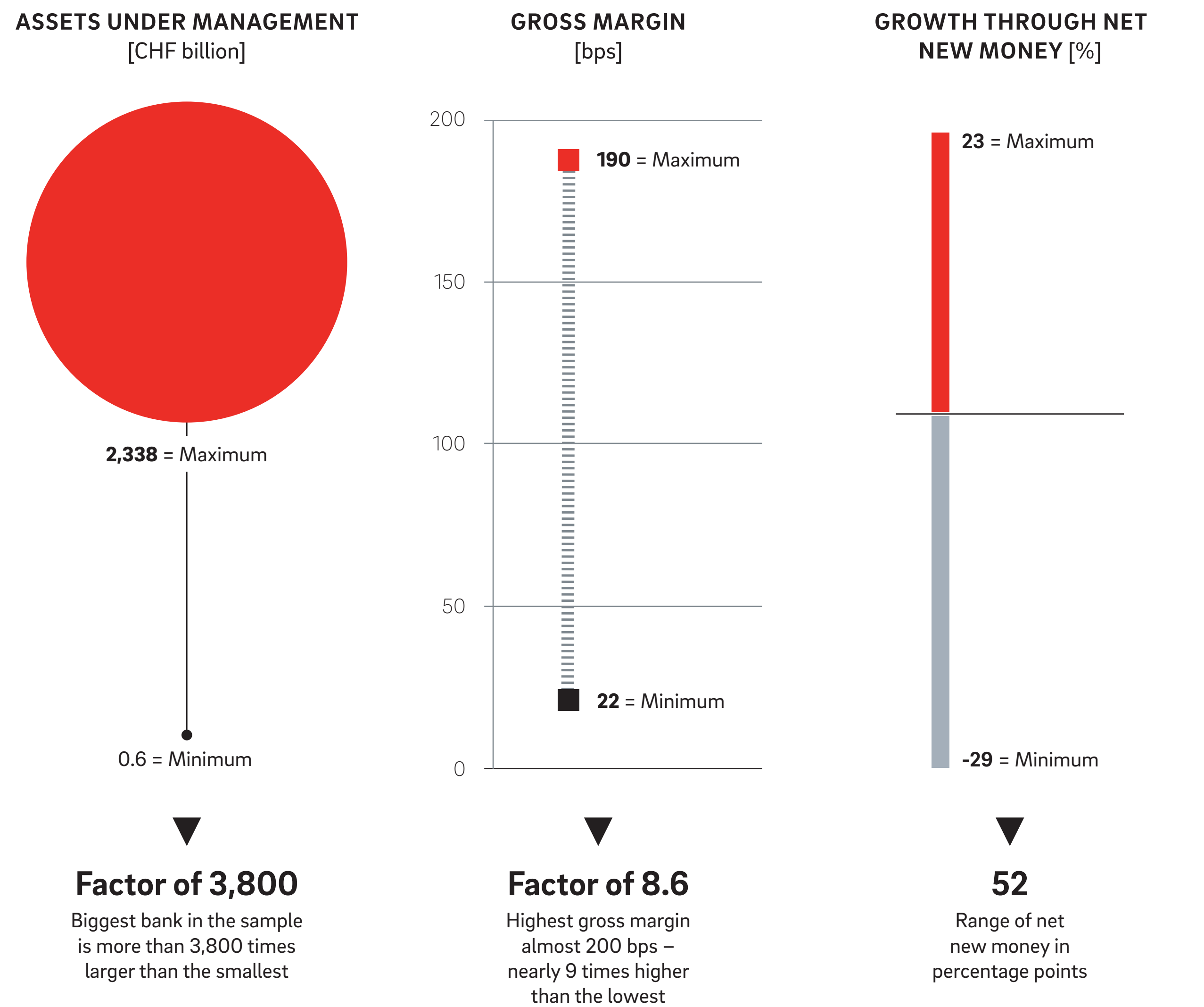
Besides AuM, a bank's gross margin is one of the determining factors of its profitability, and while AuM moved in the right direction in 2016 largely due to the positive market performance of certain banks (see next section) and occasionally due to their positive NNM performance, the trend of shrinking gross margins has been reaffirmed. Weighted total average gross margins across the industry dropped further from 84 bps in 2015 to 79 bps in 2016. By contrast, the very small private banks were able to increase their gross margin as a segment – from an already good 98 bps to an even better 102 bps.

In the universal and large private banks segments, 30% of players were able to increase their gross margin. The picture in the medium-sized banks segment is somewhat ambiguous: five (55%) banks faced a lower gross margin, while four (44%) banks were able to increase it. In the small private banks segment, nine (60%) banks faced a declining gross margin, while four (27%) banks increased theirs and two (13%) banks recorded no change in their gross margin. Interestingly, in the very small private banks segment, only six (30%) of the banks faced lower bps, while an impressive 14 (70%) banks were able to further increase their gross margin.

Despite AuM growth of roughly 38% from 2011 through 2016, revenues grew by no more than about 10% over the same period; this is a consequence of the decline in gross margins from 98 bps in 2011 to 79 bps in 2016.

Looking at the market from a different angle, 35% of the banks were able to increase their gross margin and simultaneously raise their operating profit ('income') in an improvement on 2015, when only 14% were able to increase

B: Benchmarking the extremes in terms of AuM, gross margin, and growth through net new money in 2016.
The extremes within the key factors of our analysis in 2016.



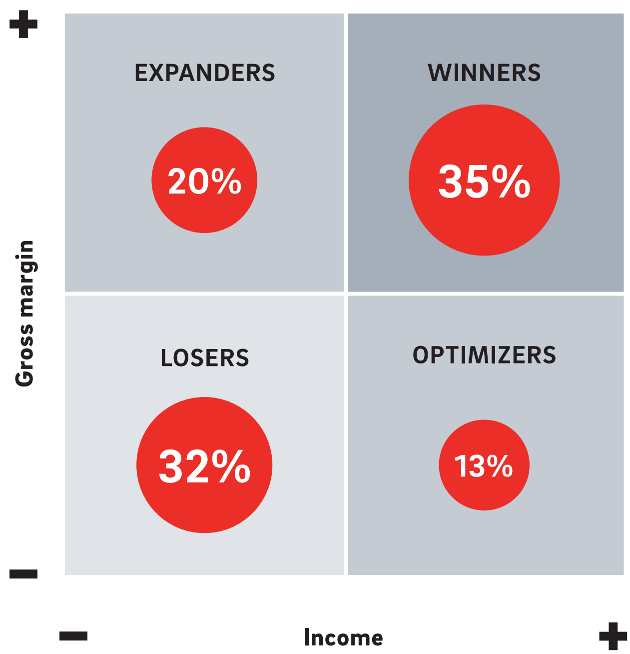
Source: Roland Berger

both. The main driver behind this is the positive market performance, followed for some banks by the increase in gross margin. Unfortunately, one third of the private banks in our survey face the critical situation of shrinking gross margins and declining operating profits. → C
Roughly 70% of the private banks have moved between the quadrants in figure C since last year. The share of winners at the larger end of our sample as well as at the opposite pole is substantially higher than in the middle segments. This lends additional weight to our finding that players at the poles are doing better than those 'stuck in the middle'.
Of the 30% of private banks that held their position, only three have been able to remain winners, while six banks had the misfortunate of languishing in the loser bucket. Thus, although there is a lot of movement from one bucket to another, it is obviously much harder to remain a winner year over year than it is to stay a loser.

ASSETS UNDER MANAGEMENT (AUM) – GROWTH DRIVEN BY MARKET PERFORMANCE

Overall, AuM was still growing in 2016, albeit at a moderate pace of only 3.1% since 2015, reaching a level of CHF 4.7 trillion[3]. All segments – with the exception of the medium-sized private banks – were able to grow their assets at between 0.5% and 8.4%.
Medium-sized private banks faced a CHF 25 bn drop in AuM, a reduction of 7.1%, in line with their largely negative NNM.
The general growth of AuM in other segments is strongly driven by the positive market development and less by actual NNM contribution. Despite headwinds from market performance, 27% of study participants failed to achieve growth in AuM. Furthermore, 48% of the private banks did not manage to achieve positive NNM at all. → E

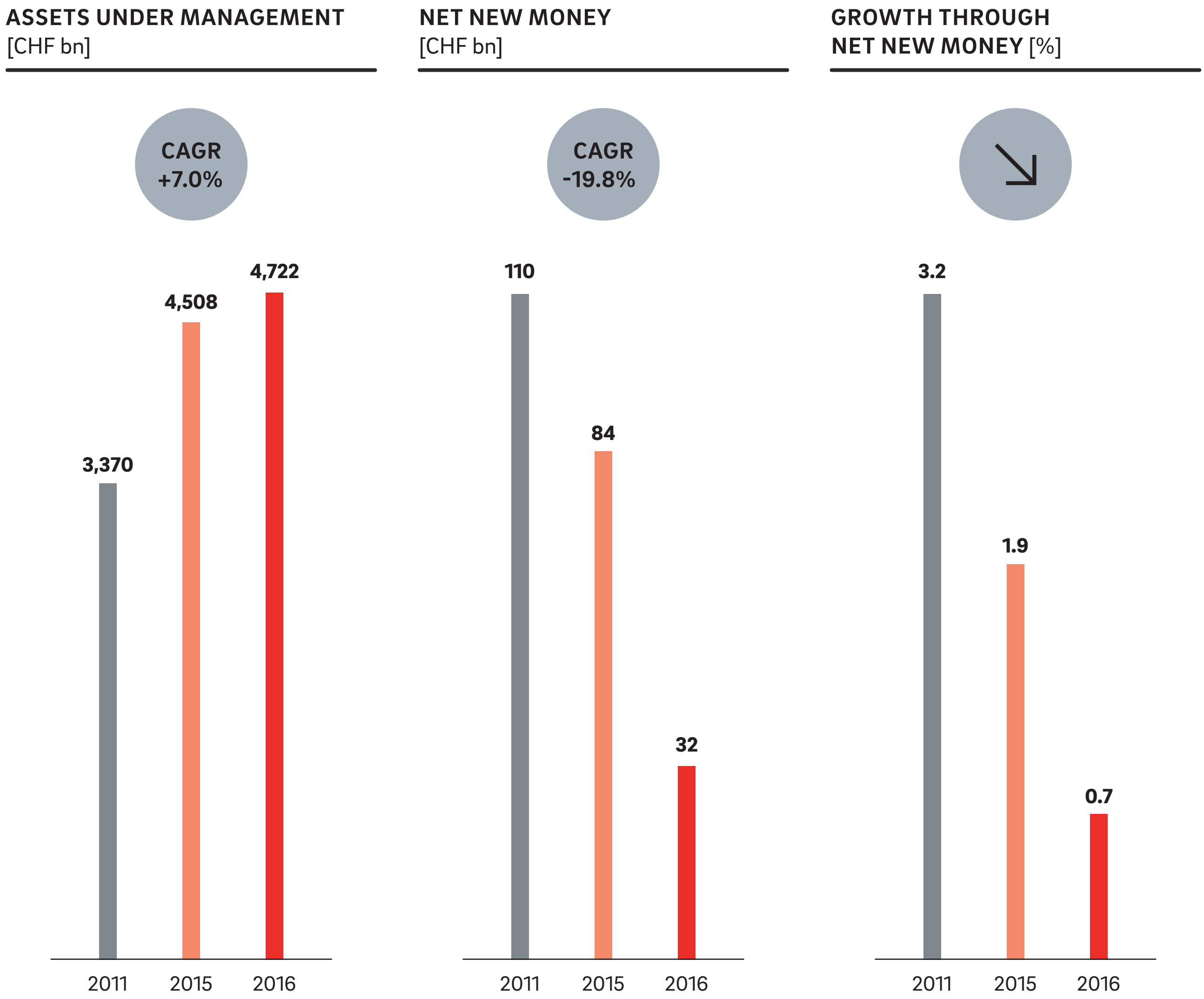
C: Only one third of private banks were able to increase income and gross margin at the same time.
Change in gross margin and income by bank, 2011-2106 [%].



Source: Roland Berger

[3] Data for Lombard Odier, Mirabaud and Pictet is only available from 2014 onwards; thus these banks are excluded from the six-year analysis on which we mainly focus here.

D: Decline in growth driven by net new money is a long-term trend.
Development of AuM and NNM, 2011-2016 [CHF bn].



Growth through net new money: Net new money year under review/AuM as at Dec 31 previous year

Source: Roland Berger

NET NEW MONEY (NNM) – DOWNWARD TREND ACCENTUATED

NNM contribution has been falling since 2011. But the situation worsened sharply in 2016. The total NNM contribution of only CHF 32 bn is a shocking 61% lower than in 2015 (CHF 84 bn NNM). Similarly, the growth contribution from NNM has been shrinking dramatically from 3.2% in 2011 to only 0.7% in 2016. → D

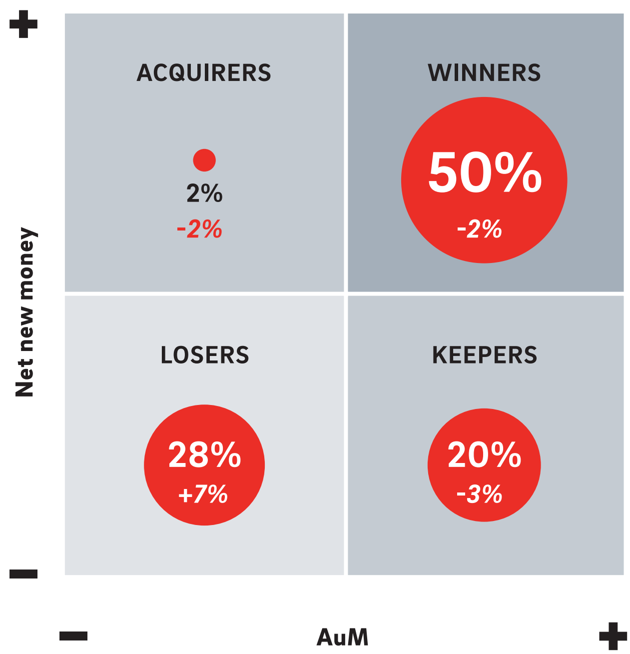
NNM contribution across the private banks ranged between -29% and 23% in 2016, → B the gap widening substantially from a range of -12% and 20% last year. A clear tendency can also be observed in terms of size segments: While the universal banks, large private banks and small private banks did grow their NNM, though only moderately, the medium-sized private banks faced significantly negative NNM growth contributions (-7.8%). Negative NNM was also observable among the very small private banks (-2.3%). As there are successful and less successful players in each segment, size is definitely not the main determinant of success.

Within the medium-sized and very small private banks segments, in other words the segments with negative NNM, few banks were able to buck the trend exhibited by their peers. One third of the medium-sized private banks recorded positive NNM, with only one bank displaying a substantial NNM growth contribution – reaffirming our finding that medium-sized private banks are mostly in a very difficult position.

The situation is similar in the segment of very small private banks, where 40% were able to achieve positive NNM. Compared to the medium-sized private banks, however, the scale of the negative contributions is less dramatic.

Does this negative NNM picture for very small private banks already signal a tipping point? Are the niches in which very small private banks often operate saturated and not growing anymore? Or have non-bank players started to move into these niches?

E: Half of private banks increased AuM and recorded net new money at the same time.
Change in AuM and NNM by bank, 2011-2016 [%].



Source: Roland Berger

Notwithstanding these questions, it is very interesting to observe in the 2016 figures that, as very small private banks have grown AuM at an above-average rate while losing NNM, they clearly outshine their competitors on investment performance, the average AuM performance of very small private banks being approximately 2.5 times higher than that of the overall sample. And there are several elements that help explain this observation.

If we look at the KPIs NNM and AuM from a different angle, we see that 50% of all banks were able to grow in AuM as well as in NNM terms. 28% did not succeed on either front. While the number of winners remains stable in the upper segments, there are significantly more winners in the segments of small and very small private banks.

The losers lost more than CHF 44 bn in AuM, while the winners gained almost CHF 294 bn in AuM (or CHF 101 bn without the two universal banks), which translates to 6.9% growth in AuM. The 4.7% NNM uplift averaged by the winners in 2016 was lower than in 2015, when the average winner's NNM grew by 6.2%.

The medium-sized private banks continue to struggle the most, being the only segment that has been shrinking in terms of AuM as well as continuously having a negative NNM contribution during the observation period.

PROFIT – HIGHER SHARE OF UNPROFITABLE BANKS SINCE LAST YEAR

In 2016, consolidated revenues declined for the first time since 2011 – falling 2.4% from 2015 to 2016; costs also decreased but at a slightly slower rate (2.0%). As a result, operating profit in the industry shrank by roughly CHF 200 m in 2016.

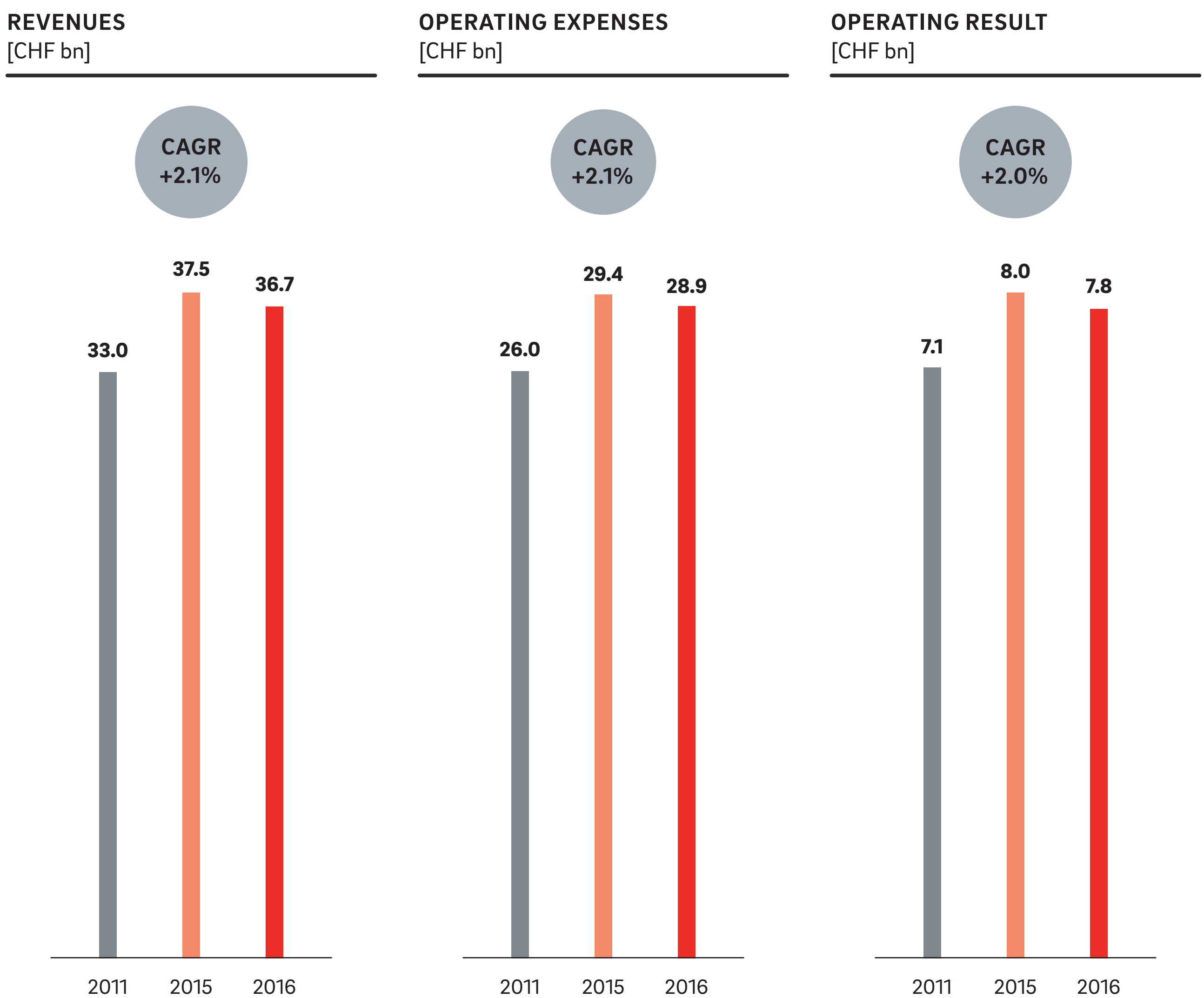
Revenues declined in all segments by between 0.7% and 6.4%, with the exception of very small private banks, where revenues rose by 2.2% due to higher gross margins and beyond-average AuM growth. Interestingly, very small private banks are also the segment that saw their costs go up by 4.6% on average, resulting in operating profit going down as well. The segment of small private banks saw costs grow by 2.7%, which, in combination with declining revenues, led to a 28% fall in operating profit. Only the universal banks were able to increase their operating profit by 2.2%.

Profits in the medium-sized private banks segment experienced the most marked decline, falling -30.6% YoY. This was the result of negative developments across all factors: lower AuM growth, negative NNM and increasing CIR.

The consolidated operating profit perspective across the entire sample delivers a surprising outcome: Even though private banks are facing bigger challenges, although gross margins have been declining for years, and despite the fact that NNM is getting harder to collect year by year, profits throughout the entire industry have managed to remain stable, hovering around CHF 8 bn per annum over the last six years. This reaffirms last year's findings: Private banks need to 'run faster' and 'work harder' year by year just to maintain flat profits across the industry. It is clear that a 'wait and see' or 'carry on as before' mentality would result in disaster, and has demonstrably done so in the case of a number of players that failed to survive the conditions prevalent in the market today. → F

The majority of banks remain profitable on the operating profit level – but some are working with a very narrow margin. That said, the number of banks suffering negative operating profits increased from three in 2015 to five in 2016. From a segment perspective, one unprofitable bank is found among the medium-sized private banks, two among the small private banks and a further two among the very small private banks. The two very small private banks became even more unprofitable, while the torch of unprofitability was passed from one player to another in the medium-sized segment. The two unprofitable small private banks first became

F: Despite growing costs, the industry-wide operating result keeps fluctuating around 8 bn CHF since 2011 due to increasing revenues.
Development of revenues, operating expenses, and operating result, 2011-2016 [CHF bn].



Source: Roland Berger

unprofitable in 2016 in further evidence of mounting pressure on players in the private banking industry.

PERSONNEL – STEADY REDUCTION OF STAFF NUMBERS

The personnel base of the banks within our study scope has fallen steadily by about 1.9% per year to 64,000 employees in 2016, down from the roughly 70,000 people who were employed by the banks in 2011. This development is clearly attributable to the increased regulatory and competitive pressure on private banks and especially universal banks, which has led to shrinking margins and a tougher fight for AuM.
The headcount reductions have predominantly taken place in support units, on middle management level and in operations and back-office functions. Lower skilled jobs were often outsourced or offshored to third party providers. Consequently, the average cost per employee has been rising over the past six years, growing by 15% in all segments with the exception of very small private banks, where the cost per capita actually decreased by 2.1%.
With regard to absolute costs per employee, there seems to be a correlation between the size of the private bank and the average costs per employee – the larger the bank, the higher the cost per capita.
Despite the overall reduction of personnel in the Swiss private banking sector, there are some segments that have seen their personnel base increase. Since 2011, the large private banks grew their headcount by 23.8% to roughly 17,000 employees in total for the segment. A similar picture emerges for the small and very small private banks, which have increased their staff base by 28.5% and 21.5% respectively. Conversely, the universal banks (-20.9%) and medium-sized private banks (-23.7%) reduced staff numbers. This change in headcount over recent years also reflects to some extent on personnel cost levels, as shown in the next section.

THE COST/INCOME RATIO IS MOSTLY INCREASING – UNIVERSAL BANKS DISPLAY A STRONG EFFICIENCY FOCUS

Private banks were able to reduce their cost base by 2.0% in 2016. However, revenues dropped faster, at around 2.1%, thus slightly increasing the average cost/income ratio by 0.1% to an average CIR of 78.7%.
For the first time in the observation period, universal banks were able to reduce their costs significantly, but only one of them was able to increase revenues as well and thus reduce its CIR accordingly. The majority of large private banks saw costs rise but also managed to increase their revenues, with a small positive impact on the average CIR, improving from 77.5% to 77.3%.
For very small private banks, the development was slightly different to that of their large peers. Costs increased by 4.6% and revenues rose by 2.2%, thus taking the CIR up to 89.2%. Small private banks, as a segment, experienced not only a 2.7% increase in costs but also a 5.5% reduction in revenues. This worsened their average CIR by 6.4 percentage points, taking it to a new level of 80.8%.
Medium-sized private banks managed to reduce costs as a group by roughly 3.4% but faced declining revenues of 6.4%, thus worsening their CIR by approximately 2.7 percentage points to 92.0%, a figure hardly sustainable from even a medium-term perspective. → G
Analyzing data from a matrix perspective – combining the KPIs of CIR and growth in operating expenses – reveals that the absolute number of winners that were able to improve their CIR and simultaneously reduce operating expenses remains unchanged. Of the eleven winners from last year, only two banks were able to maintain their position, while six of last year's winners even turned into losers, seeing both their expenses increase and their CIR deteriorate. On the other hand, nine banks were this year able to improve their position from loser, shrinker or expander to a winner, keep-

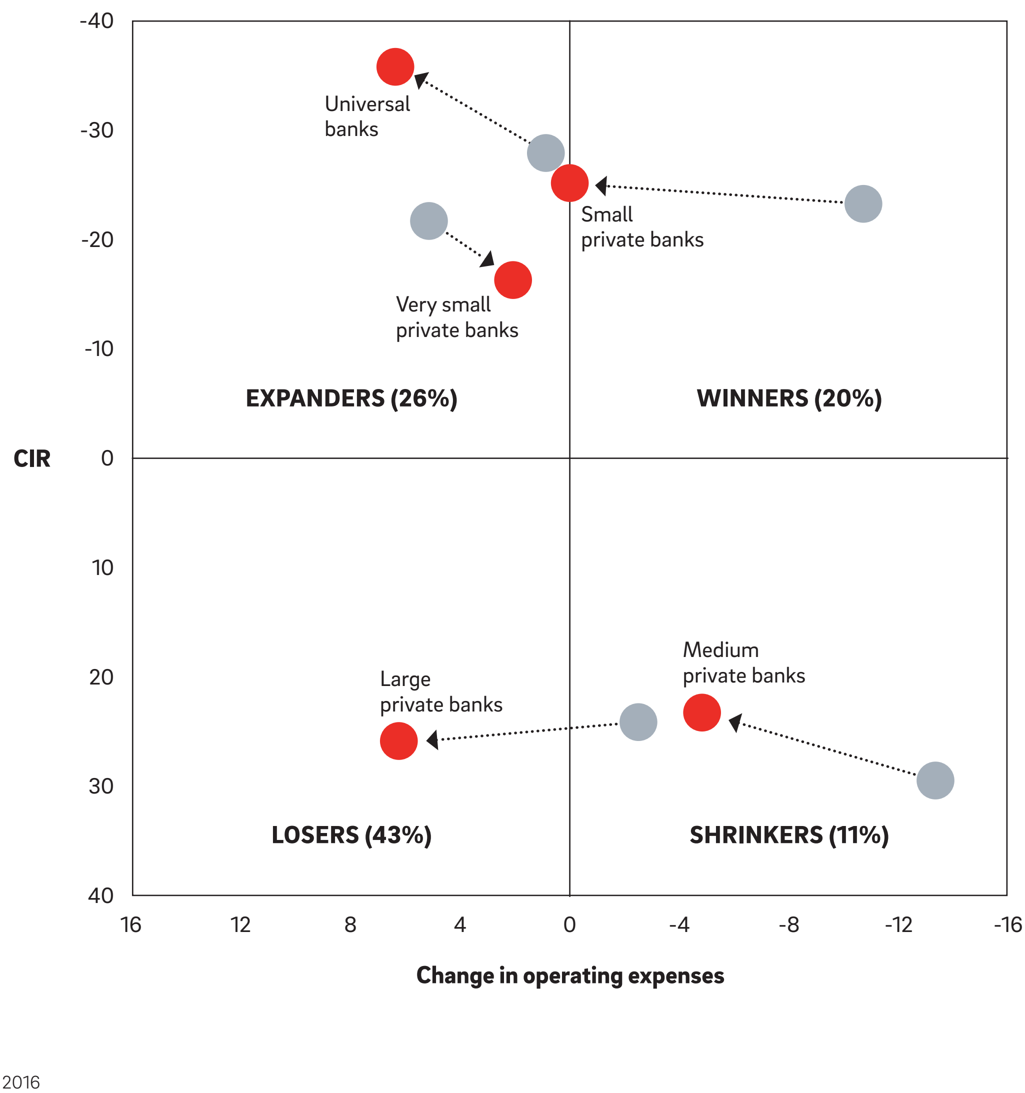
G: Almost all segments face a lower gross margin than 2011 resulting in approx. one third of private banks having a lower operating result than 5 years ago.
Development of AuM, NNM, operating result, and gross margin, 2011-2016 [CHF bn].

SEGMENT Period under review 2011-2016	Growth in assets under management[1] [%]	Growth through net new money[2] [%]	Share of banks with increase in result [%]	Share of banks with increase in income [%]	Growth of operating result[3] [%]	Change in gross margin [bps][4]	Change in payroll costs [%]
Universal banks	+49.3 ↑	+18.6 ↑	100%	+18.2 ↑	50% ↓	-16	+1.1 ↑
Large private banks	-46.1 ↑	+24.4 ↑	60% ↑	+64.5 ↓	50% ↓	-22 ↓	+4.9 ↑
Medium-sized private banks	-22.0 ↓	-16.5 ↓	63% ↑	-80.0 ↓	50%	-27 ↓	-19.1 ↓
Small private banks	+28.7 ↑	+12.2 ↑	62% ↓	+108.4 ↓	77% ↓	-8 ↓	+6.1 ↓
Very small private banks	+0.7 ↑	+13.2 ↓	70% ↑	-1.2 ↓	60% ↑	+2 ↑	-1.7 ↓
	Avg. +6.0% ↓	Avg. +10.0% ↓	28% of private banks have lower operating result today than in 2011 ↑		Avg. 57% ↓	Avg. -14% ↓	Avg. -1.8% ↓

1 Growth of accumulated client assets of banks in segments, 2016 vs. 2011
2 Accumulated growth through net new money, 2011-2016, referring to AuM at year-end 2010
3 Growth of accumulated operating results of banks in segments, 2016 vs. 2011
4 Unweighted averages

Source: Roland Berger

H: Change in CIR and operating expenses, 2011-2016.
Cost/income ratio and change in operating expenses. [%].



Source: Roland Berger

ing the total number of winners stable. Yet more proof, if proof were needed, that good or outstanding performance one year does not offer any guarantee for the future – private banks need to proactively improve year over year in order to remain successful. → H

BREAKDOWN BY COST TYPE

From 2015 to 2016, the share of personnel expenses grew in all segments, with large private banks having the highest share (68%) and universal banks the lowest share (59%) of total expenses. Personnel costs increased in the universal banks, small private banks and very small private banks segments, while the large and medium-sized private banks were able to reduce their personnel costs.

However, looking at it from a six-year perspective, the picture that emerges is slightly different. Although universal banks reduced their headcount by 20.9%, personnel costs fell by just 1.1%. Medium-sized private banks reduced their absolute personnel cost base as well (-20.1%) but costs per employee rose slightly.

Even though large private banks (+22.8%) and very small private banks (+15.9%) recorded a substantial increase in their cost base for staff, their actual average salary per employee declined slightly (at large banks) or substantially (at very small private banks). Small private banks, on the other hand, saw their cost base for staff increase (+24.3%) at the same time as the average salary per employee rose.

General and administrative costs (G&A costs), on the other hand, are shrinking in all segments, with efficiency measures predominantly focusing on G&A costs. The largest single G&A cost type for banks in almost all segments are IT costs, accounting for 17 to 24% of total G&A costs. Nearly every segment has been able to reduce its overall IT cost since last year – with the exception of the very small private banks, which faced a 7% rise in IT costs.

Costs for professional services decreased significantly in all segments but one, the large private banks segment. In addition, all banks are reining in their spending on office and rental costs.

WHO ARE THE WINNERS?

We were – like last year – keen to understand which players were able to beat the average in at least two of the three criteria (winners) or even all three (stars) in the six-year period. The three criteria are:

1. Growth through net new money
2. Increase in revenues
3. Growth in operating result

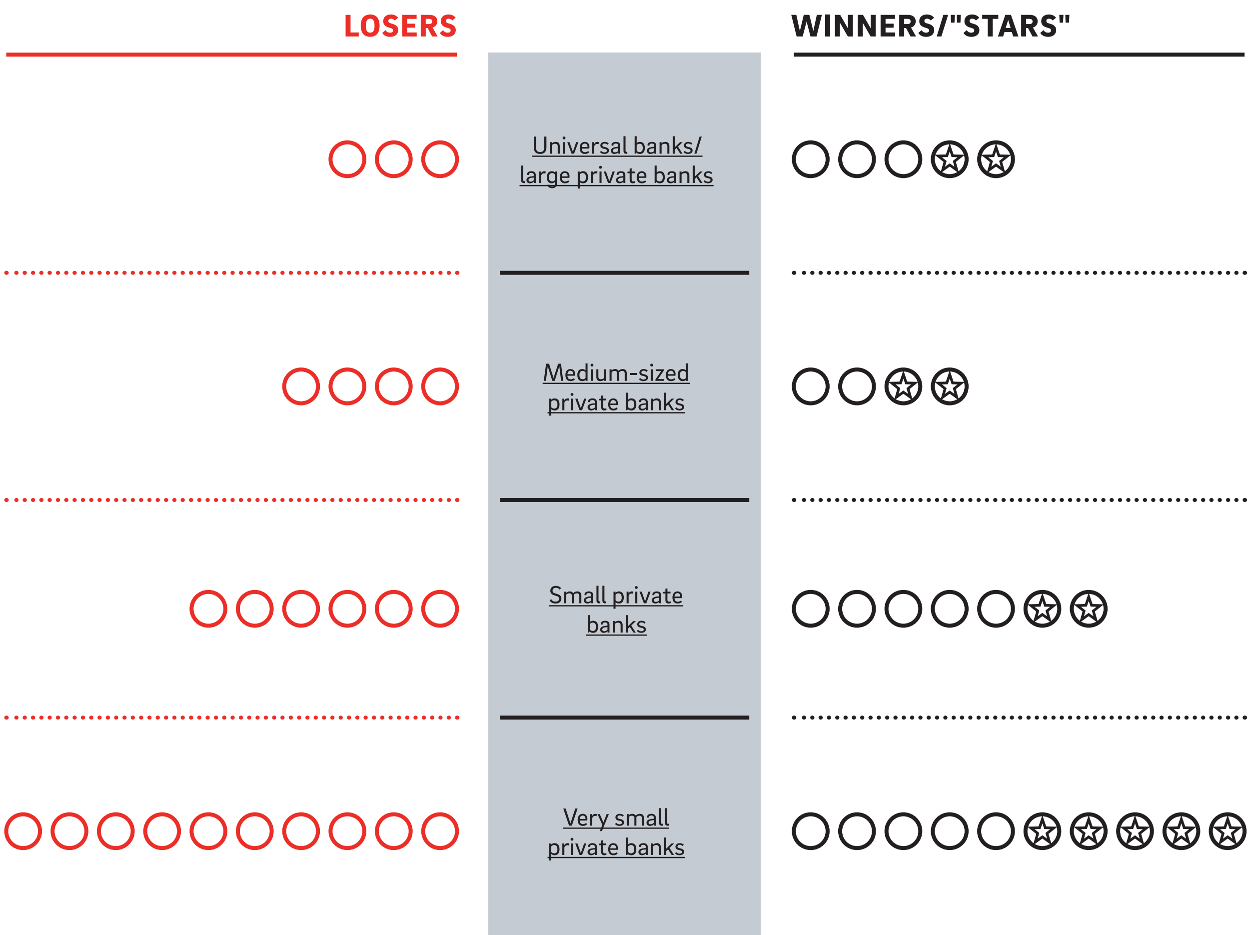
70% of the private banks have been able to maintain last year's position, 40% of them even as winners or stars. The majority of the private banks that were stars in 2015 were able to hold their position with the exception of four, which moved down a notch to the winners group in 2016. Only 14% of the banks find themselves in a worse position than in 2015, while 16% have been able to improve their position.

Within the movements which took place one developement was striking – in the segment of medium-sized private banks, one loser managed to leapfrog straight into the stars category. → I

SHORT-TERM FLUCTUATION VS. LONG-TERM STABILITY

The foregoing analyses demonstrate that there is no guarantee that a bank that outperformed one year will actually be able to outperform the next – banks need to stay alert and they have to improve year over year in order to be successful. However, in the medium term there is a higher degree of stability with regard to a bank's position – the majority of the banks (~70%) remain at the same position in the six-year comparison as they were in the five-year comparison. But the analysis also

I: There are winners in every segment.
Winners and losers in quantitative benchmarking (absolute), 2011-2016.



Winners are banks that were able to beat the average in at least two of three criteria in the six-year period. Stars are banks that were able to beat all three criteria. The criteria being "growth through net new money", "increase in revenues" and "growth in operating result".

Basis: 51 private banks
Source: Roland Berger

shows that movement is possible – even losers can become stars. In the opposite direction the 'fall' seems to be softer – stars have become winners but none have directly turned into losers.

As mentioned in last year's study,
SUCCESS FACTORS FOR LARGER BANKS remain:
> **Strategic consistency**
> **Balanced market portfolio**
> **Strong organic growth** (supported by selective inorganic moves)
> **Constant optimization of the business & operating model**

FOR SMALLER BANKS success still hinges on:
> **A long-term financial perspective**
> **A clear focus on markets and segments**
> **Strategic 'modesty'**
> **Continuous improvement**
> **'Good owners'**

STRATEGIC IMPLICATIONS

This year's update to the study confirms the validity of the three strategic directions or options that Swiss private banks have to choose from and many are already pursuing to some extent – but often neither with the required clarity nor the necessary commitment. The three directions are:

1. Selective growth at a high level paired with consolidation steps and operational improvements (scale)
2. Increased market/segment/service focus and considerable attention to enhancing profitability (niche)
3. Full speed ahead – with strong global growth (scale)

There is no universal blueprint – not even within each of the three strategic directions mentioned above. Moreover, players need to develop and, above all, thoroughly and diligently execute a strategy that optimally suits their own situation, taking into account the following aspects:

> **Changing client landscape** – Private banking customers are becoming better informed, more demanding, prone to digitized ways of interaction, and they are seeking holistic advice instead of pure investment tips – banks need to decide where to play and how to deliver the best experience to the target clients they want to serve.
> **Future business model** – Private banks have to be ready and must have the procedures in place to adapt quickly to the changing needs of clients and regulators, and to changing competition.
> **Lean and efficient operating model** – Banks have to define leaner and more efficient operating models.
> **Growing regulatory challenge** – Banks need to improve their agility and take a more proactive and strategic approach towards regulatory requirements pre- and post-regulation – turning regulatory demands into strategic differentiators, value propositions and business opportunities.
> **Increasingly fast pace of technological development/digitization** – Banks need to understand technological developments and take advantage of them – but very specifically and with a clear fit to their strategy, clientele, and ambition.

Design of our study

For a private bank to be included in our survey, we had to have access to publicly available business data for the years 2011 through 2016 – either for the bank as a whole or in the form of a meaningful segment report. We had to accept a certain amount of inaccuracy and endeavored to eliminate it as far as possible. A certain "survivorship bias" is unavoidable in our study: a six-year comparison can include only those private banks that still existed in 2016. Several of the others were integrated into the banks in our sample and in most cases had a positive impact on their figures.

All of the statements in this study are based on information that was available to the public and processed without any alteration save a few exceptions. Our presentations and analyses are provided on three levels: first the whole population, second the size segments and third the individual and essentially anonymized private banks in a few cases. Our sample covered a total of CHF 5,400 billion in client assets, of which CHF 654 billion relate to the Geneva-based private banks Pictet, Lombard Odier and Mirabaud. As they have only been publishing their business data since 2014, we included these three banks in our separate detailed analyses from 2014 but not in the six-year perspective mainly used for this study update summary.

The quantitative analyses produce traditional key figures in private banking, particularly volume size (client assets and net new money), operating profit, and ratios such as gross margin and cost/income ratio.

Imprint

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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About us

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

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For half a century, Roland Berger has helped its clients manage change. Looking at the next 50 years, we are committed to supporting our clients conquer the next frontier. To us, this means navigating the complexities that define our times. We help our clients draft and implement responsive strategies essential to success that lasts.

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