

Media conference Banking Barometer 2016

Martin Hess, Chief Economist
Swiss Bankers Association, 1 September 2016
Zurich

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Welcome

Sindy Schmiegel
Head of Communications Anglo Saxon World
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Presentation

Martin Hess

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Key findings

The Swiss banking sector: robust development despite difficult framework conditions

- Strained, uncertain economic environment; low interest rates
 - Margin and cost pressure
 - Digitalisation presents opportunities and risks
 - Rise in operating net income, lower gross profits; slight decrease in assets under management, decline in amount of taxes paid
 - Accelerated structural change: number of banks and staff levels decreasing
- Overall, the banking centre is proving to be robust, but some warning signs are manifesting themselves.

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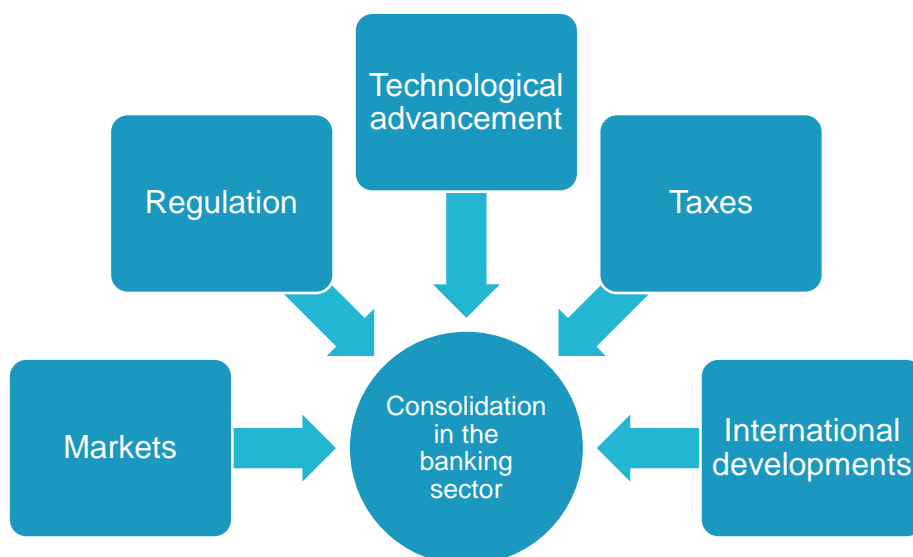
1. **Structure of the banking sector**
2. Operating net income
3. Balance sheet business
4. Wealth management
5. Employment

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1. Structure of the banking sector



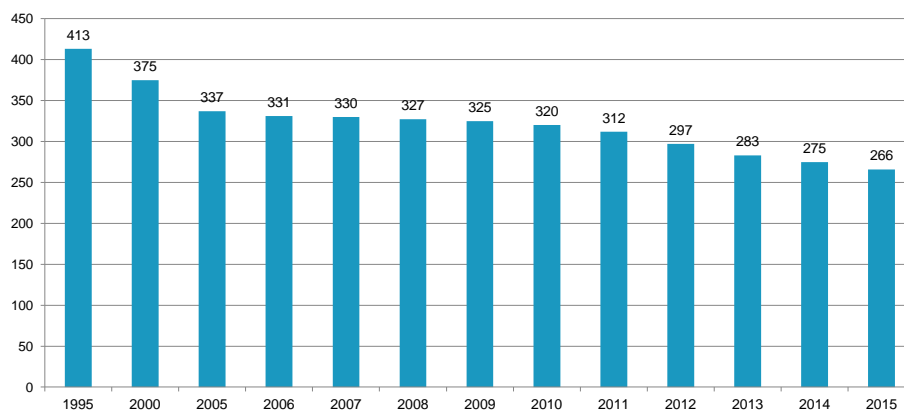
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1. Structure of the banking sector

Trend in the number of banks in Switzerland



Source: SNB

- 2015: decrease in number continued
- Longstanding consolidation trend at the bank level

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1. Structure of the banking sector

Reduction in the number of banks in Switzerland comparable to other European countries

Reduction number of banks	Germany	France	UK	Switzerland
2005-2015	-15.1%	-45.3%	-9.5%	-21.1%
Number of banks 2015	1774	467	362	266

Sources: SNB, ECB

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1. Structure of the banking sector

Regulation:

Implementation on track, SBA objective for good regulation:

- Stricter TBTF, additional liquidity requirements far exceed international standards, CH entities at big banks.
- SNB confirms that banks are in comfortable position. Requirements that come into effect in 2019 largely met.
- Costs of regulation the greatest challenge and investment priority. Generally, no need for deregulatory action.
- Ensure regulatory requirements comparable to international levels and that regulation is “good”. Good meaning appropriate, effective, commensurate and cost effective.
- Government and parliament reaffirm their willingness to provide relief in certain areas.
- SBA recommends a regulatory inspection authority and supports price tag for regulation.



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1. Structure of the banking sector

Technological advancement:

Structural changes based on industrialisation

- Standardisation, scalability, greater focus through technology, which is necessary due to market situation.
- Back end: vertical disintegration of the production process, integrated IT
Front end: improved customer interaction through new services, transparency, speed.
- Strengthening of Swiss banking sector and financial centre through industrialisation. This requires dynamic adjustment of framework conditions. Necessary: international compatibility.
- New business models accelerating consolidation and changing job requirements.
- Authorities recognise the signs of the times. Spring 2016: FINMA announced prospect of new licencing category, Federal Council announced report.



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1. Structure of the banking sector

Markets:

Low interest rate environment

- Difficult economic and financial market conditions. Global growth uncertain, low long-term interest rates, volatility.
- Margin pressure due to rising level of competition in the interest-earning business, supply of credit nevertheless good.
- Different types of banks affected to varying degrees by negative interest rates, adjustments at advanced stage.
- Impact of Brexit on Swiss financial centre still unclear, but likely limited.



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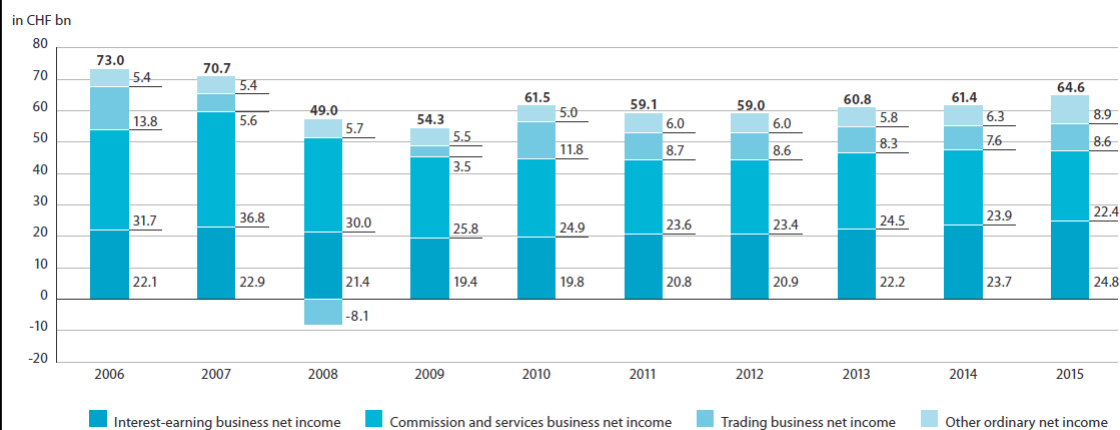
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2. Operating net income

Net income by banking activity



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2. Operating net income

Trend in 2015 (2014)

Operating net income	↑	+5.0%	(+1.2%)
Operating expenses	↑	+10.7%	(-2.0%)
Personnel expenses	↑	+4.4%	(-6.7%)
General and administrative expenses	↑	+20.8%	(+6.5%)
Gross profit	↓	-5.7%	(+7.7%)

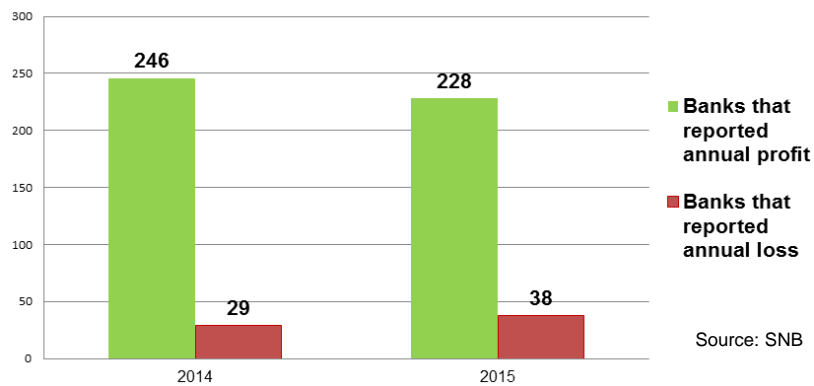
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2. Operating net income

Net profit

Number of banks



- Aggregate net profit 2015: CHF 15.8 bn (2014: CHF 7.4 bn)
- Income taxes and taxes on earnings 2015: CHF 2.2 bn (2014: CHF 2.6 bn)

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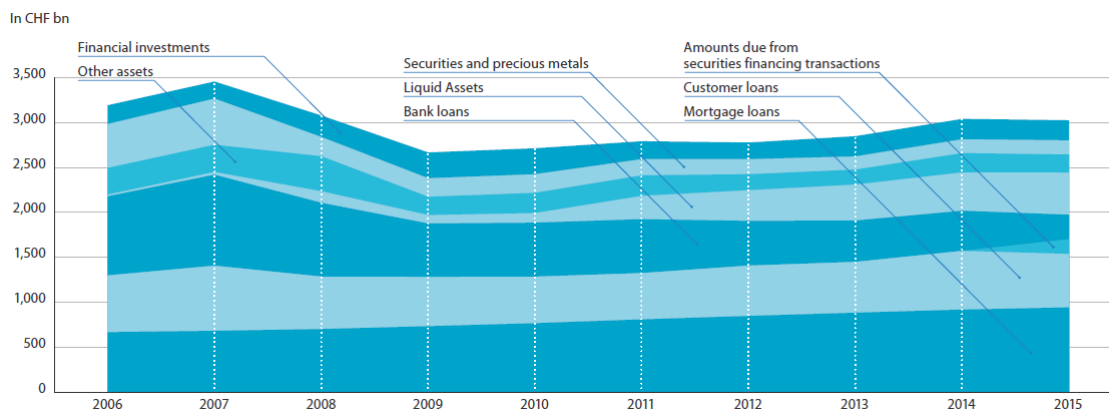
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3. Balance sheet business

Balance sheet total



- Rise in aggregate balance sheet total since 2009
- Strong increase in liquid assets between 2006 and 2015

Source: SNB

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3. Balance sheet business

Aggregate balance sheet totals by bank group

	Bilanzsumme (Mrd. CHF)		Veränderung
	2014	2015	
Cantonal banks	522,6	537,4	2,8%
Big banks	1460,2	1424,2	-2,5%
Regional banks, saving banks	109,0	113,1	3,7%
Raiffeisen banks	185,7	202,4	9,0%
Foreign banks	353,5	333,7	-5,6%
Private bankers	7,4	6,7	-9,5%
Stock exchange banks	206,7	210,1	1,6%
Other banking institutions	196,6	198,6	1,0%
Total	3041,7	3026,2	-0,5%

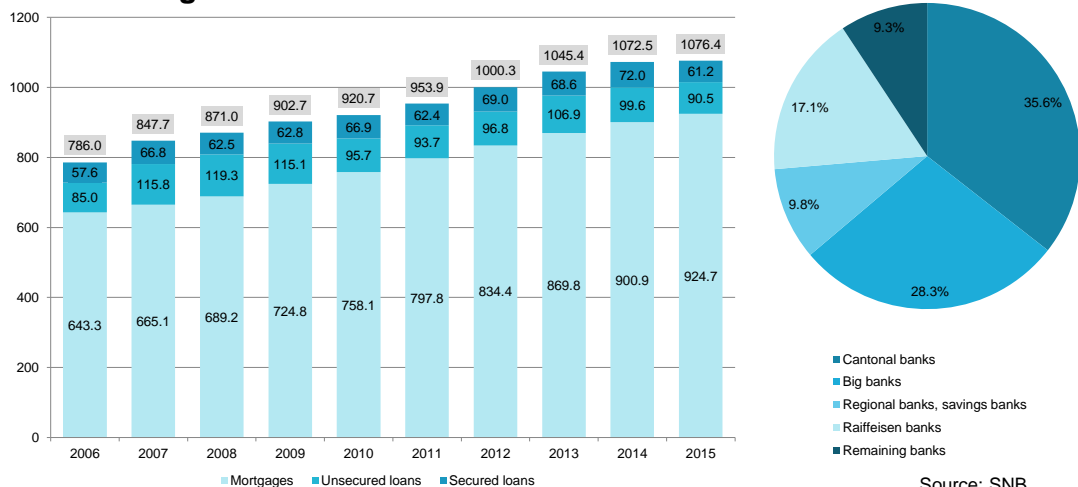
Source: SNB

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3. Balance sheet business

Domestic credit volumes and market share of Swiss mortgage lending



Source: SNB

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3. Balance sheet business

Mortgage loans

Domestic mortgage loans	2011	2012	2013	2014	2015
Growth in %	5.2%	4.6%	4.2%	3.6%	2.7%

Source: SNB

- Growth trend for domestic mortgage loans further weakened
 - ➔ Measures implemented in the mortgage lending segment are taking effect
 - ➔ Perfect cool-down?
- SNB Financial Stability Report 2016
 - ➔ Domestic banks significantly exceed capital requirements
 - ➔ Even an interest rate shock would have only a "mild" effect
- Share of new mortgages granted online 1.6%

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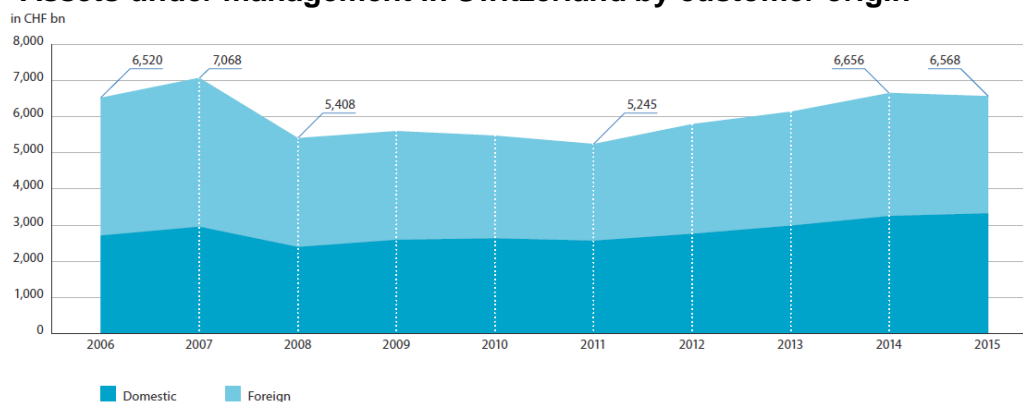
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4. Wealth management

Assets under management in Switzerland by customer origin



2015:

Source: SNB

- Slight decrease in assets under management
- Rise in domestic customer assets, decrease in foreign customer assets
- Share of foreign customer assets 49.3%

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4. Wealth management

- Switzerland remains attractive financial centre and with a market share of approx. 25%, still undisputed leader in assets managed cross-border (CHF 3,238 bn)
- Hong Kong and Singapore combined manage 18% of global assets and will grow at a projected annual rate of around 10% until 2020 (Switzerland: 2.6%).
- Positive development in global private financial assets (BCG):

2015: CHF 178.1 tn	2019: CHF 221.1 tn (+ ~25%)
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Switzerland capturing below-average amount of asset growth
- Innovation relevant for Swiss private banking, e.g. digital banking, sustainable investments
- EU market access remains key for growth.

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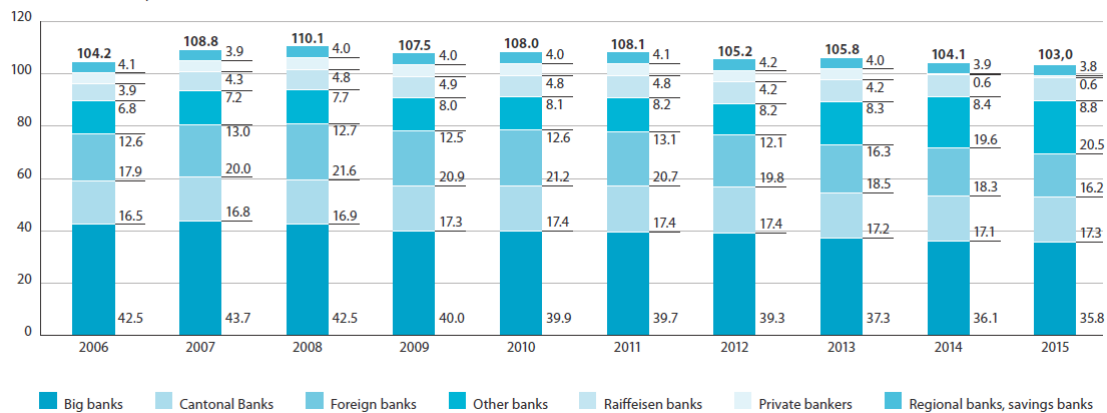
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5. Employment

Employment in Switzerland (in thousands full-time equivalents)

In thousands full-time equivalents



Source: SNB

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5. Employment

Trend in domestic employment in the first half of 2016

Full-time equivalents	Position at 31 Dec. 2015	Position at 30 June 2016	Staff trend during 1 st half of 2016			
			Incoming	Outgoing	Net	In %
Switzerland	87,083	83,629	3,558	7,012	-3,454	-4.1%

Source: SBA employment survey 2016

- Simultaneous increase in number of jobs abroad (net: +6,757)
- Change in job profiles
- Indicator for relative attractiveness for certain jobs and for cost-saving measures. Illustrates importance of attractive framework conditions.

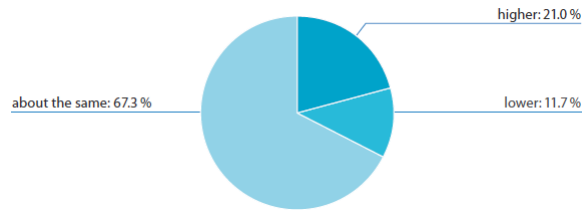
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5. Employment

Expected employment trend for second-half of 2016



Total	Retail Banking	Private Banking	Institutional Asset Management	Trading Business	Logistics and Operations (back office)
→	→	→	→ →	→ →	→ →

Source: SBA employment survey 2016

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