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The International Private Banking Study 2011

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Table of Contents

Executive Summary

The fifth issue of "The International Private Banking Study"

This is the latest issue of „The International Private Banking Study" series previously published in 2009, 2007, 2005 and 2003. Herein, 209 financial institutions focusing on private wealth management are analyzed. The sample selected and studied contains banks from Austria, the Benelux countries, France, Germany, Italy, Liechtenstein, Switzerland, the UK and the US. The objective of the study is to compare the relative strengths and the competitiveness of wealth management banks from different countries by measuring multiple key performance ratios such as volume of managed client assets, profitability and efficiency. In this year's study particular emphasis is laid on the Swiss sample. A separately conducted survey among Swiss private banks gave access to first hand private data which, combined with the publicly available Swiss data, allowed for a more comprehensive and profound analysis.

UBS is still the world's largest wealth manager

In the course of the financial crisis, structural changes and the consolidation process within the US banking sector have cleared the way for new international large scale wealth managers. In this highly dynamic environment, UBS was able to defend its position as the world's largest private bank and hereby placing Credit Suisse on the second rank. Third placed Bank of America and Morgan Stanley, which is ranked fourth, achieved their size through a large scale acquisition and a majority stake in a joint venture respectively. These four largest wealth managers jointly manage half the assets under management (AuM) of the top 20 competitors.

On the way towards a level international playing field

The tightening of regulatory rules and the strong efforts by various governments and international organizations to fight tax evasion have left their marks on the industry. Traditional offshore centers, such as Switzerland or Liechtenstein, have suffered from a strong decline in wealth management revenues and, as a consequence, from increasing cost/income ratios. While the fiscal competitive advantage of such offshore locations dwindles in importance, a trend towards convergence in the international private banking market can be observed. Although country specific differences among the key performance indicators still exist, gaps between the individual countries have clearly declined over the recent years. This tendency is likely to be continued as further attempts by national and supranational authorities will be undertaken to level the international playing field.

Increasingly demanding clients challenge banks and bring pressure on margins

The continuing deterioration in margins over the past years is remarkable. Adjusted gross margins on assets under management have dropped by 21% across the entire sample from 2004 to 2010. Causes for this development are manifold; for instance, clients have become more risk-conscious and performance-oriented. Enhanced transparency in the financial product universe

and numerous attempts to simplify comparison of products, services and prices have increased client's understanding of the business and thereby strengthened its bargaining power. In many international oriented wealth management centers traditional offshore clients have given way to a new generation of tax compliant and highly sophisticated high net worth individuals who seek individual and comprehensive advice.
Given the fundamental changes in client behavior, an increase in margins is considered to be unlikely to occur anytime in the near future. In markets with contracting business volume, increasing competition among established banks will intensify the downward trend.

Net new money inflows for Swiss wealth managers in 2010

In 2009, pressure on banking secrecy and severe political tensions between the Swiss financial center and foreign tax authorities led to a high degree of uncertainty amongst (offshore-) banking clients. Significant net new money outflows (some banks lost client funds ranging from 5 to 10% of their AuM) was the consequence. In 2010, however, the tide turned and net inflows, mainly driven by the strong devaluation of the Euro and the worsening of the sovereign debt crisis in Europe, were high enough to at least partially offset the 2009 outflows. These findings illustrate that, in relative terms, the political and economic stability of Switzerland is still perceived as such in turbulent times, thus underpinning Switzerland's save haven status.

Swiss banks suffer from declining margins as volume in profitable discretionary business dwindles

In line with the industry, Swiss private banks have suffered from significant margin deterioration over the recent years. Median adjusted gross margin on assets under management fell from 75 basis points (bps) in 2007 to 61 bps in 2010. Aside of fundamental changes in client's behavior, shrinking volume in the business with less price sensitive offshore clients and, as a result, decreasing asset volume in discretionary management mandates has contributed to this trend. Keeping this in mind, the increasing pressure on margins can be seen as a result of the ongoing transformation process in the Swiss wealth management industry. Banks, which followed a strategy focused on tax optimizing offshore clients, were forced to redefine their business model. Full tax compliance has become an essential feature of sustainable private banking.

Small is not always beautiful, but size is not the only criterion

An in-depth comparison of small (AuM less than 10 bn CHF) and large (AuM greater than 10 bn CHF) Swiss wealth managers reveals that small banks earn significantly lower median revenues per employee at only marginally lower median costs. This does, however, not necessarily imply that banks having less than 10 bn CHF in AuM are uncompetitive per se. Evidence was found that, in terms of efficiency, a select few small sized banks are capable of holding up with their large competitors. Those banks follow a business model that allows for a healthy balance between revenues and costs and therefore guarantees a sustainable cost/income ratio. Outsourcing of non-core business activities can be considered as an important factor in the design of such a cost efficient model. Banks that manage (or have managed) to successfully adapt their individual business model to the new environment will secure a promising starting position in the new market for wealth management. Given the wide range of sourcing options and geo-strategic alternatives, size will thereby remain only one of many determinants of success.

Data and Methodology

The sample contains 209 distinct banks and business divisions of universal banks having a substantial part of their activities focused on private banking markets. The following criteria govern the composition of the sample: data availability, observable strategic focus on private banking and fee and commission income amounting to at least one third of total revenues. The sample is made up of the following countries/regions: Switzerland (83 banks[1]), Austria (11), Benelux (22), France (12), Germany (18), Liechtenstein (17), Italy (17), the UK (16) and the US (13). The country averages are computed as the unweighted average of the single banks of each country. Outliers were excluded for the calculation of the performance ratios. The data set covers the years 2004 through 2010. Accounting figures were extracted from periodical company reports (annual and quarterly reports as well as analyst conference materials). Currency effects can restrict the comparability of certain figures.

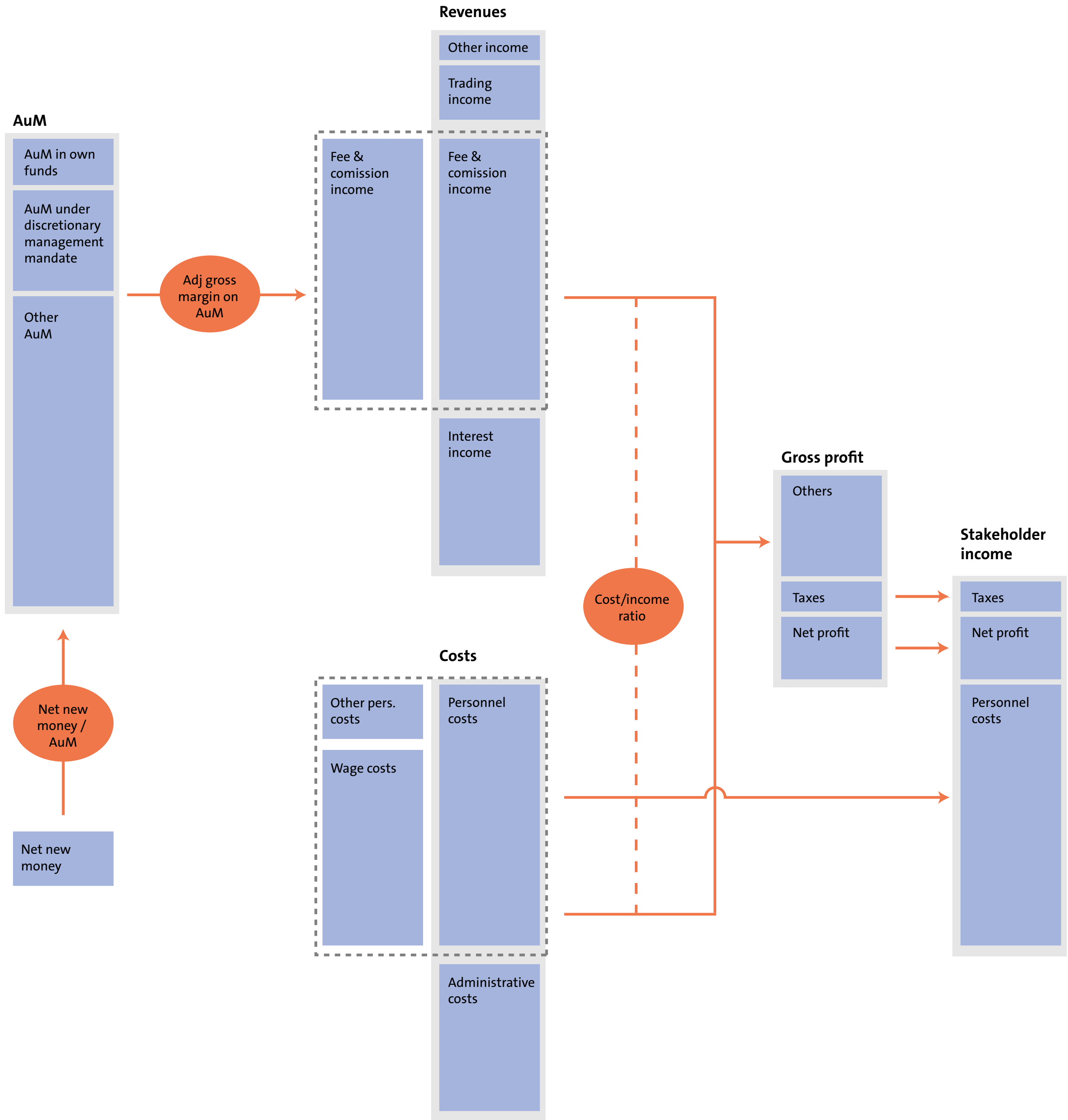
The analysis conducted in the sections “International Private Banking” and “Focus Switzerland” follow the simplified structural framework illustrated in Figure 1. The framework defines that private banks generate a majority of their revenue through fees and commissions earned from the discretionary or non-discretionary management of client assets. Fees can be volume, transaction or time based. Trading revenue and interest income are only assigned marginal roles.

In cause of wealth management being a human-capital intense business, personnel expenses, i.e. salaries, account for the major portion of total costs. The cost/income ratio is used to measure a private bank’s efficiency. Gross profit illustrates the relationship between cost and revenue in absolute terms. Stakeholder income, which is composed of net profit, taxes and personnel costs, is used to measure bottom line results.

For the Swiss sample, the framework is complemented by an in-depth analysis of net new money figures and the composition of assets under management. This specific data is exclusively disclosed by Swiss banks and thereby is not available for the remainder of the sample.

1) Of these 83 banks, one institution represents the 14 Privatbankiers operating in Switzerland. In cause of Privatbankiers not disclosing their figures, an aggregated data set published by the Swiss National Bank was considered.

Figure 1: Structural framework of private banking performance ratios



Macroeconomic Environment

Figure 2: Market performance (readjusted at 100 as of 1.1.2004)

Source: Bloomberg/Datastream

Due to the strong dependence on asset volume and transaction based fees, the performance of the wealth management industry as a whole is largely driven by the developments on the stock markets, thus allowing private banking to be commonly perceived as a cyclical business.

The global market environment in 2009 was characterized by a fairly strong recovery from the 2008 financial crisis. Banks and investors regained confidence in the financial system and stock markets showed a respectable performance. The MSCI World index rose 27% in 2009 and recovered a substantial part of the ground lost in the course of the 2008 financial crisis. The bullish tendencies did, however, disappear when the sovereign debt crisis of a select few countries gradually grew into a pan-European problem. Stock markets moved more or less sideways in 2010 and the level of uncertainty among banks and investors surged once again. Increased risk aversion led to a flight into safe currencies. In 2010, the Swiss Franc gained 18% vs. the Euro and 12% vs. the US Dollar.

Leaving aside the stock market driven effects, high government debts and unsustainable budget deficits in the US and Euro area gave cause for a series of political and legal actions that directly and adversely affected and still affects the performance of the wealth management industry. After having spent billions of dollars in bailouts for distressed banks, many governments commenced to figure out ways to reduce their large fiscal gaps. A more resolute action against tax fraud was thereby considered a promising way to generate revenues. In an unparalleled and internationally coordinated offensive, national and supranational authorities started to exert strong pressure on offshore oriented private banking centers, thereby causing strong insecurity among banks and their international clients.

Switzerland was among the countries being hit hardest by this development. Legislative peculiarities, like the fairly delicate distinction between tax evasion and tax fraud (whereas international administrative assistance was previously solely granted in the case of tax fraud) or the non-negotiability of the banking secrecy, had to give way to internationally accepted regulatory standards (e.g. article 26 of the OECD Model Tax Convention on Income and Capital). Tax amnesties and the controversial purchase of CDs containing information about tax evaders by foreign authorities have persuaded many international clients to withdraw money from Swiss bank accounts.

While Swiss authorities are about to settle tax disputes with many European countries by negotiating new bilateral tax treaties, a great challenge for the international wealth management industry as a whole has appeared on the horizon. Under the name “Foreign Account Tax Compliance Act (FATCA)”, the US created a highly complex framework that significantly exacerbates reporting rules pertaining to tax information of US clients. FATCA is planned to be put in force in 2013 and will challenge banks and authorities worldwide.

International Private Banking

In 2009 and 2010, financial markets just barely managed to recover from the severe downturn in 2008. While the banking sector showed first signs of recovery, the global wealth management industry and especially the traditional offshore centers suffered from the increasing complexity in national and international regulatory frameworks. The following key performance indicator analysis illustrates in detail how wealth managers in different countries managed to deal with those challenges and reveals the winners and losers of the ongoing structural changes in the international private banking industry.

Overview

Table 1 and 2 summarize the key performance indicators for 2009 and 2010 respectively and, by using color coding, each cell shows the indicator's relative change to the previous year. Figures having a dark blue background improved by more than 10% year over year. Light blue shaded figures indicate an annual improvement of 0 - 10%. Deteriorations are colored in grey, where light grey shaded figures deteriorated by 0 - 10% and dark grey shaded figures by more than 10%.[2]

Figures for 2009 reflect the challenging environment in the international wealth management industry. After an extremely turbulent 2008, banks in different countries successfully managed to cut per capita costs in 2009. Cost reductions were, however, in general not able to offset the decline in revenue. As a result, average cost/income ratios worsened in most of the countries. Gross profit per employee decreased across the entire sample with the exception of the US, where banks' revenues successfully recovered from the sharp decline in 2008.

2) For adjusted gross margin, total revenue per employee and gross profit per employee an increase is understood as an improvement of the figure. For cost/income ratio and personnel costs per employee a decrease in the figure is conceived as an improvement.

Table 1: Summary of key performance ratios for 2009

	Switzerland	Liechtenstein	Austria	Germany	France	Italy	UK	Benelux	USA
Adjusted gross margin on AuM (bps)	70	55	51	68	74	68	81	71	52
Total revenue per employee (in tsd CHF)	480	494	261	274	321	321	353	426	361
Personnel costs per ermployee (in tsd CHF)	223	165	150	148	107	125	153	146	156
Cost/income ratio (before depreciation)	75%	61%	69%	75%	66%	65%	71%	66%	73%
Gross profit per employee (in tsd CHF)	118	194	87	83	125	111	110	168	91

Compared to 2008

- Improvement of more than 10%
- Improvement of 0 - 10%
- Deterioration of 0 - 10%
- Deterioration of more than 10%

The efficiency-threatening tendencies of declining revenues and inflexible costs persisted in 2010. Although many banks continued their attempts to reduce expenses, only three countries managed to improve average cost/ income ratios. Bottom line results were even weaker as not one country was able to increase its average gross profit per employee.

Table 2: Summary of key performance ratios for 2010

	Switzerland	Liechtenstein	Austria	Germany	France	Italy	UK	Benelux	USA
Adjusted gross margin on AuM (bps)	67	54	53	65	67	74	80	74	54
Total revenue per employee (in tsd CHF)	442	449	260	260	316	298	374	419	376
Personnel costs per ermployee (in tsd CHF)	224	171	143	134	103	114	164	145	160
Cost/income ratio (before depreciation)	77%	70%	67%	77%	65%	64%	73%	66%	74%
Gross profit per employee (in tsd CHF)	98	135	82	74	117	94	109	156	91

Compared to 2009

- Improvement of more than 10%
- Improvement of 0 - 10%
- Deterioration of 0 - 10%
- Deterioration of more than 10%

Assets under management

Table 3 presents an overview of the largest private banks (measured by AuM). In the aftermath of the financial crisis, structural changes in the US banking sector have cleared the way for new international acting large scale wealth managers. In this highly dynamic environment, UBS Wealth Management was able to defend its position as the world's largest private bank. Credit Suisse, which ranked third in 2008, now ranks second. Runner up Bank of America Global Wealth and Investment Management gained size through the acquisition of Merrill Lynch in 2009. Morgan Stanley Global Wealth Management Group ranks number four due to its majority stake in a joint venture with Citigroup. The four largest wealth managers jointly manage half the AuM of the top 20 competitors. However, due to the high level of fragmentation in the global wealth management market, none of those top four banks has a market share of more than 4%.

When analyzing the ranking one has to bear in mind that some fundamental strategic differences exist between the individual banks. This fact can likely cause a distorting effect. The predominance of US institutions is structurally explained by their large home market (the largest wealth management market in the world), which allows them to pursue a large scale business model within a more or less homogenous environment. Another element is the country specific perception of wealth management. US clients have a more self-directed approach to wealth management than, for example, Europeans. Purely brokerage-oriented relationships between clients and client advisors are more common in the US than in other markets. Assets under management (those which are considered in the ranking) do, however, in general not include pure brokerage assets.

Other than the US banks, the majority of the European wealth managers actively pursue an offshore or cross-border business. It too is remarkable to note that relative to the business model almost complete absence of pure players among the largest private banks in the world exists. Most wealth managers of considerably large size are integrated into a financial conglomerate or at least follow a universal banking concept.

Table 3: International ranking of wealth managers by assets under management

Company/Business unit			Assets under management					Net new money			Market share		
		Figures in billion US$	**2010**	2009	2008	Δ 09-10	Δ 08-09	2010	2009	2008	2010	2009	Δ 09-10 (in bps)
1	(1)	UBS Global Wealth Management	**1'557.1**	1'464.2	1'382.7	6%	6%	-19.5	-95.4	-105.1	3.6%	3.8%	-10.8
		UBS International Wealth Management	***674.4***	*662.0*	*655.2*	*2%*	*1%*	*-13.8*	*-77.2*	*-68.6*	*1.6%*	*1.7%*	*-11.8*
		UBS Swiss Wealth Management	***146.4***	*135.3*	*128.8*	*8%*	*5%*	*0.9*	*-7.0*	*-21.6*	*0.3%*	*0.3%*	*-0.4*
		UBS Wealth Management Americas	***736.3***	*666.9*	*605.4*	*10%*	*10%*	*-6.5*	*-11.2*	*-14.9*	*1.7%*	*1.7%*	*1.5*
2	(4)	Credit Suisse Private Banking Wealth Management Clients	**863.5**	775.9	607.2	11%	28%	48.4	34.1	41.3	2.0%	2.0%	3.3
3	(2)	Bank of America Global Wealth & Investment Management	**644.0**	749.9	523.2	-14%	43%	n/a	n/a	n/a	1.5%	1.9%	-41.5
4	(3)	Morgan Stanley Global WM Group[1)]	**477.0**	379.0	n/a	26%	n/a	n/a	n/a	n/a	1.1%	1.0%	14.5
5	(5)	HSBC Global Private Banking	**390.0**	367.0	352.0	6%	4%	13.0	-7.0	24.0	0.9%	0.9%	-2.8
6	(6)	Deutsche Bank Private Wealth Management[2)]	**368.1**	272.0	228.0	35%	19%	n/a	n/a	13.3	0.9%	0.7%	16.5
7	(11)	BNP Paribas Private Banking	**340.0**	233.4	196.0	46%	19%	n/a	n/a	n/a	0.8%	0.6%	20.1
8	(12)	JP Morgan Private Banking	**284.0**	270.0	258.0	5%	5%	n/a	n/a	n/a	0.7%	0.7%	-2.7
9	(13)	Banque Pictet & Cie.	**267.4**	243.4	195.1	10%	25%	10.3	18.7	7.5	0.6%	0.6%	0.2
10	(8)	Barclays Wealth	**255.9**	244.2	211.7	5%	15%	9.4	4.8	n/a	0.6%	0.6%	-2.7
11	(7)	Goldman Sachs[3)]	**229.0**	231.0	215.0	-1%	7%	n/a	n/a	n/a	0.5%	0.6%	-5.6
12	(14)	ABN Amro Private Clients[4)]	**219.8**	214.3	142.8	3%	50%	n/a	n/a	n/a	0.5%	0.5%	-3.5
13	(10)	Citigroup Private Bank[5)]	**196.0**	230.0	200.0	-15%	15%	n/a	n/a	n/a	0.5%	0.6%	-13.1
14	(15)	Julius Bär & Co.	**181.3**	148.4	119.9	22%	24%	9.4	4.9	16.2	0.4%	0.4%	4.4
15	(16)	Crédit Agricole Private Banking[6)]	**171.6**	164.6	154.0	4%	7%	9.6	0.4	2.1	0.4%	0.4%	-2.0
16	(-)	Northern Turst Personal Financial Services	**154.4**	145.2	132.4	6%	10%	n/a	n/a	n/a	0.4%	0.4%	-1.1
17	(18)	Lombard Odier	**152.8**	142.1	119.4	8%	19%	n/a	n/a	6.4	0.4%	0.4%	-0.6
18	(9)	Wells Fargo Wealth[7)]	**132.2**	118.0	111.0	12%	6%	n/a	n/a	n/a	0.3%	0.3%	0.7
19	(17)	Société Générale Private Banking	**113.1**	107.9	93.0	5%	16%	4.3	3.1	6.3	0.3%	0.3%	-1.2
20	(19)	Clariden Leu Private Banking[8)]	**82.2**	79.3	70.8	4%	12%	n/a	-1.4	0.9	0.2%	0.2%	-1.1
		Total top 20 wealth managers	**7'079**	**n/a**	**n/a**								
		Total market volume[9)]	**42'700**	**39'000**	**32'800**								

(x) Rank in the 2009 issue of «The International Private Banking Study».

1) Figures for 2010 and 2009 include client assets from Morgan Stanley Smith Barney Holdings.
2) Deutsche Bank completed the acquisition of Sal. Oppenheim in March 2010. Consolidated figures are considered in 2010.
3) Only high-net-worth individuals.
4) High increase in 2009 partially due to new organisation of business segments.
5) Due to unavailability of data, 2010 AuM were estimated. Estimates are based on the assumption of constant total income/AuM ratio between 2008 and 2010.
6) Figures include AuM from LCL Banque Privée.
7) Due to unavailability of data, 2010 AuM were estimated. Estimates are based on the assumption of constant total income/AuM ratio between 2008 and 2010.
8) Due to unavailability of data, 2010 AuM were estimated. Estimates are based on the assumption that the ratio of AuM from the private banking division to total AuM was the same in 2010 as it was in 2009 and 2008 (80%).
9) Source: Capgemini & Merrill Lynch: World Wealth Report 2011.

Figure 3: Average assets under management per employee (in tsd CHF)

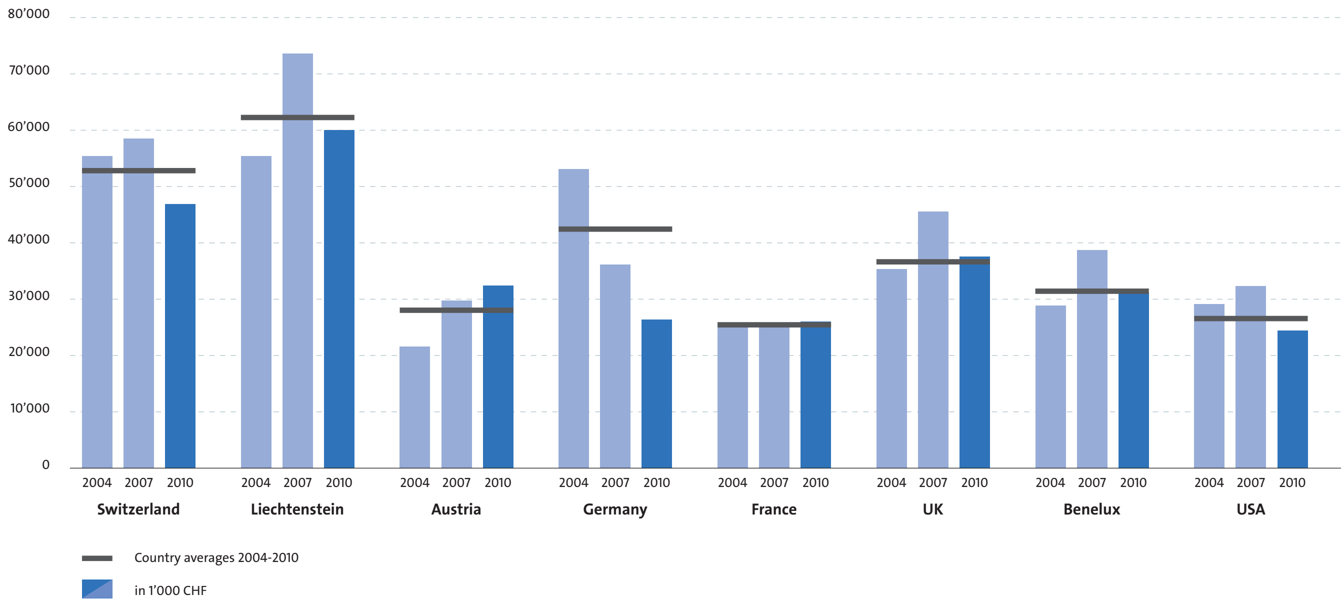


Figure 3 shows assets under management on a per employee basis.[3] In most countries, assets under management per employee peaked in 2007 and dropped significantly in the course of the 2008 market downturn (on average -17%). At year-end 2010, figures were below the six-year-average for all countries except for Austria, France and the UK. In Austria, AuM per employee growth was high enough to overcompensate the decline caused by the market corrections in 2008.

Remarkable are the differences among the individual countries. The highest assets under management per employee are still found in Liechtenstein (60 million CHF) and Switzerland (47 million CHF). The wide range of average assets under management per employee might be an indicator for international variation in business models and client profiles. The latter are determined by the country-specific distinction between private banking and affluent clients as well as culture rooted differences in client behavior and client needs.

3) Due to the lack of data, Italy was not considered.

Profitability

Figure 4: Adjusted gross margin on assets under management (in basis points)

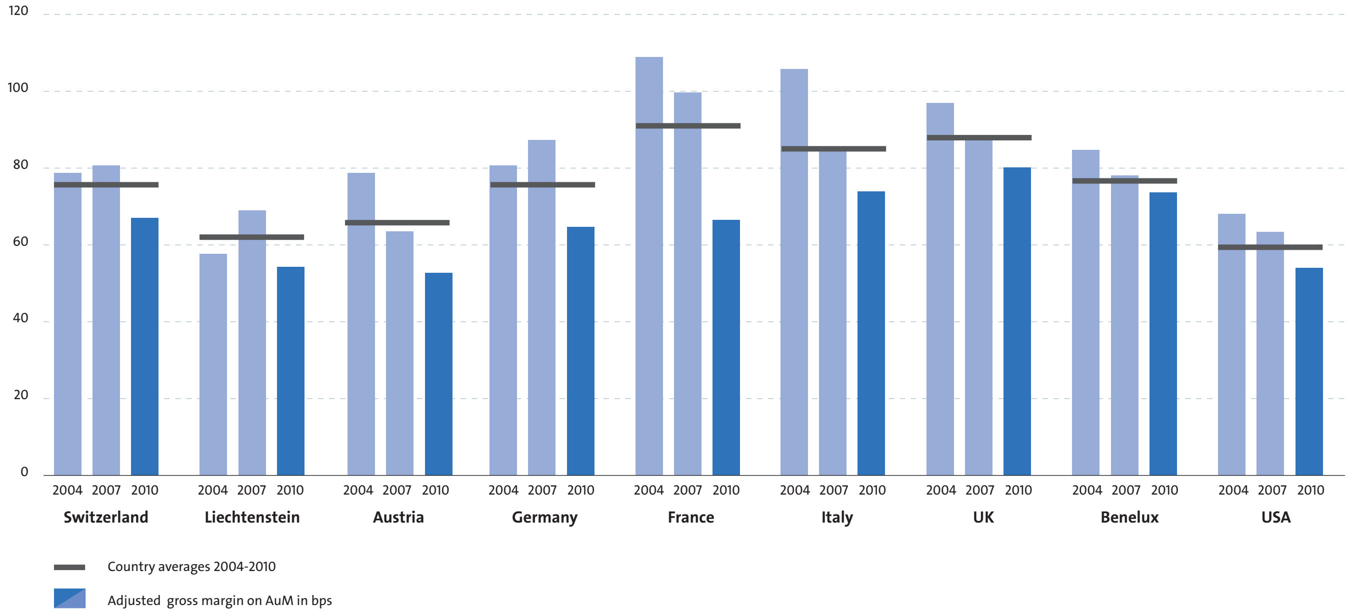


Figure 4 gives an overview of the adjusted gross margin (the ratio of fees and commission income to assets under management). The adjustment excludes revenues unrelated to private banking, such as interest income, trading revenue and other revenues. This allows for a comparison of pure wealth management related revenues. Generally speaking, the analysis of adjusted gross margins facilitates conclusions pertaining to the intensity of market competitiveness, the business model, the pricing model and the product and service range offered.

Decreasing revenues and the emergence of a new generation of more demanding and performance oriented clients have led to a sharp deterioration of margins in the international wealth management industry. In Germany and France, margins dropped by more than 25% over the past three years. Swiss banks on average achieved an adjusted gross margin on AuM of 67 basis points in 2010 whereas only the UK, Benelux and Italy were able to show higher profitability. Besides the margin deterioration observable over the whole sample, the data also reveals a global trend towards convergence. While the gap between the highest and the lowest value was as high as 51 bps in 2004 and 36 bps in 2007, it narrowed to only 27 bps in 2010. This development can be seen as a result of the various national and supranational attempts to create a level international playing field for the wealth management industry.

Revenues

Figure 5: Total revenue per employee (in tsd CHF)

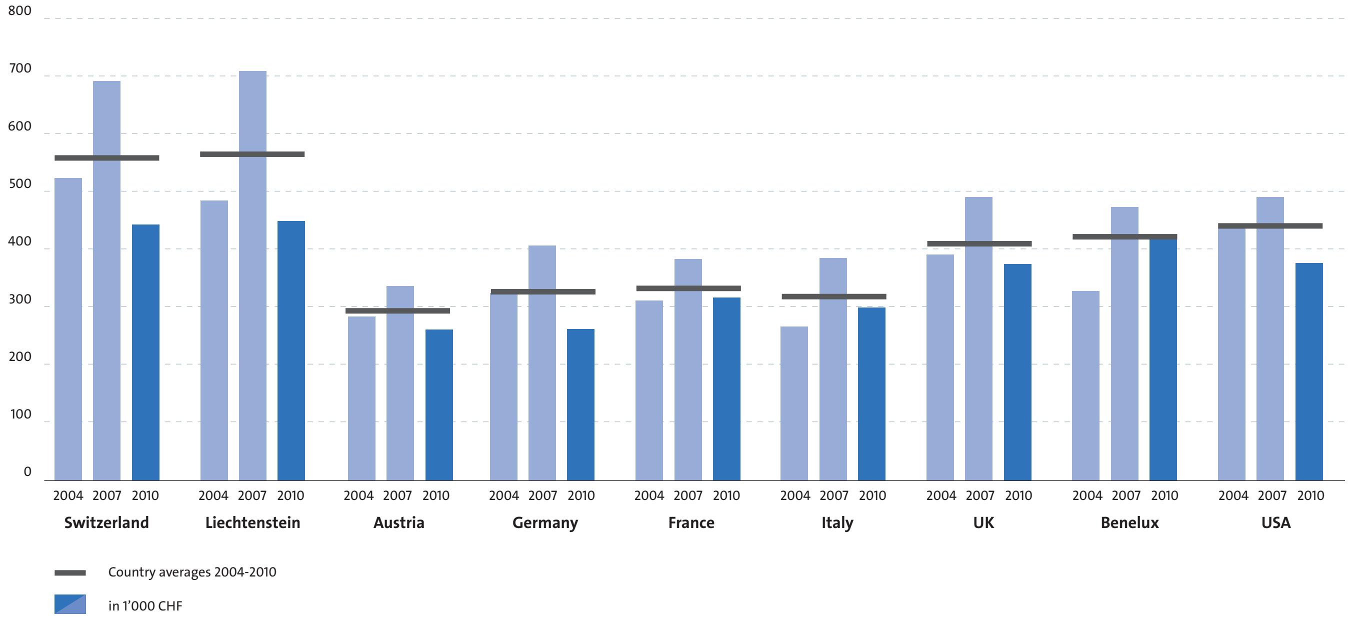


Figure 5 illustrates that Swiss and Liechtenstein banks are still second to none in terms of per capita revenues generation. International attempts to fight tax evasion have, however, left clear marks on the wealth management industry in countries where offshore-oriented practices predominate. In Switzerland, revenues per employee declined from 691'000 CHF in 2007 to 442'000 CHF in 2010 (-36%). A similar development is observable in Liechtenstein.

Over all countries, 2010 revenues were below the six-year-average. Austrian and German banks showed the weakest figures with only 260'000 CHF in per capita revenue. Furthermore, a trend to convergence over all countries is observed. The gap between the most and least successful country in terms of per capita revenues shrunk from 373'000 CHF in 2007 to 189'000 CHF in 2010.

Costs

Figure 6 illustrates the different cost structures among the individual countries in the sample.[4] Administrative costs on average make up to 38% of total costs, where personnel costs account for the remaining 62%.

Figure 6: Distribution of total operative cost components

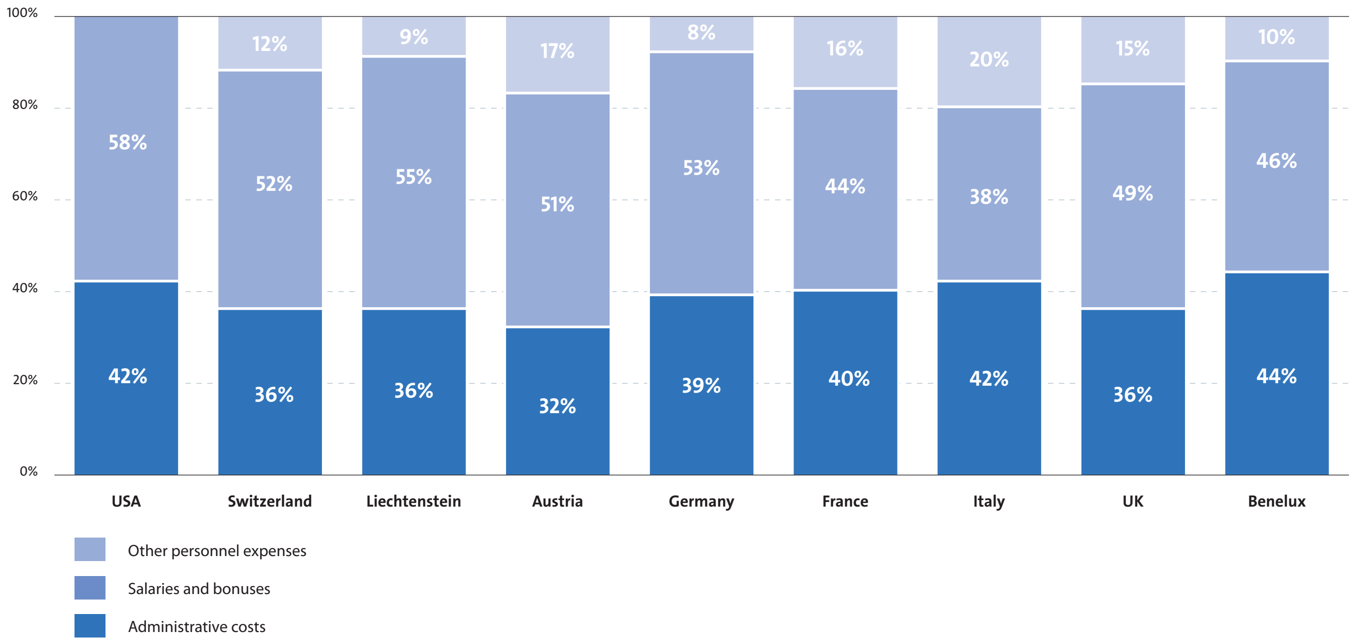


Figure 7 shows the high inflexibility of personnel costs and, associated with that, the relative inability of banks to cut expenses as a reaction to declining revenues. While average per capita revenues dropped 25% from 2007 to 2010, staff costs were only reduced by 14%. This picture is most significant in the case of Switzerland and Liechtenstein where a revenue drop of 36% and 37% respectively was accompanied by a personnel cost reduction of only 10% and 7% respectively.

Wages are highest in Switzerland with 183'000 CHF; Italian banks pay the lowest salaries with 75'000 CHF. In the course of the financial crisis, attempts to cut wages was observed across the entire sample. On average, salaries in the global wealth management industry were reduced by 8% in 2008 and by 4% in 2009.

4) Due to data unavailability, a personnel costs breakdown for the US could not be performed. The positon "salaries and bonuses" also includes other personnel expenses.

Figure 7: Personnel costs per employee (in tsd CHF)

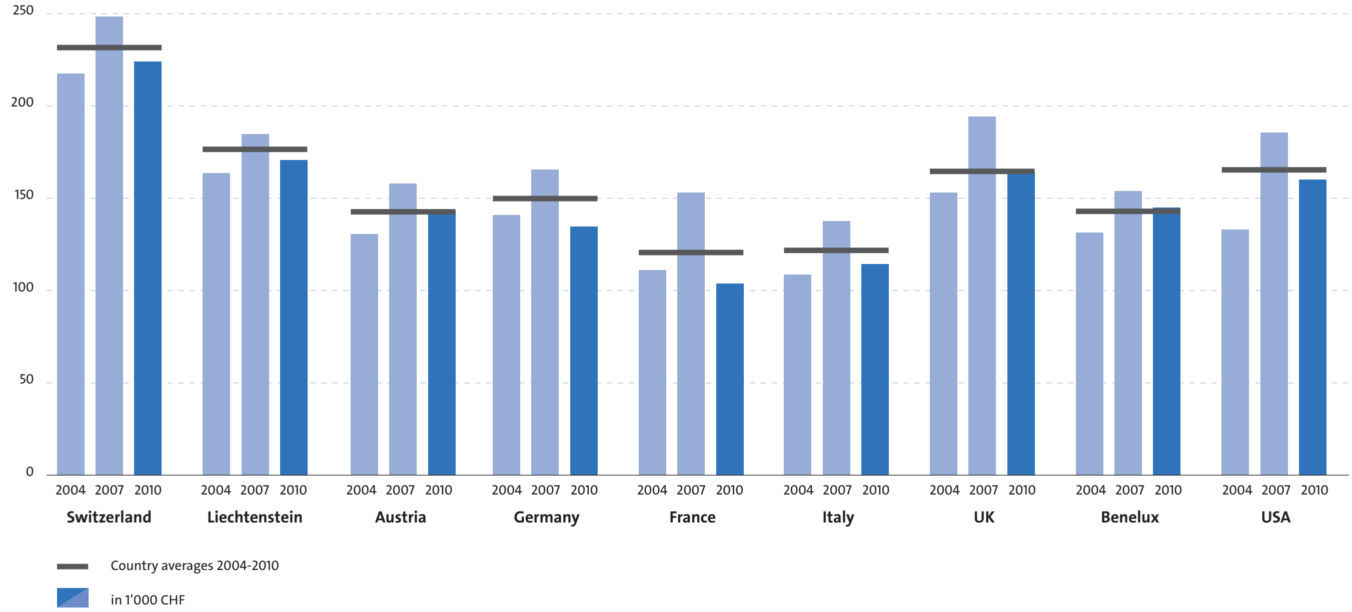
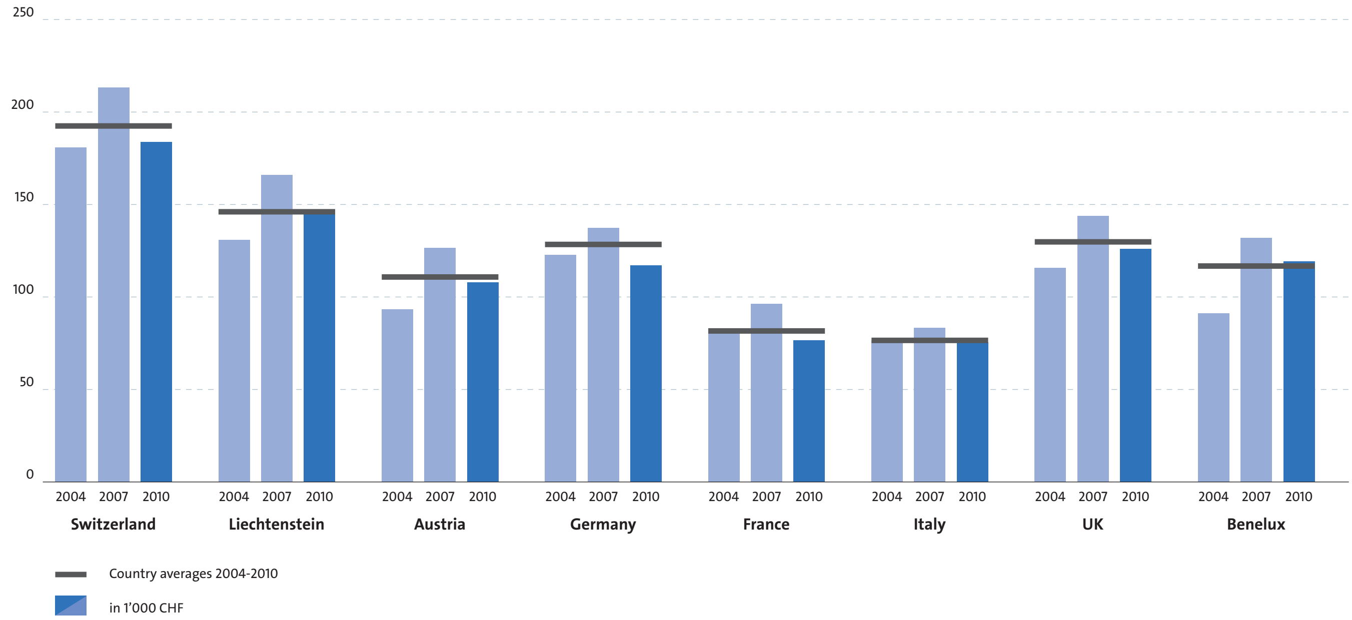


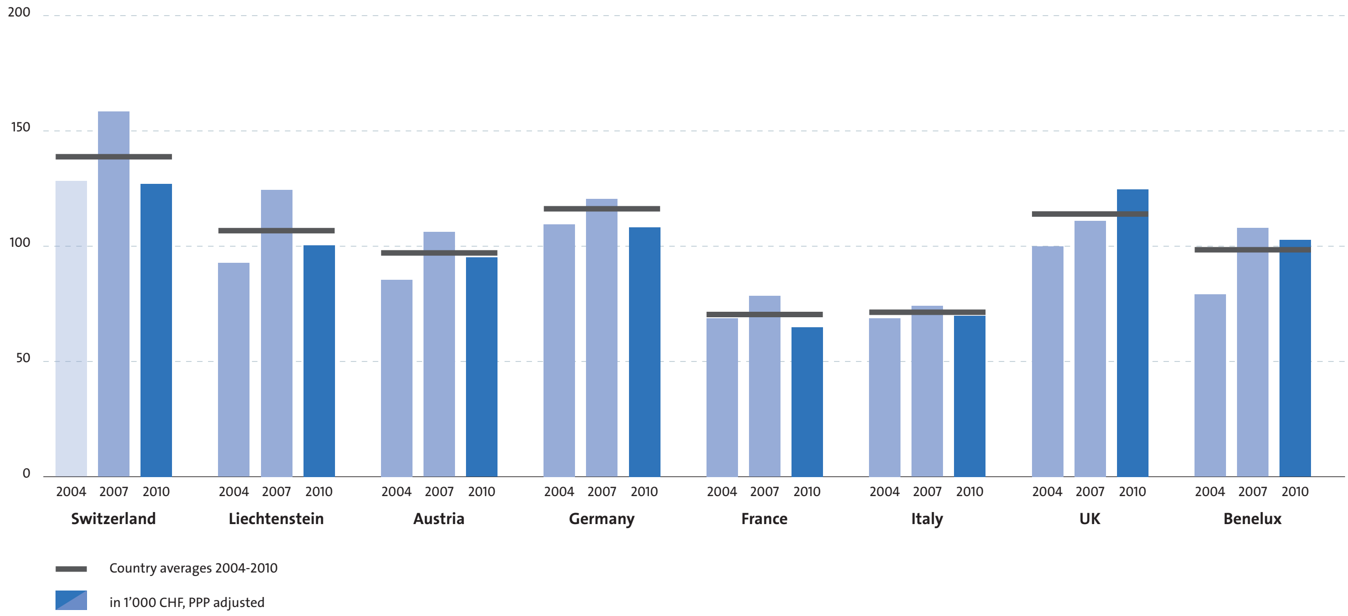
Figure 8: Wage costs per employee (in tsd CHF)



So as to better compare salaries, data from Figure 8 were adjusted by a purchasing power parity (PPP) exchange rate[5] (cf. Figure 9). The PPP-adjustment allows for taking general price level differences between the individual countries into consideration.

From a purchasing power parity perspective, Swiss wealth managers still pay the highest salaries, closely followed by the UK. Inter-country differences are generally smaller compared to unadjusted wages. On average, employees from French and Italian banks can purchase less consumer goods than their colleagues employed by banks located in the other countries of the sample.

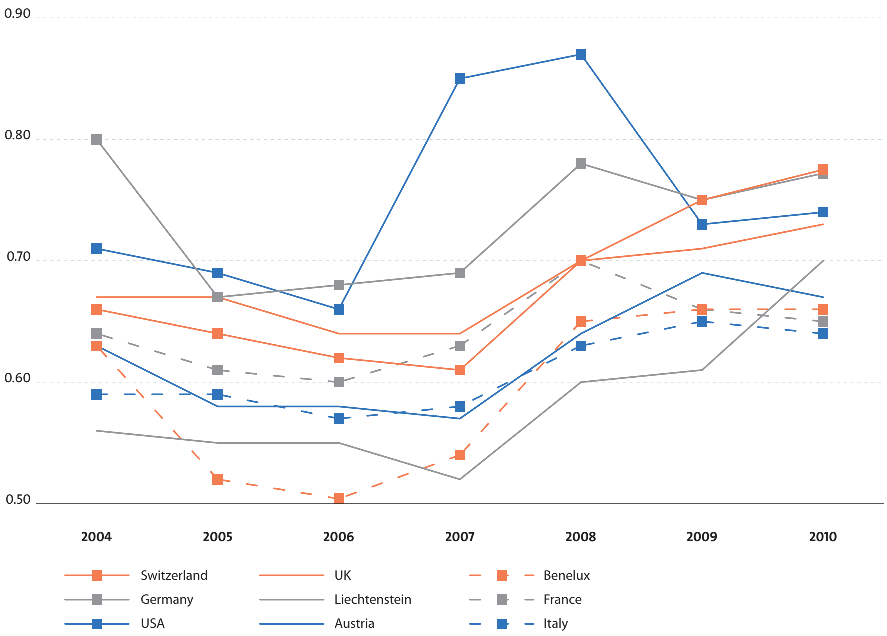
Figure 9: Wage costs per employee (PPP adjusted, in tsd CHF)



5) Source: Main Economic Indicators, OECD 2011.

Efficiency

Figure 10: Cost/income ratio

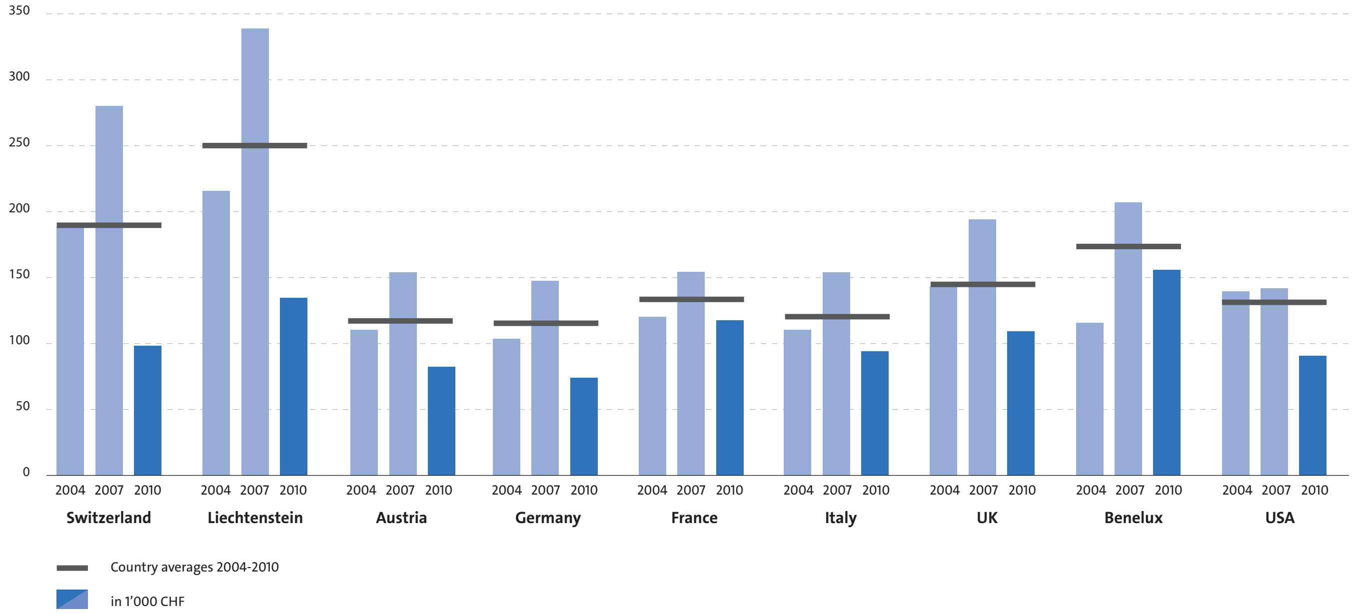


The cost/income ratio puts revenues in relation to the expenses originally needed to be made so as to earn the revenues, thereby measuring a bank's efficiency. Figure 10 therefore summarizes the findings from the per capita cost and per capita revenue analysis conducted in the previous sections.

The US banks, which experienced a strong incline in the cost/income ratio during the course of the 2008 financial crisis, were able to significantly improve their efficiency in 2009. Swiss banks, which lead the sample in terms of per capita revenues, are challenged by their high costs. Average Swiss cost/income ratio increased from 61% in 2007 to 77% in 2010, which is the highest value in the sample. Also, Liechtenstein banks suffered from the unfavorable combination of plummeting revenues and a fairly inflexible cost structure. They lost their leader position as the country having the most efficient banks and now find themselves in the mid-range segment.

Gross profit and stakeholder income

Figure 11: Gross profit per employee (in tsd CHF)



Banks domiciled in the Benelux countries yielded the highest per capita gross profit in 2010. Given the figures from the previous charts, it is not surprising that Switzerland and Liechtenstein show the largest drop 2007 over 2010. But not only the Swiss and Liechtenstein banks showed a poor performance in 2010; gross profits per employee were below the country-specific six-year-averages for all the countries/regions.

Remarkably, the inter-country variation in 2010 is small. The difference between the lowest (Germany, 74'000 CHF) and the highest (Benelux, 156'000 CHF) value is only 82'000 CHF, compared to 197'000 CHF in 2007 and 112'000 CHF in 2004.

Figure 12: Stakeholder income per employee (in tsd CHF)

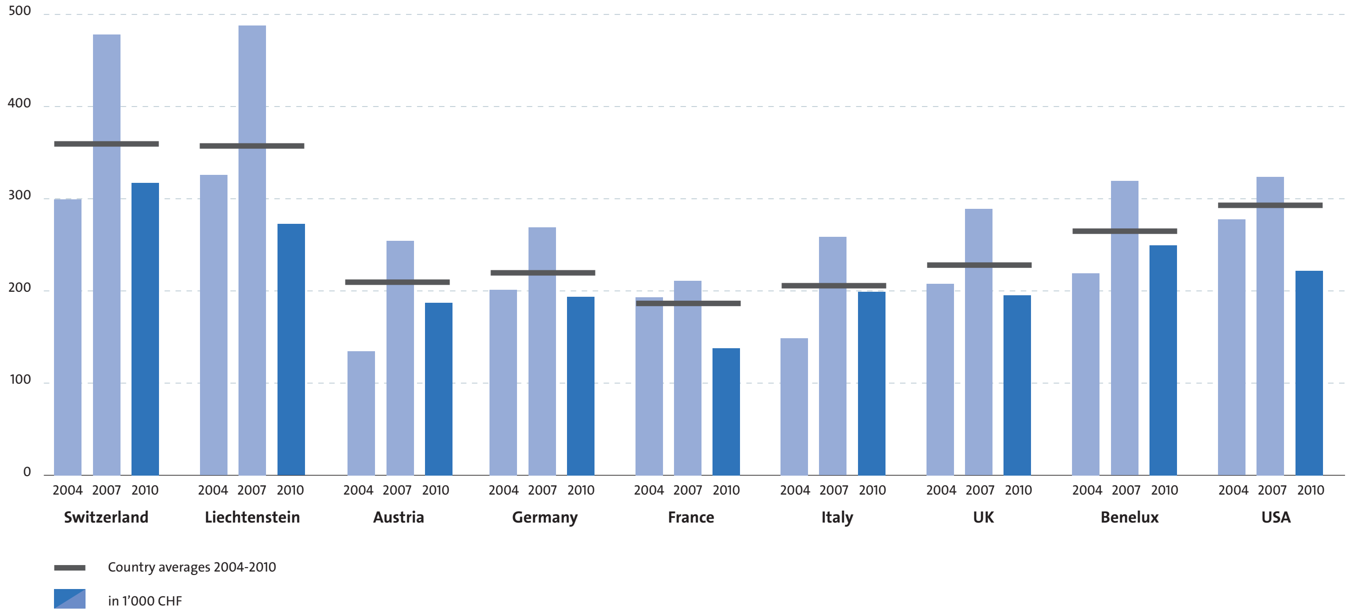


Figure 12 compares total value creation per employee in the individual countries. Stakeholder income is used as an indicator for total value creation. This corresponds to the total of personnel costs, fiscal expenses and net profit per employee. By using this method, Swiss banks created the highest value, closely followed by their Liechtenstein competitors. High stakeholder income was also created in the Benelux countries and the US.

Concluding Remarks on the International Private Banking Industry

The tightening of regulatory rules and the strong efforts from various governments and international organizations to fight tax evasion as well as the changing client behavior left clear marks on the international private banking industry. The ratios analyzed within this study provide evidence for a trend towards a level international playing field. That trend will increase competition in both, mature and emerging markets, and in particular will challenge the traditional leaders in (cross-border) wealth management. The figures show that Swiss banks were able to defend their top positions in terms of per employee revenue and per employee stakeholder income. However, they too are troubled with high costs which turn them into the most inefficient banks among all analyzed.

Apparently, the Benelux countries were able to benefit from the recent changes and now show fairly competitive ratios in each respect. For Austrian banks, on the other hand, there still is significant room for improvement as they show exceptionally weak margins, revenues and gross profits.

Table 4: Summary

	Average AuM per employee	Adjusted gross margin on AuM	Total revenue per employee	Cost/income ratio	Gross profit per employee	Stakeholder income per employee
Switzerland	2	4	2	9	5	1
Liechtenstein	1	7	1	5	2	2
Austria	4	9	9	4	8	8
Germany	7	6	8	8	9	7
France	8	5	6	2	3	9
Italy	6	2	7	1	6	5
UK	3	1	5	6	4	6
Benelux	5	3	3	3	1	3
USA	9	8	4	7	7	4

The ranking above displays a statistical snapshot of a highly dynamic game in which the cards are not yet fully dealt. The current transformation process not only poses threats to the industry, but also carries an enormous potential for banks to reshape their own individual business model and to newly differentiate themselves from their competitors. Innovative pricing models, flexible client-centric service packages, sophisticated online-based advisory tools or smart strategic positioning in emerging markets are only some of numerous opportunities banks can seize in the future.

Focus Switzerland

Table 5: Swiss ranking of wealth managers by assets under management

Company/Business unit			Assets under management (AuM incl. double counts)					Net new money (NNM)			NNM/AuM	
		Figures in billion CHF	2010	2009	2008	Δ 09-10	Δ 08-09	2010	2009	2008	2010	2009
1	(1)	UBS Wealth Management	1'457.0	1'515.0	1'478.0	-4%	3%	-18.2	-98.7	-111.9	-1%	-7%
		UBS International Wealth Management	631.0	685.0	697.0	-8%	-2%	-12.9	-79.9	-73.0	-2%	-11%
		UBS Swiss Wealth Management	137.0	140.0	137.0	-2%	2%	0.8	-7.2	-23.0	1%	-5%
		UBS Wealth Management Americas[1)]	689.0	690.0	644.0	0%	7%	-6.1	-11.6	-15.9	-1%	-2%
2	(2)	Credit Suisse Private Banking WM Clients	808.0	802.8	694.2	1%	16%	45.3	35.3	43.9	6%	5%
3	(3)	Banque Pictet & Cie.	250.2	251.8	207.6	-1%	21%	9.6	19.4	8.0	4%	9%
4	(4)	HSBC Private Bank (Suisse)	178.4	181.6	146.0	-2%	24%	8.1	-3.8	14.4	4%	-3%
5	(5)	Julius Bär & Co.[2)]	169.7	153.6	129.1	10%	19%	8.8	5.1	17.2	6%	4%
6	(7)	Lombard Odier	143.0	147.0	127.0	-3%	16%	n/a	n/a	6.8	n/a	n/a
7	(10)	Clariden Leu Private Banking[3)]	76.9	82.1	75.4	-6%	9%	n/a	-1.5	1.0	n/a	-2%
8	(9)	EFG International Private Clients	76.4	77.8	69.9	-2%	11%	10.3	8.1	18.2	13%	12%
9	(8)	Banca della Swizzera Italiana (BSI)	76.2	78.1	78.2	-2%	0%	3.6	-2.2	6.6	5%	-3%
10	(6)	Union Bancaire Privée (UBP)	64.8	75.0	100.7	-14%	-26%	-5.6	-21.3	0.7	-7%	-21%
11	(11)	Crédit Agricole (Suisse)	48.1	49.1	47.1	-2%	4%	2.6	-6.3	2.1	5%	-13%
12	(15)	Sarasin Private Banking	46.5	42.9	30.7	8%	40%	6.4	7.4	7.1	15%	24%
13	(12)	RBS Coutts Bank	41.8	48.3	45.8	-13%	5%	-5.0	-3.2	-0.8	-10%	-7%
14	(14)	BNP Paribas (Suisse)	41.0	37.7	36.0	9%	5%	-2.6	-1.2	3.0	-7%	-3%
15	(13)	Deutsche Bank (Schweiz)	37.1	50.0	39.9	-26%	25%	-9.7	-0.6	5.3	-20%	-1%
		Rank 1-15	**3'515.1**	**3'592.7**	**3'305.7**	**-2%**	**9%**	**53.4**	**-63.4**	**21.5**	**1%**	**-2%**
16	(19)	Vontobel Private Banking[4)]	29.6	29.9	23.0	-1%	29%	1.2	0.4	2.1	4%	2%
17	(-)	St. Galler Kantonalbank Private Banking	29.1	28.1	25.6	3%	10%	0.8	0.5	n/a	3%	2%
18	(16)	J.P. Morgan (Suisse)	27.9	29.1	27.3	-4%	7%	1.2	1.3	n/a	4%	5%
19	(18)	SG Private Banking (Suisse)	25.0	26.7	24.6	-6%	8%	0.0	1.1	0.3	0%	4%
20	(-)	Zürcher Kantonalbank Private Banking	24.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
21	(27)	Wegelin & Co. Privatbankiers	20.2	18.5	15.0	9%	23%	n/a	n/a	n/a	n/a	n/a
22	(24)	Dreyfus Söhne & Cie. Banquiers	18.6	18.6	17.0	0%	9%	0.3	-0.6	-0.4	2%	-3%
23	(38)	LGT Bank (Schweiz)[5)]	18.2	20.1	10.0	-10%	101%	-0.8	0.4	1.3	-4%	4%
24	(20)	Citibank (Switzerland)	18.1	19.1	20.9	-5%	-9%	0.2	-0.7	-2.7	1%	-3%
25	(22)	Scobag	16.0	19.6	18.1	-18%	8%	-0.4	-0.4	-0.3	-2%	-2%
26	(25)	Mirabaud & Cie. Privatbankiers	15.0	14.4	12.0	4%	20%	n/a	n/a	1.7	n/a	n/a
27	(26)	ABN Amro Bank (Schweiz)	14.3	16.0	15.5	-11%	3%	-0.8	-1.3	-2.6	-5%	-9%
28	(31)	Banco Santander (Suisse)	13.5	12.7	12.8	7%	-1%	0.1	0.4	0.5	1%	3%
29	(36)	Rothschild Bank	12.8	10.3	10.7	24%	-4%	0.0	0.5	0.8	0%	5%
30	(33)	Banque Jacob Safra (Suisse)[6)]	12.7	12.8	11.7	-1%	10%	n/a	-1.2	-0.7	n/a	-10%
31	(23)	Merrill Lynch Bank (Suisse)	12.4	14.4	17.5	-13%	-18%	-1.1	-3.6	0.1	-8%	-20%
32	(30)	Falcon Private Bank	11.9	11.2	13.8	6%	-19%	1.2	-1.7	-3.6	11%	-13%
33	(-)	Bank Hapoalim Switzerland	10.9	9.7	9.2	12%	5%	-0.8	0.8	0.7	-8%	9%
34	(-)	Syz & Co.	10.6	10.8	11.8	-2%	-9%	0.6	-2.2	-3.6	5%	-18%
35	(28)	Barclays Bank (Suisse)	10.2	16.0	14.9	-36%	7%	-4.8	-0.4	1.1	-30%	-3%
36	(-)	Hyposwiss Privatbank	9.6	9.1	9.2	6%	-1%	0.6	-0.9	2.1	7%	-9%
37	(-)	Bordier & Cie. Privatbankiers	9.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
38	(35)	Goldman Sachs Bank[7)]	8.6	9.5	10.7	-10%	-12%	-0.1	-0.6	-1.7	-1%	-6%
39	(33)	Bank Morgan Stanley	7.8	9.3	10.8	-16%	-14%	-0.3	-0.4	-1.7	-3%	-4%
40	(-)	PKB Privatbank	7.4	6.0	6.6	23%	-9%	1.9	-1.0	0.3	32%	-15%
		Rank 16-40	**393.2**	**371.6**	**348.7**	**6%**	**7%**	**-0.8**	**-9.8**	**-6.5**	**0%**	**-3%**
		Rank 1-40	**3'908.3**	**3'964.2**	**3'654.4**	**-1%**	**8%**	**52.6**	**-73.2**	**15.1**	**1%**	**-2%**
		83 private banks under analysis	**4'036.1**	**4'104.4**	**3'795.1**	**-2%**	**8%**	**48.7**	**-76.7**	**12.2**	**1%**	**-2%**

(x) Rank in the 2009 issue of «The International Private Banking Study».

1) Wealth Management Americas includes the (domestic) wealth management business in the US, the domestic Canadian business and the international business booked in the US (Source: UBS Annual Report 2010).
2) Bank Julius Bär & Co. acquired ING Bank (Schweiz) in 2010.
3) Due to unavailability of data, 2010 AuM were estimated. Estimates are based on the assumption that the ratio of private banking division's AuM to total AuM in 2010 is identical to their respective ratio in 2009 and in 2008 (80%).
4) Bank Vontobel acquired Commerzbank (Schweiz) in 2009.
5) LGT Bank (Schweiz) acquired Dresdner Bank (Schweiz) in 2009.
6) Due to unavailability of data, 2010 figures were estimated. Estimates are based on the assumption that AuM from Bank Jacob Safra (Switzerland) account for 40% of Jacob Safra Holding's AuM (the latter also includes subsidiaries located outside of Switzerland and had assets under management of 32 bn CHF and net new money of -0.65 bn CHF in 2010).
7) Due to unavailability of data, 2010 figures were estimated. Estimates are based on the assumption of a 2010 AuM growth rate and NNM/AuM ratio, which are comparable to those of Bank Morgan Stanley, Merrill Lynch Bank (Suisse), Citibank (Switzerland) and J.P. Morgan (Suisse).

Assets under management and net new money

Table 5 shows the 40 largest private banks in Switzerland measured by assets under management. By the end of 2010, they managed more than 3’900 bn CHF in client assets. At the same time, the smallest 43 Swiss wealth managers combined assets under management up to 130 bn CHF, thereby implying a gross total of 4’036 bn CHF.

These numbers illustrate the high degree of fragmentation in the Swiss private banking market. While UBS and Credit Suisse, the two largest wealth managers, jointly manage 56% of total Swiss AuM, the combined share of the 43 smallest private banks amounts to merely 3%.

In 2008, large inflows at Credit Suisse and other major institutions offset the striking 112 bn CHF net new money outflow UBS had to deal with. However, when foreign governments and international institutions intensified their pressure on banking secrecy and tax evasion in 2009, negative net new money figures were observed across the entire market. In particular, Swiss private banking subsidiaries of large international financial service companies suffered from severe outflows. In 2010 the tide turned and net new money inflows turned positive, which, to some extent, can be explained by the strong Euro devaluation and the worsening of the sovereign debt crisis in Europe.

Figure 13: Development of assets under management 2006 – 2010 (in bn CHF)

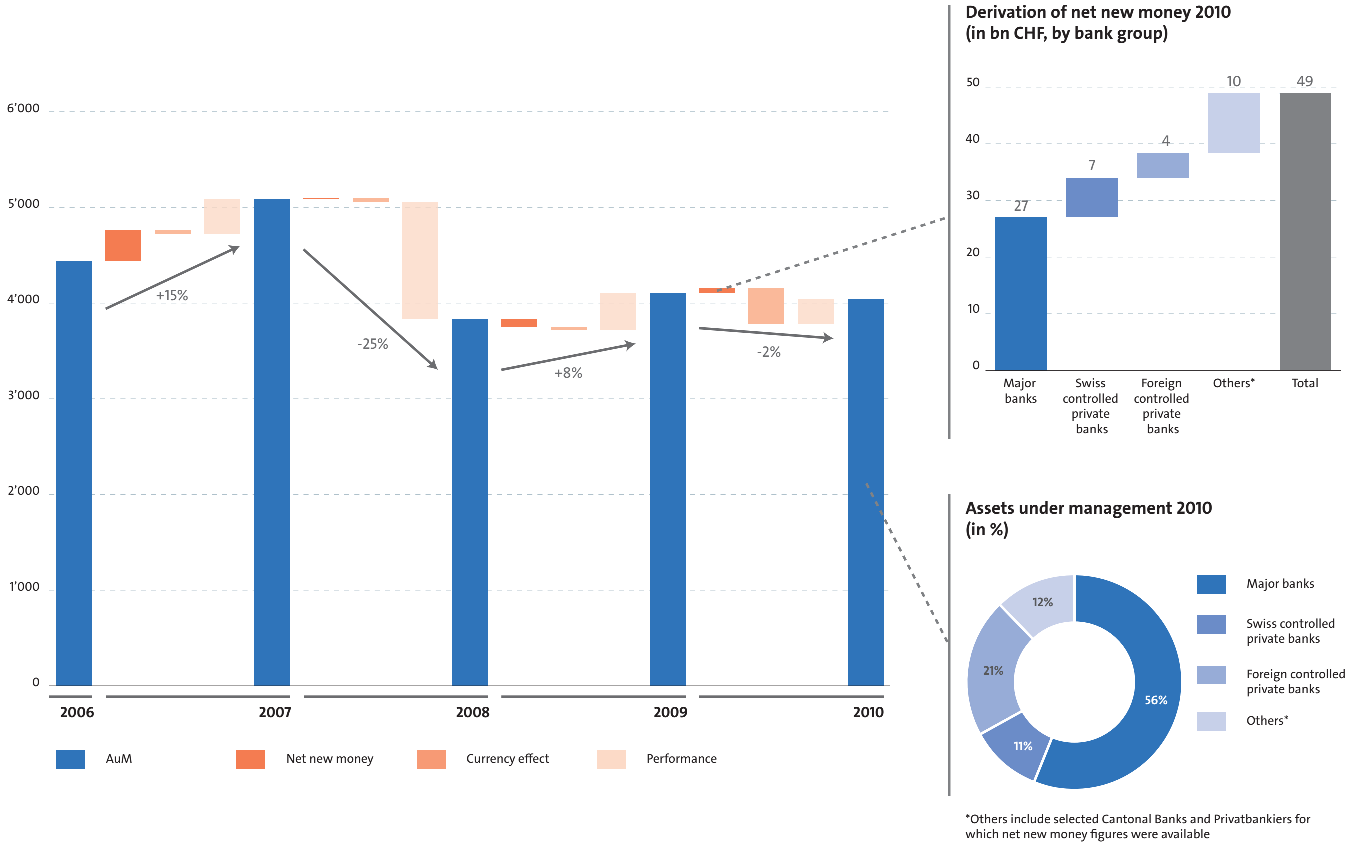
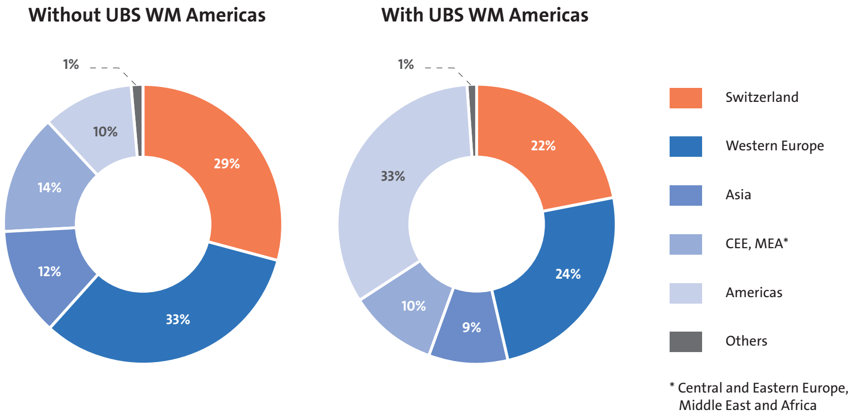


Figure 13 shows the 2006 to 2010 assets under management development split by its drivers net new money, currency impact[6] and performance effect[7]. After a sharp drop in 2008, total assets managed stagnated in the 4'000 bn CHF region. Although general market environment was favorable in 2010, AuM (which are disclosed in CHF) slightly decreased during the year as a result of the Swiss Franc appreciation relative to other currencies.

In 2010, Credit Suisse was responsible for a 45 bn CHF net new money inflow, the largest contribution to total net new money inflow among all competitors. When viewing net new money relative to its asset base, Swiss controlled private banks were the most successful, which is seen by their net new money attraction amounting to 1.6% of 2009 year-end AuM. The major banks showed a NNM/AuM ratio of 1.2%. For the foreign owned private banks, the net new money inflows were almost entirely neutralized by the net new money outflows during the same period (NNM/AuM: 0.5%).

6) So as to estimate the currency impact, the assumption was made that the percentages of the constituting currencies in the sample are identical for the assets managed by UBS, Credit Suisse and Julius Bär. Those banks, which conjointly manage almost 60% of total AuM, published detailed currency breakdowns in their annual report.
7) The performance effect takes dividend payments and interest income into account.

Figure 14: Split of assets under management by origin



According to Figure 14, Western Europe is the most important market for Swiss based private banks. 33% of total AuM stem from residents of a Western European country. This includes assets held onshore as well as assets held in Switzerland (offshore assets). The domestic market accounts for 29% of total AuM. The emerging regions Central & Eastern Europe, Middle East and Africa as well as Asia and Americas all roughly show identical shares in AuM. When considering UBS's US onshore business, the relative importance of the American client business triples.

While assets under management represent the basis for revenue generation, the net new money growth rate illustrates a bank's ability to expand its business organically. Between 2003 and 2007, this rate was stable and ranged between 4 to 5%. Net new money growth rate did, however, drop significantly in 2008 and, to date, has not fully recovered to its pre-crisis level (cf. Figure 15).

Figure 15: Net new money per AuM for all Swiss private banks 2003 – 2010 (in %)

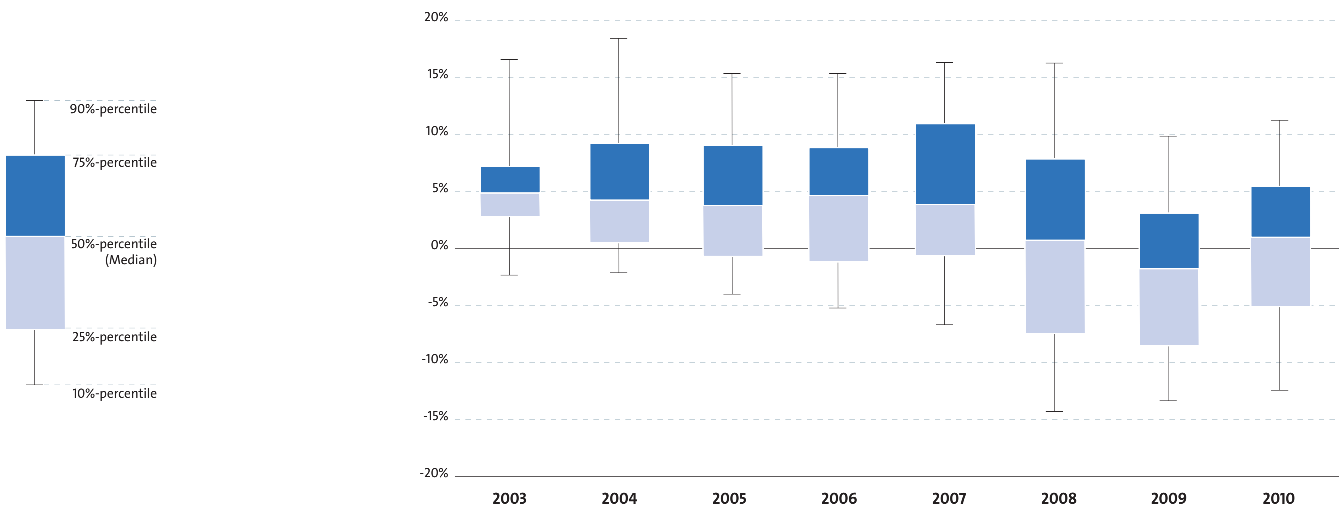


Figure 16: Net new money per AuM 2009 vs. 2010

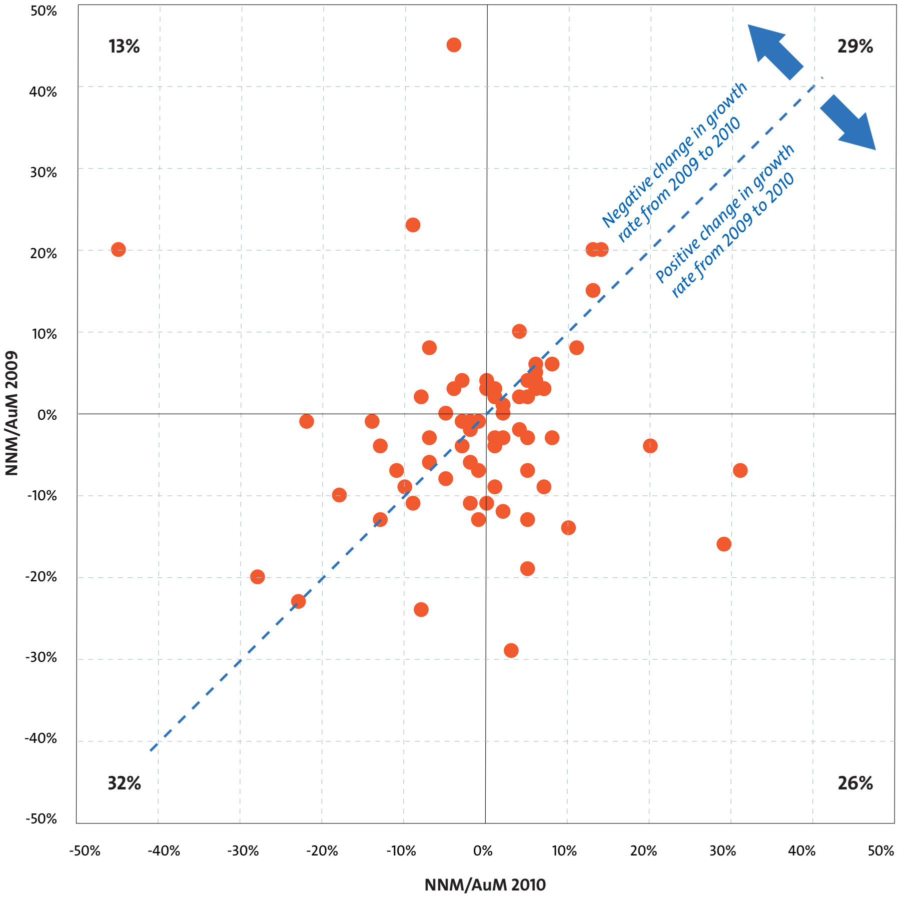


Figure 16 provides a detailed picture of the net new money growth rates in the Swiss private banking market for the years 2009 and 2010, when viewing the graph in four sectors. The upper right corner contains banks that successfully attracted net new money in 2009 and in 2010. Banks located in the lower left corner were faced with net client assets outflows in both years. In 2009, only 42% of all banks showed net new money driven organic growth. This rate improved significantly in 2010 where 55% of all institutions managed to attract new funds from clients.

Performance and Bank Size Analysis

The increasing complexity in regulatory rules and frameworks as well as political pressure on the traditional offshore business model challenged Swiss private banks in recent years. In particular, small banks having less than 10 bn CHF assets under management were believed to struggle under the combination of sinking revenues and rising regulatory costs.

In order to allow for a detailed size effect analysis, the Swiss sample was split into two distinct bank size groups. Banks showing an average AuM of less than 10 bn CHF over 2003 to 2010 were assigned to the group "Small Banks", whereas institutions showing an average AuM of more than 10 bn CHF were assigned to the "Large Banks" group. Overall, 47 small and 36 large wealth managers were analyzed.

Profitability and AuM composition

A private bank can boost its revenues either by increasing its AuM base or by raising the margin on assets under management. Figure 17 shows the progression of adjusted gross margin on AuM (the ratio fees and commissions income to assets under management). The adjustment excludes revenues not directly related to private banking, such as interest income, trading revenue and other revenues.

Most of the banks showed significant difficulties in sustaining their margins during the past years. Adjusted mean gross margin on AuM fell from 75 bps in 2007 to 61 bps in 2010. Small banks tend to realize higher margins than their larger competitors. The difference can, to some extent, be explained by the significantly larger portion of assets under discretionary management mandates which, in general, yield higher margins than advisory assets.

Figure 18 reveals that in 2005 the average small bank managed 31% of its client's funds in the context of a discretionary management mandate. In 2010, the ratio of assets invested in this unusually high profitable line of business decreased to 25%. Banks managing assets worth over 10 bn CHF held 22% of its total AuM in discretionary management mandates in 2005, and 20% in 2010.

Figure 17: Adjusted gross margin on assets under management (in basis points)

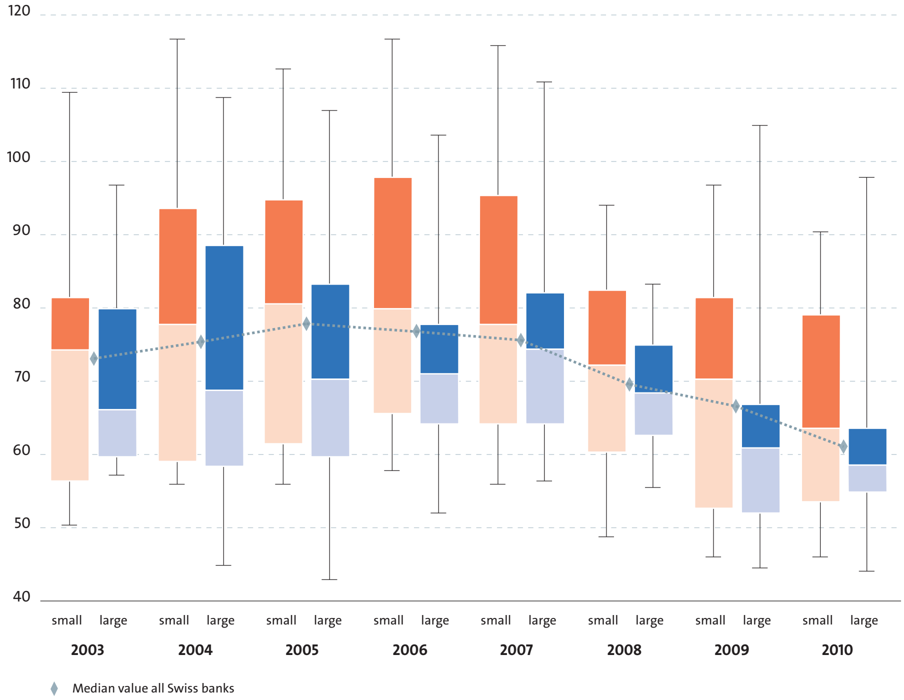
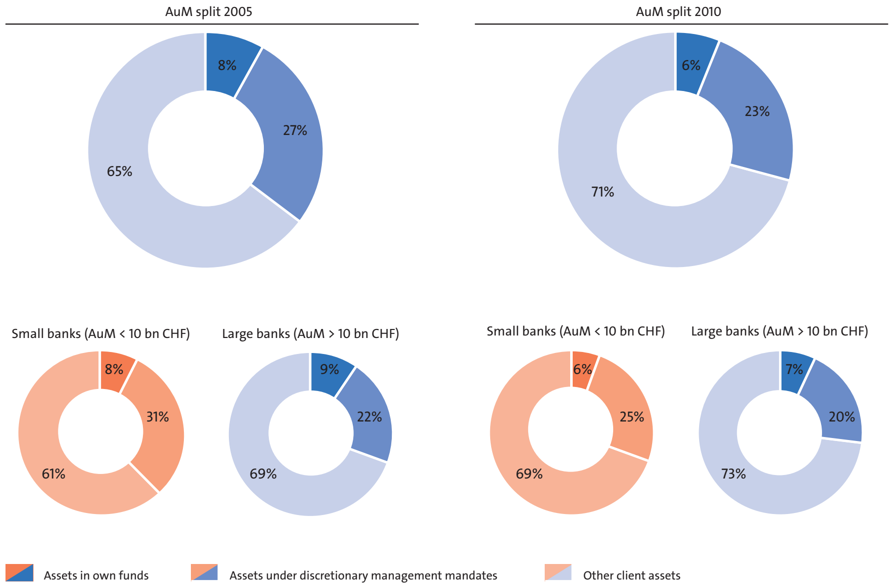


Figure 18: Split of AuM - Assets in own funds, assets under discretionary mandates and other client assets

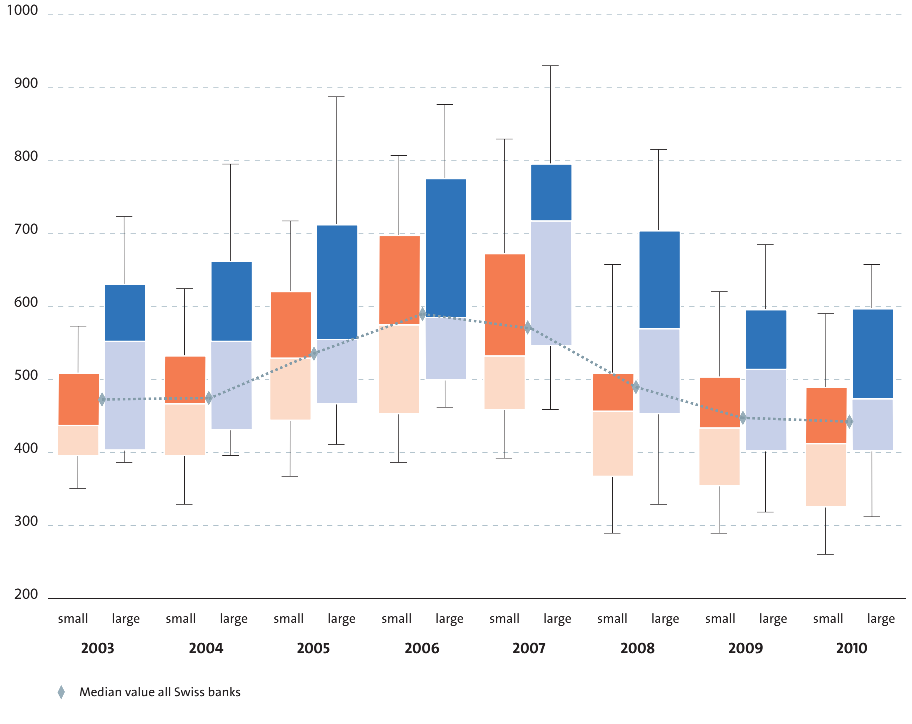


Revenues

The strong decline in assets under management combined with the erosion in margins shown in Figure 17 led to a collapse of total revenues per employee after the market downturn in 2008. Revenues per employee reached below pre-crisis level in 2009 and 2010. The volatile progression of the figure also underpins the sensitivity of wealth management revenues towards market movements.

The analysis of revenues per employee suggests that small banks have been generating lower median revenues than their large competitors. In 2010, per capita revenue did not exceed 410’000 CHF for 50% of the small banks. On the other hand, the large banks subsample showed median revenues per employee of 470’000 CHF (+19%).

Figure 19: Total revenue per employee (in tsd CHF)

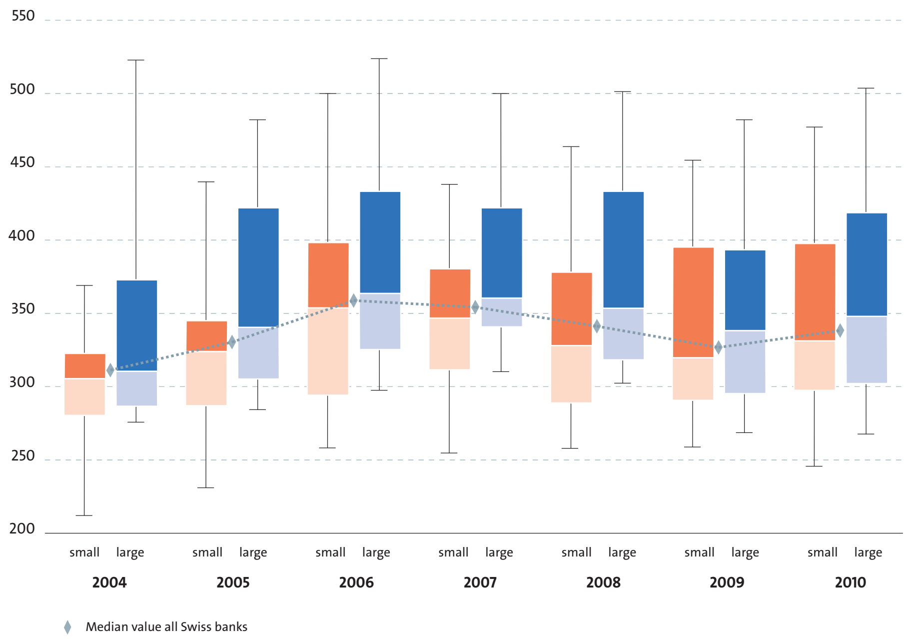


Costs

Other than revenues, per capita costs have not been changing much over time. This reflects the private bank's relative inflexibility in making short term cost cuts in the event of declining revenues.

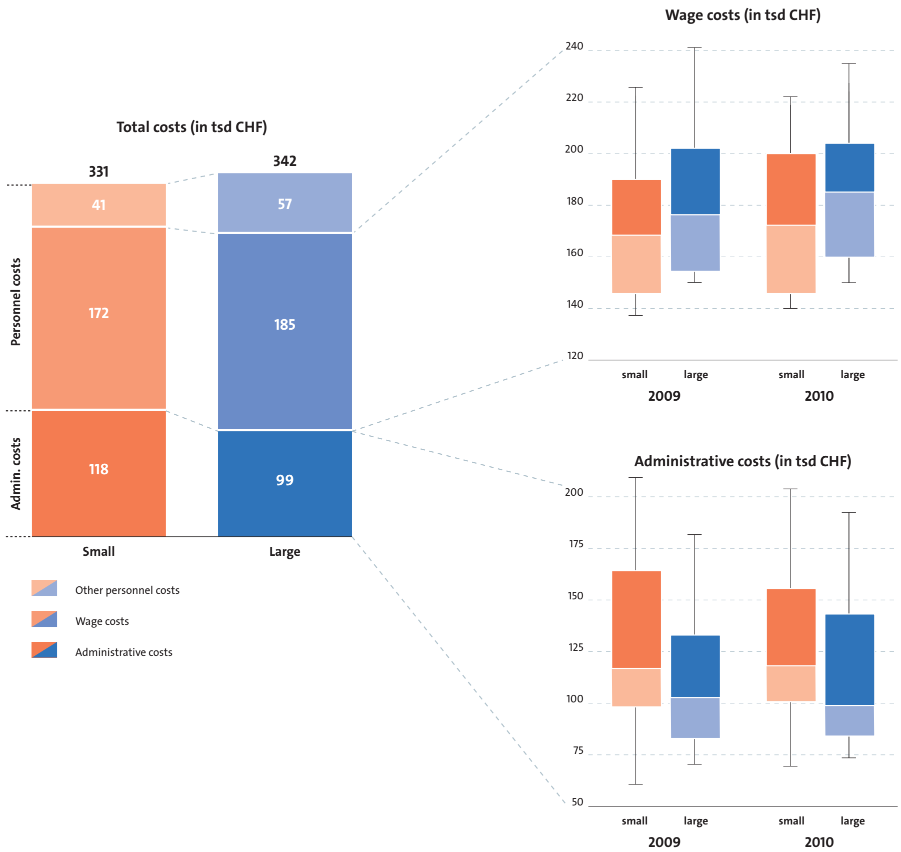
Small banks appear to possess a marginal cost advantage compared to their large competitors. The median difference between the two subsamples was largest in 2007 with 24'000 CHF and was statistically significant from 2005 to 2008. In the past two years, however, the small bank cost advantage almost vanished.

Figure 20: Total operative costs per employee (in tsd CHF)



The cost split depicted below provides some insight into the cost structure. For both, small and large banks, personnel costs make up to 65% - 70% of total operative expenses. Banks having more than 10 bn AuM tend to pay significantly higher salaries (median at 185’000 CHF) than small institutions (median at 172’000 CHF). Per capita administrative costs, on the other hand, are higher for small banks. Invariable IT costs and increasing expenses related to adhering to international compliance standards are seen as significant factors in explaining this difference.

Figure 21: Cost split (in tsd CHF)



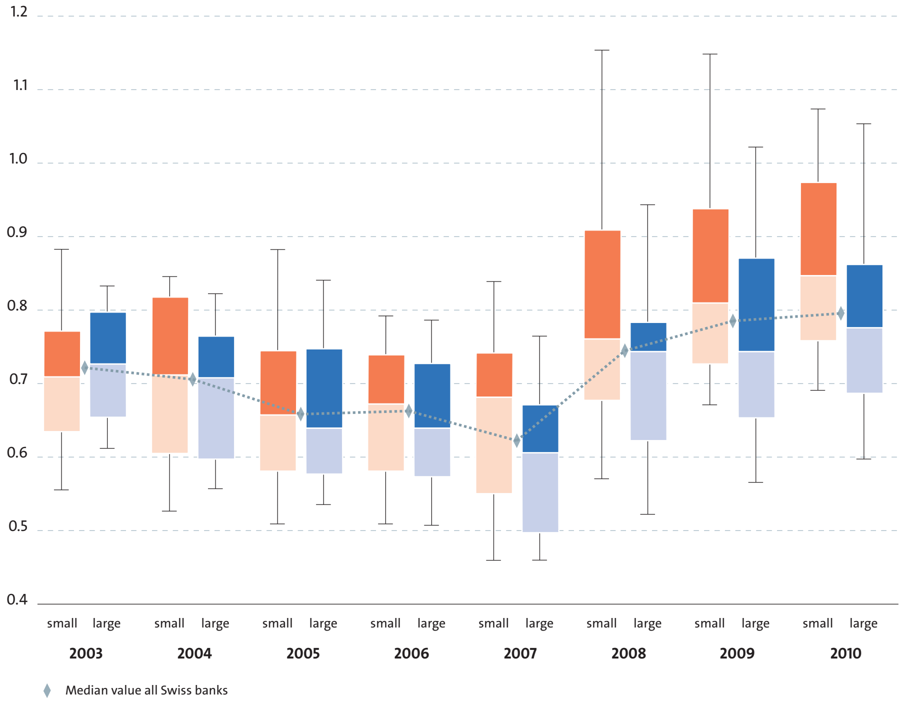
Efficiency

As a result of declining revenues and stagnating/rising operative expenses, the cost/income ratio, which is computed as the ratio of total costs plus tangible assets depreciation to total revenues, has increased dramatically over the past years. Historically, there has not been any noticeable gap between median cost/income ratio of small and large banks. However, when revenue levels started to diverge after 2007, efficiency of small banks worsened significantly relative to their larger competitors. In 2010, the small institution's median cost/income ratio of 85% was 8 percentage points above the large bank's ratio.

The wide variation of the values within the single box plots, however, reveals that small banks are not necessarily inefficient. By observation, a select few institutions in the market for managing less than 10 bn CHF are found that, nevertheless, show competitive cost/income ratios.

Banks having cost/income ratios of more than 100% fail to cover their operative expenses and therefore will not survive on a stand-alone basis in the medium run unless they manage to cut costs or to increase income.

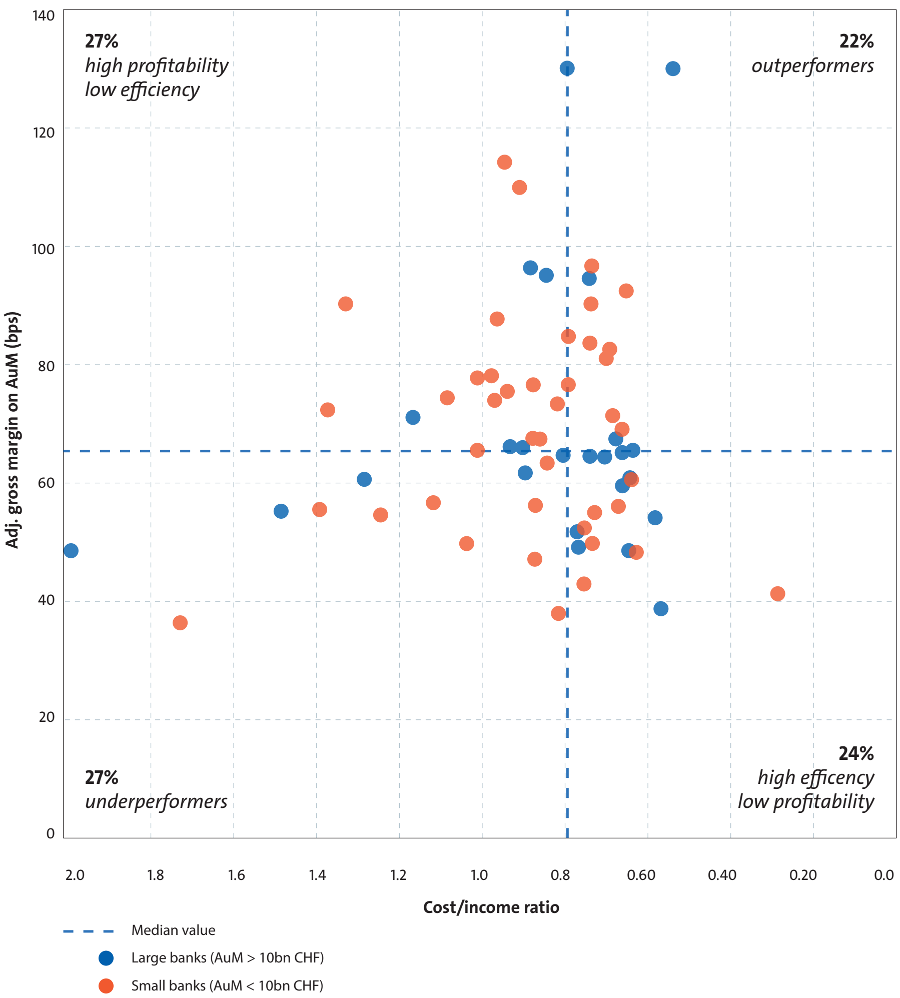
Figure 22: Cost/income ratio (after depreciation)



Interdependencies of Key Performance Indicators

Figure 23 compares banks on the basis of profitability and efficiency over the years 2008 to 2010. Profitability and efficiency are defined as the average adjusted margin on assets under management and the average cost/income ratio respectively. The dotted blue lines indicate the median for the respective ratio.

Figure 23: Profitability vs. efficiency



Only 22% of all banks managed to outperform the market in both dimensions. Banks having less than 10 bn AuM are predominant in the group of institutions showing above median profitability. This finding is consistent with the margin gap between small and large banks illustrated in Figure 17.

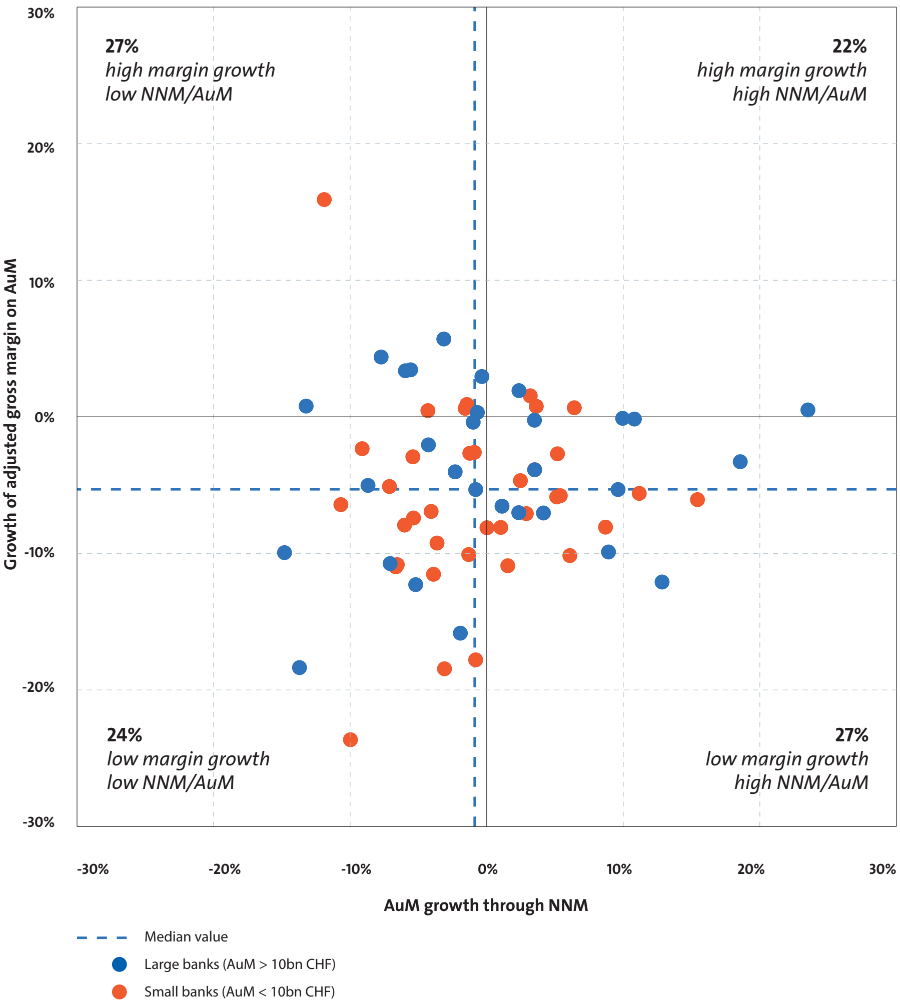
As clients increasingly become more sophisticated and complexity in the traditionally highly profitable offshore business increases, it is not surprising that high margins are more and more accompanied by disproportionately high costs and, as a result, higher cost/income ratios. 27% of all banks showed this combination of high profitability and low efficiency. Given the results presented earlier in this chapter, it is not surprising that small wealth managers having AuM of less than 10 bn CHF are predominant in this quadrant.[8]

The two key drivers for private banking revenues are its asset base (AuM) and margins realized on those assets (adjusted gross margin on AuM). Figure 24 divides the Swiss private banking landscape into four segments according to the bank's success in increasing their margins and/or their asset base by acquiring new client's funds (AuM growth through net new money).[9]

Banks located in the upper right-hand corner showed high net new money growth and, at the same time, were more successful in withstanding margin erosion than their peers. Banks situated in the lower left quadrant are likely to see themselves challenged by their own business model. In the past three years, they were confronted with both, a high decrease in margins and net money outflows.

8) Small banks account for 74% of all banks counted for in the lower left quadrant, but only make up 63% of all banks analyzed in the whole Figure 23.
9) Figures represent the three-year-average over the years 2008 to 2010.

Figure 24: Margin growth vs. AuM growth through net new money



In- and outsourcing of non-core business activities

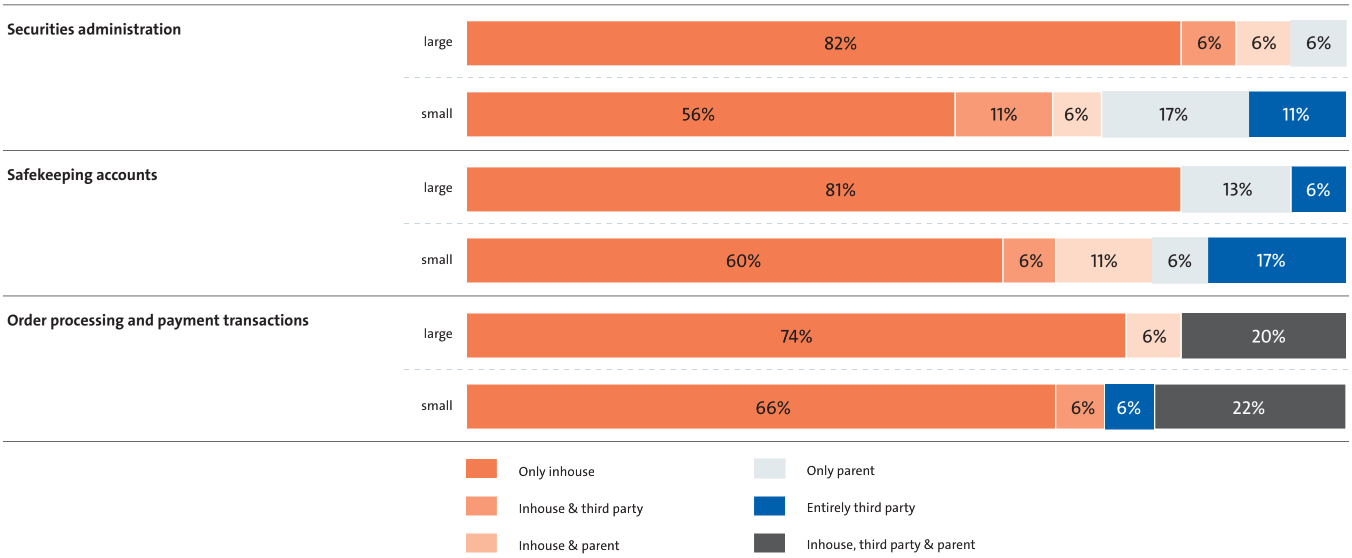
Outsourcing of non-core activities with the objective of improving efficiency has become increasingly important over the recent years. Medium sized and large banks as well as newly emerged specialists are offering a wide range of sourcing alternatives for scalable non-core business processes.

In order to get an insight into outsourcing activities of Swiss private banks, 33 institutions were asked for their supply-sided sources of select non-core business activities. The banks asked were then split into two groups based on their size measured by assets under management (small group: AuM less than 10 bn CHF; large group: AuM more than 10 bn CHF).

In general, a bank can provide services in-house, source it from the parent company (should it be part of a larger conglomerate), acquire it from a third party provider or arbitrarily define a combined mix of those three sourcing alternatives.

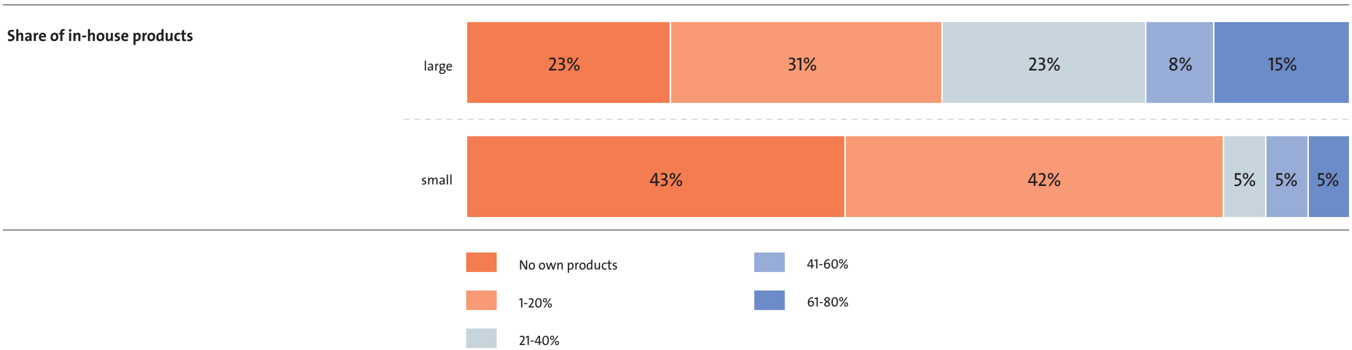
Figure 25 reveals that outsourcing of transaction and account administration services is not a widespread phenomenon among Swiss private banks. In fact, the majority of the Swiss banks still hold custody (e.g. the administration of safekeeping accounts) and transaction services in-house. Not surprisingly, the willingness to optimize costs in areas where scale effects are assumed to exist is higher among the small banks.

Figure 25: Sourcing strategies for non-core business activities



The not yet fully exploited potential for outsourcing will play an important role for banks seeking to improve their efficiency over the years to come. In particular, small banks characterized by cost/income ratios beyond 90% will be urged to sharpen their operational model from a cost perspective and to reevaluate alternative sourcing options for non-core business processes.

Figure 26: Share of in-house products (incl. investment funds) among total products distributed to clients



According to Figure 26, 43% of the small banks have chosen to reject the engineering of own investment products and entirely follow an open architecture approach in serving their clients. Out of the institutions having more than 10 bn CHF in client's assets, 23% are exclusively offering third party products. Besides cost considerations, the decision to move forward without own investment products mitigates potential conflicts of interests and may serve as partial proof for independent investment advice.

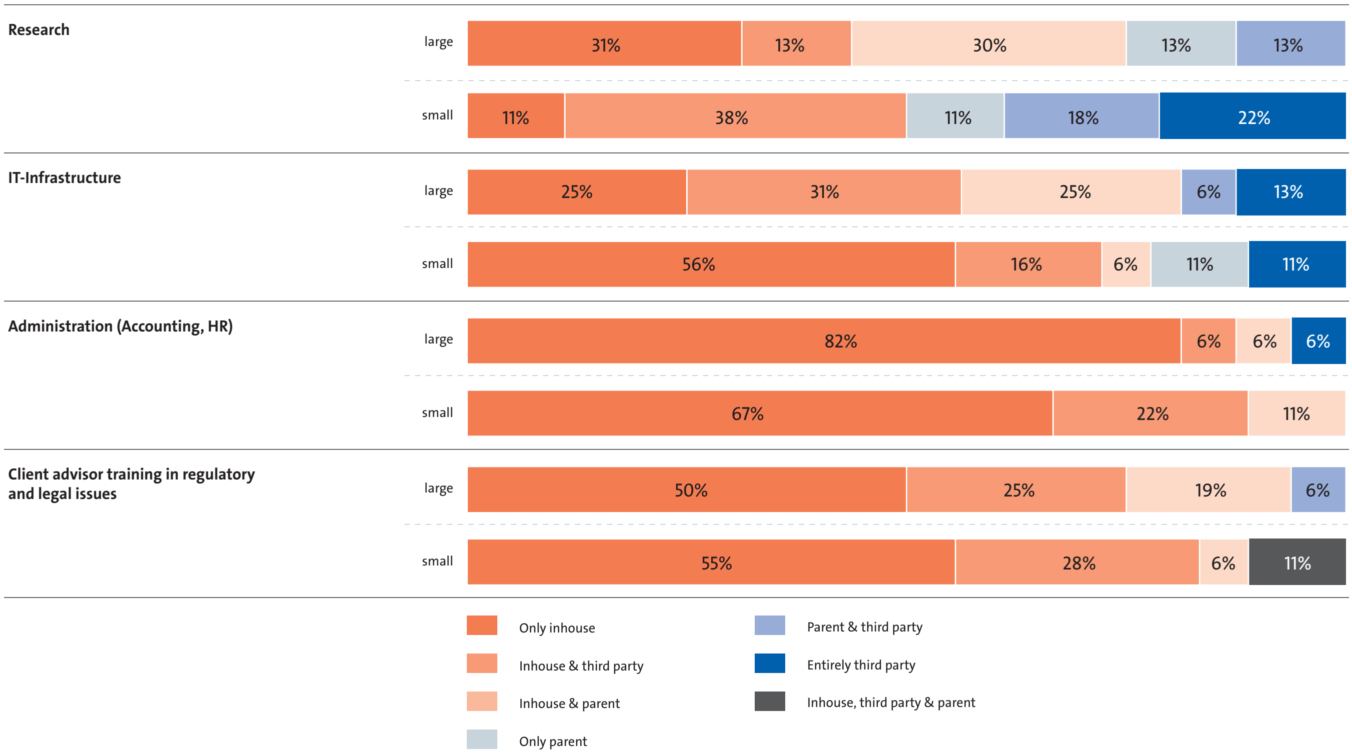
Most of the banks offering proprietary products manage less than 20% of their entrusted assets in own funds or other in-house products. No bank exclusively distributes own products, but some institutions (15% of all large banks and 5% of all small banks) are found offering a broad range of own products and, not surprisingly, a distinctive in-house focus in their clients' portfolios.

Figure 27 reveals that every fifth bank having less than 10 bn CHF in AuM sources its market and securities research exclusively from third party providers. Many others complement their own in-house research with services from other banks or product specialists. Only a minority of the small banks operate its own comprehensive research desk.

Other typical outsourcing areas are IT and administrative activities, such as HR and accounting. When considering IT infrastructures, it is worth noting that 56% of the small banks operate their own IT platforms while, simultaneously, not sourcing any services from its holding or third party providers.

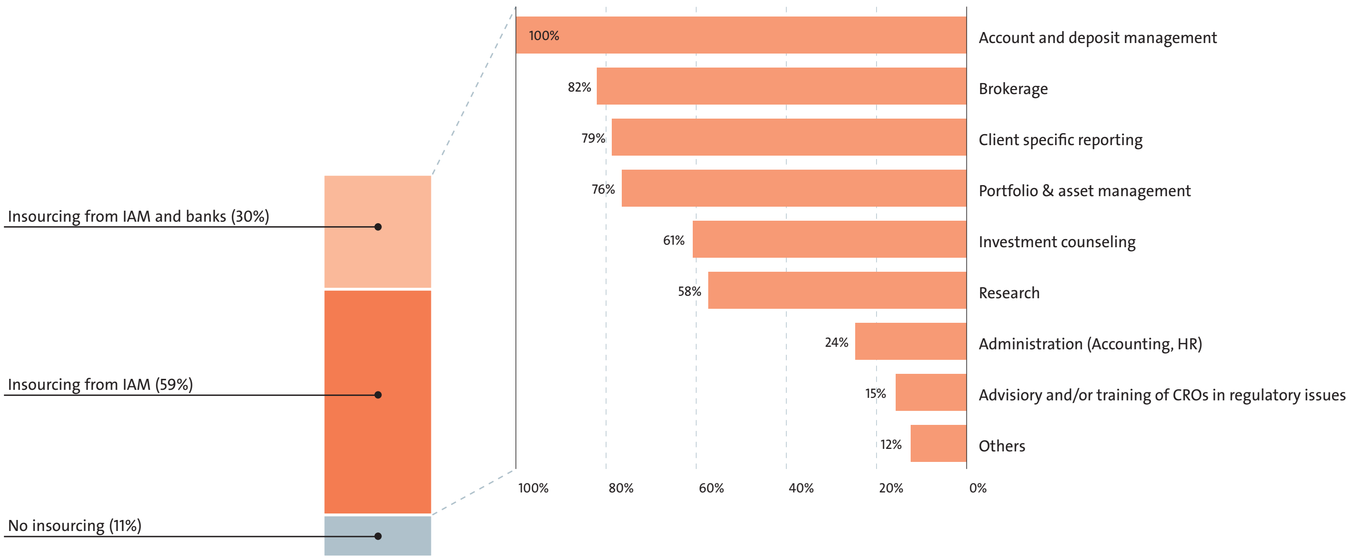
As complexity in country specific legal and regulatory rules increases, banks are forced to pay detailed attention to the resulting additional implementation and compliance costs and to its handling as part of the client relationship officer's (CRO) daily business. Further analysis reveals that 39% of the small banks and 31% of the large institutions make use of third party providers so as to support and enhance CRO's training in regulatory and legal issues.

Figure 27: Sourcing options for back office and related activities



Aside of private and other institutional clients, many banks discovered Independent Asset Managers (IAMs) as an alternative source for revenues. Almost 90% of all banks participating in the survey indicated that they are willing to provide services to the IAMs. In this regard, the services in consideration are account and deposit management, brokerage and client specific reporting. 30% of all banks not only collaborate with IAMs, but also insource business processes from other banks. 11% of the banks (of which all have less than 10 bn CHF in AuM) do not offer any insourcing services at all.

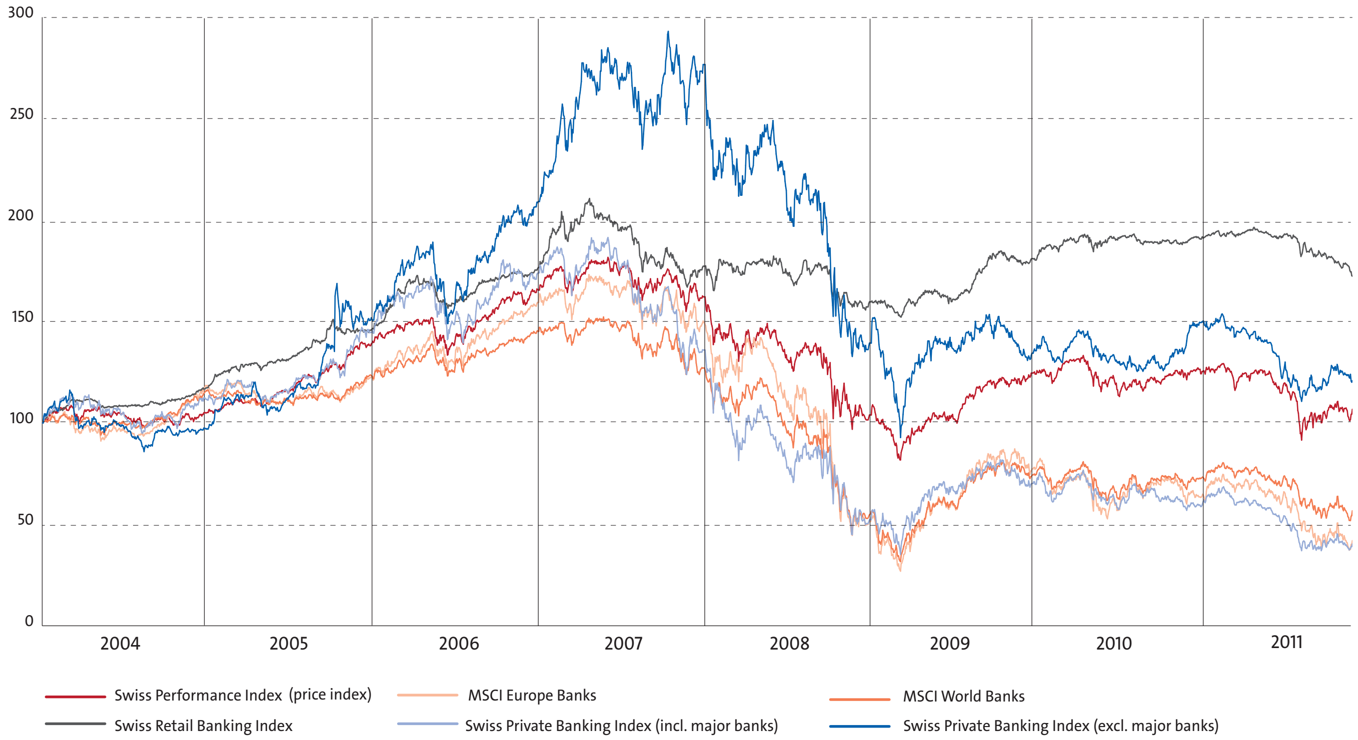
Figure 28: Insourcing



Swiss Private Banking Index

The indices displayed below were built for the purpose of a performance comparison between the stock market and listed Swiss wealth managers and listed retail banks. Due to market value weighting, the Swiss Private Banking Index is strongly driven by the performance of the two major banks UBS and Credit Suisse. Excluding those two institutions, the data reveals that private banking stocks are comparable in volatility, but clearly outperformed the market on a seven year basis. Including UBS and Credit Suisse, the index tends to move alongside with the international private banking market and therefore underperformed the broad market during the recent years. Swiss retail banks, which traditionally possess a strong domestic focus and follow a less volatile business model, proved themselves to be relatively stable and less cyclical than Swiss wealth managers (in terms of their stock performance).

Figure 29: Swiss Private Banking Index (readjusted at 100 as of 1.1.2004)



Source: Bloomberg/Datastream

Concluding Remarks on the Swiss Private Banking Industry

The trends revealed in the key performance indicator analysis clearly reflect the challenges the Swiss private banks were faced with over the past few years as well as the profound structural change the industry currently is undergoing.

Changing client behavior and the strong political and legal pressure on the wealthy (and not always fully tax compliant) offshore client business significantly diminished revenues and reduced profitability. The traditional offshore model was characterized by a large share of assets held in discretionary management mandates and by clients being largely price insensitive. As a result, banks previously were able to achieve considerable margins. When foreign tax authorities increased their pressure on the so-called tax havens, overall volume in this highly profitable field of business dwindled. The share of assets in discretionary management mandates dropped from 27% in 2005 to 23% in 2010. Banks having less than 10 bn CHF in AuM were particularly affected by this development. In 2005, the highly profitable discretionary business made up to 31% of those banks' total wealth management business. Five years later, that share equaled 22%. In the same time frame, the small banks' median adjusted gross margin on AuM dropped from 81 to 64 basis points.

General inflexibility of the cost structure as well as rising compliance expenses hindered many banks from quickly reacting to the sharp drop in revenues. As a result, cost/income ratios rose substantially and reached a historically high level in 2010. Intuitively, small banks having less than 10 bn CHF in AuM appear to be way less efficient than larger institutions. This is, however, generally not the case. Evidence was found that, in terms of efficiency, some select few small sized banks are capable of holding up with their large competitors. Those banks follow a business model that allows for a healthy balance between revenues and costs. Outsourcing of non-core business activities is seen as an important factor in the design of such a cost efficient model. The size of a bank is of vital importance when it breaks down to the question of whether or not, and being it the case, to what extent specific parts of the value chain should be serviced in-house or be drawn from the market. Not surprisingly, the practice of outsourcing non-core scalable processes is more often found among small than large banks. Nevertheless, an enormous potential for further cost-oriented optimization remains unexploited. As the increasing complexity of international regulatory frameworks most certainly will boost legal and compliance expenses, banks are well advised to focus on cutting costs so as to prevent cost/income ratios from reaching unsustainable levels.

Overall, prospects for the Swiss private banking industry are challenging. Changes in client behavior and client structure, new double tax agreements and the US FATCA framework are just a few examples which characterize the new reality in private banking. Banks, that manage (or have managed) to successfully adapt their individual business model to the new environment will secure a promising starting position in the new market for wealth management. Given the wide range of sourcing options and geo-strategic alternatives, size will thereby remain only one of many determinants of success.

Appendix

Appendix A: Sample

	Cost/income ratio (before depreciation)		
	2010	Average	2009
Switzerland			
ABN Amro Bank (Switzerland)	95.8%	90.5%	85.2%
AKB Privatbank Zürich	72.4%	73.5%	74.7%
AP Anlage & Privatbank	81.0%	87.2%	93.5%
Arab Bank (Switzerland)	80.9%	72.7%	64.5%
Arvest Privatbank	78.8%	65.1%	51.4%
Banca Arner Ltd.	153.8%	127.6%	101.4%
Banca della Svizzera Italiana BSI	77.0%	73.9%	70.9%
Banco Santander (Suisse)	39.3%	37.2%	35.1%
Bank CIC (Schweiz)	85.0%	83.0%	81.0%
Bank Clariden Leu	71.8%	64.7%	57.6%
Bank Frey	59.9%	62.9%	66.0%
Bank J. Safra (Switzerland) Ltd.	n/a	n/a	n/a
Bank Julius Bär & Co.	66.9%	64.7%	62.5%
Bank Leumi (Switzerland)	76.5%	73.1%	69.8%
Bank Morgan Stanley	93.8%	92.2%	90.6%
Bank Sal. Oppenheim jr. & Cie. (Schweiz)	85.7%	86.6%	87.4%
Bank Sarasin & Cie.	73.2%	72.7%	72.3%
Bank Sarasin & Cie. Private Banking	73.2%	80.1%	87.0%
Bank Vontobel	70.9%	71.0%	71.2%
Bank Vontobel Private Banking	76.1%	80.5%	84.9%
Banque Baring Brothers Sturdza	76.3%	73.3%	70.4%
Banque Cramer & Cie.	91.7%	88.7%	85.8%
Banque de Dépôts et de Gestion	192.1%	149.4%	106.6%
Banque Franck, Galland & Cie.	73.4%	74.1%	74.7%
Banque Genevoise de Gestion	82.6%	72.6%	62.6%
Banque Morval	67.2%	66.2%	65.1%
Banque Pâris Bertrand Sturdza*	n/a	n/a	n/a
Banque Pasche	93.7%	86.7%	79.6%
Banque Piguet & Cie	84.0%	82.5%	81.0%
Banque Privée Edmond de Rothschild	61.5%	58.4%	55.4%
Banque Profil de Gestion	124.6%	113.0%	101.4%
Banque SYZ & Co.	78.2%	77.2%	76.3%
Banquer Bauer (Suisse)	63.3%	42.6%	22.0%
BHF-BANK (Schweiz)	98.2%	102.5%	106.8%
BNP Paribas (Suisse)	52.4%	49.8%	47.2%
BZ Bank Aktiengesellschaft	31.6%	39.6%	47.5%
Citibank (Switzerland)	102.6%	107.2%	111.8%
Compagnie Bancaire Helvétique	74.1%	75.2%	76.4%
Crédit Agricole (Suisse)	62.5%	58.9%	55.2%
Credit Suisse	74.7%	73.6%	72.6%
Credit Suisse Private Banking	73.6%	71.9%	70.3%
Degroof Banque Privée	89.4%	84.3%	79.1%
Deutsche Bank (Suisse)	95.6%	94.7%	93.7%
Dominick Company	101.6%	107.5%	113.4%
Dreyfus Söhne & Cie. Banquiers	57.3%	58.6%	59.8%
DZ PRIVATBANK (Schweiz)	74.0%	68.8%	63.7%
EFG International	213.7%	148.9%	84.0%
EFG International PB & WM	77.5%	74.7%	71.8%
F. van Lanschot Bankiers (Schweiz)	93.5%	89.9%	86.3%
Falcon Private Bank	116.4%	122.7%	128.9%
Finter Bank Zürich	97.7%	95.0%	92.3%
HSBC Private Bank (Suisse)	59.2%	55.8%	52.5%
Hyposwiss Privatbank	68.7%	68.5%	68.2%
IDB (Swiss) Bank	82.7%	82.0%	81.3%
J&T Bank (Switzerland)	99.1%	92.1%	85.1%
JP Morgan (Suisse)	74.8%	72.5%	70.1%
Jyske Bank (Schweiz)	75.4%	75.8%	76.2%

*Annual report not available, bank only participated in the survey.

	Cost/income ratio (before depreciation)		
	2010	Average	2009
Switzerland			
Frankfurter Bankgesellschaft (Schweiz)	69.4%	69.2%	69.0%
LGT Bank (Schweiz)	125.5%	132.0%	138.6%
Luzerner Kantonalbank Private Banking	52.7%	45.8%	38.9%
M.M.Warburg Bank (Schweiz)	61.5%	66.2%	70.9%
Maerki Baumann & Co.	90.6%	89.7%	88.8%
PKB PRIVATBANK	69.2%	63.4%	57.6%
Privatbank IHAG Zürich	59.6%	58.0%	56.3%
Privatbank Von Graffenried	70.4%	78.1%	85.8%
PrivateClientBank	49.3%	43.9%	38.5%
RBS Coutts Bank	75.2%	70.7%	66.2%
Rothschild Bank Zurich	73.8%	76.0%	78.3%
Schroder & Co. Bank	79.8%	76.8%	73.7%
Scobag Privatbank	61.6%	61.7%	61.8%
Sella Bank	60.6%	56.5%	52.3%
Società Bancaria Ticinese	88.8%	79.6%	70.4%
Société Générale Private Banking (Suisse)	71.8%	68.8%	65.7%
St.Galler Kantonalbank	72.8%	70.3%	67.9%
Sydbank (Schweiz)	91.2%	102.4%	113.6%
Trafina Privatbank	98.1%	85.5%	72.9%
UBS	73.3%	83.3%	93.3%
UBS Wealth Management	64.0%	64.2%	64.5%
Union Bancaire Privée, UBP	64.4%	63.2%	61.9%
VP Bank (Schweiz)	93.9%	98.6%	103.3%
Banque Safdié	94.5%	92.8%	91.0%
Bank Hapoalim	68.7%	66.7%	64.7%
SNB Privatbankiers	75.9%	75.3%	74.6%
Liechtenstein			
VP Bank	69.9%	64.4%	59.0%
VP Private Banking	73.5%	61.2%	48.9%
LLB	60.2%	54.6%	48.9%
LGT	83.6%	81.8%	80.0%
LGT Wealth Management	71.0%	71.4%	71.8%
EFG Von Ernst	69.8%	69.6%	69.3%
Vontobel (Liechtenstein)	77.5%	68.8%	60.0%
Kaiser Partner Privatbank	76.8%	73.1%	69.5%
Centrum Bank	89.3%	86.6%	83.9%
Neue Bank	61.2%	58.4%	55.7%
Hypo Investment Bank Liechtenstein	67.8%	59.9%	51.9%
Raiffeisenbank (Liechtenstein)	64.0%	60.2%	56.3%
Banque Pasche (Liechtenstein)	92.6%	83.1%	73.5%
Bank Frick & Co.	49.0%	51.0%	52.9%
Bank Alpinum	91.5%	89.9%	88.3%
Volksbank Liechtenstein	49.2%	43.7%	38.3%
Valartis Bank Liechtenstein	67.8%	59.9%	51.9%
Germany			
Deutsche Bank	79.8%	75.2%	70.5%
Deutsche Bank Wealth Management	82.0%	82.0%	82.0%
Commerzbank	69.3%	75.8%	82.2%
Commerzbank Private Clients	92.4%	91.6%	90.8%
Bankhaus Hallbaum	70.2%	66.2%	62.1%
Bankhaus Löbbecke	88.7%	88.6%	88.4%
MM Warburg	45.5%	45.3%	45.0%
HSBC Trinkhaus Burkhardt	63.8%	63.7%	63.7%
HSBC Trinkhaus Burkhardt Private Banking	71.4%	68.6%	65.7%
Berenberg Bank	71.1%	65.6%	60.1%

	Cost/income ratio (before depreciation)		
	2010	Average	2009
Germany			
Donner & Reuschel	88.0%	86.9%	85.8%
Bankhaus Lampe	80.3%	79.1%	78.0%
Bankhaus Neelmeyer	83.7%	85.7%	87.8%
Hauck & Aufhäuser Privatbanquiers	88.4%	87.9%	87.4%
Bankhaus B. Metzler seel. Söhne & Co.	83.7%	84.0%	84.3%
Otto M. Schröder Bank	55.8%	54.1%	52.5%
Bank Vontobel Europe	208.5%	264.5%	320.5%
Merkur Privatbank	56.9%	59.3%	61.7%
France			
BNP Paribas	56.8%	55.7%	54.6%
BNP Paribas Wealth & Asset Management	73.2%	73.2%	73.2%
Credit Agricole	61.8%	63.0%	64.2%
Credit Agricole Private Banking	50.0%	50.3%	50.6%
Société Général	59.1%	63.7%	68.3%
Société Général Private Banking	78.8%	71.1%	63.4%
HSBC France	70.4%	70.6%	70.8%
HSBC France Private Banking	88.0%	92.5%	97.1%
Quilvest	69.4%	69.2%	69.0%
Credit Lyonnais	63.0%	63.9%	64.7%
Oddo & Cie.	57.5%	60.1%	62.7%
BLOM France	51.9%	52.3%	52.6%
Benelux			
ABN Amro	83.8%	77.0%	70.3%
ABN Amro Private Clients	47.6%	51.4%	55.3%
Fortis Bank	71.1%	74.5%	78.0%
Krediet Bank Luxembourg (KBL)	83.5%	79.7%	75.9%
Krediet Bank Luxembourg (KBL) WM	87.5%	86.3%	85.1%
Banque Delen	37.1%	40.1%	43.0%
Banque Degroof	64.0%	62.8%	61.6%
Van Lanschot Bankiers Belgie	63.9%	66.4%	68.9%
MM Warburg Luxembourg	50.1%	46.6%	43.2%
Banque Privée Edmond de Rothschild Europe	72.5%	73.1%	73.8%
Norddeutsche Landesbank Luxembourg	30.3%	22.5%	14.7%
DZ BANK International	41.8%	41.7%	41.5%
Petercam	112.5%	102.9%	93.3%
KBC Bank	55.2%	81.9%	108.6%
Banque LBLux	47.8%	38.6%	29.3%
Société Européenne de Banque	39.4%	38.1%	36.8%
Rabobank	60.0%	60.2%	60.4%
Rabobank Asset Management	70.4%	78.0%	85.5%
Banque Safra Luxembourg	50.1%	47.9%	45.8%
Hauck & Aufhäuser Banquiers Luxembourg	46.1%	54.1%	62.2%
UniCredit Luxembourg	20.1%	15.9%	11.6%
Société Générale Bank & Trust	58.5%	57.1%	55.8%
USA			
Bank of New York Mellon	74.0%	99.8%	125.5%
Legg Mason, Inc.	87.9%	89.1%	90.2%
Bank of America	60.4%	55.5%	50.6%
Boston Private Financial Holdings	79.2%	76.8%	74.5%
JP Morgan Chase	58.7%	54.6%	50.6%
Citigroup Inc.	53.8%	55.7%	57.6%
Morgan Stanley	80.4%	88.1%	95.8%
Alliance Bernstein	83.7%	81.3%	78.9%
Northern Trust	68.5%	64.8%	61.2%
UBS Wealth Management Americas	102.3%	100.9%	99.5%
Wells Fargo	59.2%	57.2%	55.3%
Wells Fargo Wealth Management	83.3%	85.4%	87.6%
Bank Leumi USA	68.8%	73.6%	78.4%

	Cost/income ratio (before depreciation)		
	2010	Average	2009
UK			
Barclays	57.4%	54.6%	51.8%
Barclays Private Banking	84.6%	84.1%	83.6%
HSBC	55.2%	53.6%	52.0%
HSBC Private Banking	65.8%	63.2%	60.5%
RBS	53.9%	48.7%	43.5%
RBS Wealth Management	68.4%	64.2%	60.1%
Schroders	67.0%	72.5%	78.0%
Schroders Private Banking	89.8%	84.4%	78.9%
Brewin Dolphin Sec. Ltd	84.8%	85.7%	86.6%
Charles Stanley & Co. Ltd	88.0%	88.7%	89.3%
Rathbone Brothers plc	74.6%	73.7%	72.9%
Investec	67.2%	66.1%	65.1%
Investec Private Banking	86.6%	79.4%	72.3%
C Hoare & Co.	66.4%	64.8%	63.2%
N M Rothschild & Sons Ltd	62.0%	65.2%	68.4%
Coutts & Co.	62.2%	62.1%	62.0%
Italy			
Banca Monte die Paschi di Siena	64.5%	66.8%	69.0%
Banca Intesa Sanpaolo	55.6%	54.7%	53.8%
Banca Intesa Sanpaolo Private Banking	54.1%	57.2%	60.3%
Unicredit Private Banking	68.6%	67.1%	65.6%
Mediobanca	50.4%	53.2%	56.0%
Mediobanca Private Banking	78.7%	74.4%	70.1%
Credem	71.1%	71.8%	72.5%
Credem Wealth Management	38.5%	38.5%	38.4%
Banca Carige	59.0%	57.8%	56.6%
Deutsche Bank Italien	69.1%	68.0%	66.9%
Banca Generali	53.5%	55.2%	56.9%
Banca Popolare di Bergamo	62.6%	58.6%	54.6%
Banca Fideuram	47.9%	49.8%	51.7%
Banca Patrimoni Sella & C.	85.5%	90.7%	96.0%
Banca Aletti WM & Sales	61.6%	62.6%	63.5%
Banca Passadore & C.	72.6%	70.3%	67.9%
UBI Banca Private Investment	94.6%	96.6%	98.7%
Austria			
Bankhaus Schelhammer	66.2%	64.5%	62.8%
Schöllerbank	68.5%	72.2%	75.8%
Bankhaus Carl Spängler & Co.	66.6%	68.1%	69.5%
Oberbank	44.7%	46.1%	47.5%
Bankhaus Krentschker	58.6%	57.6%	56.6%
Bank Vontobel (Österreich)	90.2%	117.8%	145.3%
Bank Gutmann	83.4%	81.0%	78.6%
Bank Winter & Co.	55.1%	52.8%	50.5%
Constantia Privatbank	63.2%	75.8%	88.5%
Privatinvest Bank	279.0%	192.8%	106.6%
Walser Privatbank	79.6%	73.7%	67.7%

Appendix B: Country level data

	2004	2005	2006	2007	2008	2009	2010
Average assets under management per employee (in mn CHF)							
Switzerland	55	58	60	59	43	48	47
Liechtenstein	55	65	70	74	51	61	60
Austria	22	25	27	30	29	32	32
Germany	53	64	65	36	25	27	26
France	26	29	29	25	20	24	26
UK	35	36	37	46	31	33	38
Benelux	29	31	38	39	22	30	31
USA	29	25	29	32	21	24	24

	2004	2005	2006	2007	2008	2009	2010
Adjusted gross margin on assets under management (in bps)							
Switzerland	79	77	80	80	74	70	67
Liechtenstein	57	65	69	69	62	55	54
Austria	79	87	77	63	52	51	53
Germany	81	79	77	87	74	68	65
France	109	108	96	100	85	74	67
Italy	106	93	98	85	73	68	74
UK	97	92	96	87	84	81	80
Benelux	85	80	77	78	73	71	74
USA	68	60	61	63	59	52	54

	2004	2005	2006	2007	2008	2009	2010
Total revenue per employee (in tsd CHF)							
Switzerland	522	574	635	691	494	480	442
Liechtenstein	484	611	666	709	569	494	449
Austria	283	312	332	336	289	261	260
Germany	323	362	406	403	275	274	260
France	308	339	343	381	338	321	316
Italy	265	303	341	382	334	321	298
UK	387	428	453	490	401	353	374
Benelux	327	403	473	472	439	426	419
USA	437	515	582	489	344	361	376

	2004	2005	2006	2007	2008	2009	2010
Personnel costs per employee (in tsd CHF)							
Switzerland	218	226	251	249	232	223	224
Liechtenstein	164	182	185	184	172	165	171
Austria	131	132	137	158	148	150	143
Germany	141	154	157	166	149	148	134
France	111	118	119	152	133	107	103
Italy	109	116	127	138	124	125	114
UK	153	161	177	194	150	153	164
Benelux	132	134	142	154	147	146	145
USA	133	172	187	186	164	156	160

	2004	2005	2006	2007	2008	2009	2010
Wage costs per employee (in tsd CHF)							
Switzerland	180	185	199	211	203	183	183
Liechtenstein	130	148	148	166	152	138	146
Austria	93	100	107	126	120	122	107
Germany	122	136	141	137	121	124	117
France	80	82	84	96	84	77	76
Italy	75	71	81	83	71	78	75
UK	115	127	140	143	136	116	125
Benelux	89	111	118	131	125	120	119

	2004	2005	2006	2007	2008	2009	2010
Wage costs per employee (PPP adjusted, in tsd CHF)							
Switzerland	128	132	151	158	142	130	127
Liechtenstein	92	106	112	124	106	98	100
Austria	85	90	100	106	96	104	95
Germany	110	126	134	120	102	110	108
France	69	71	74	78	65	63	65
Italy	69	66	78	74	62	72	70
UK	100	110	121	111	115	115	125
Benelux	79	98	106	108	98	99	103

	2004	2005	2006	2007	2008	2009	2010
Gross profit per employee (in tsd CHF)							
Switzerland	191	216	262	280	162	118	98
Liechtenstein	216	302	319	339	237	194	135
Austria	111	137	147	154	106	87	82
Germany	104	164	154	147	87	83	74
France	120	139	146	154	137	125	117
Italy	111	118	143	154	114	111	94
UK	145	154	182	194	128	110	109
Benelux	116	179	206	207	175	168	156
USA	140	171	221	142	69	91	91

	2004	2005	2006	2007	2008	2009	2010
Stakeholder income per employee (in tsd CHF)							
Switzerland	300	312	404	479	380	334	317
Liechtenstein	326	315	418	488	364	329	273
Austria	135	200	269	254	232	203	187
Germany	201	202	255	269	194	215	194
France	193	208	235	211	193	159	137
Italy	149	180	207	258	237	206	200
UK	208	236	262	289	218	189	195
Benelux	219	235	304	319	271	251	249
USA	277	352	398	324	266	220	222

Appendix C: Calculation Methods

Breakdown of costs	
Percentage of administrative costs against operating costs (in %)	Administrative costs / operating costs
Percentage of wage costs against operating costs (in %)	(Salaries and bonuses) / operating costs
Percentage of other personnel expenses against operating costs (in %)	(Personnel costs – (salaries and bonuses)) / operating costs
Return on assets under management	
Adjusted gross margin on AuM (in bps)	Fee and commission revenues / AuM
Percentage assets under management	
Own funds as percentage of assets under management	Own managed funds / AuM
Discretionary management mandates as a percentage of assets under management	Management mandates / AuM
Per capita analysis	
Total Revenue per employee (absolute, in CHF)	Revenue net / average number of staff
Gross profit per employee (absolute, in CHF)	Gross profit / average number of staff
Stakeholder income per employee (absolute, in CHF)	Stakeholder income / average number of staff
Total operative costs per employee (absolute, in CHF)	Total operative costs / average number of staff
Personnel costs per employee (absolute, in CHF)	Personnel costs / average number of staff
Wage costs per employee (absolute, in CHF)	(Wages and bonuses) / average number of staff
Assets under management per employee (absolute, in CHF)	AuM / average number of staff
Cost/income ratio	
Cost/income ratio before depreciation	Operating costs / revenue net
Cost/income ratio after depreciation	(Operating costs + depreciation) / revenue net
Growth of assets under management	
Growth of AuM (in %)	$(AuM_{t=1} / AuM_{t=0}) - 1$
Growth of AuM by net new money (in %)	$NNM_{t=1} / AuM_{t=0}$