Swiss Banking

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Swiss financial centre: solid results bode well

SBA publishes Banking Barometer 2023

- The Swiss Banking Outlook survey, published by the Swiss Bankers Association (SBA) for the first time as part of its Banking Barometer, predicts an improving economic environment for the banks in Switzerland for 2024 after mixed results in 2023. The consensus forecasts for 2023 are growth of 0.9% (2024: 1.5%) and inflation at 2.4% (2024: 1.6%). Stock markets and interest margins are likely to show positive trends. Against an improving backdrop, the Swiss Banking Outlook anticipates an increase in net income for 2023.
- The SBA's Banking Barometer shows that the Swiss banks' performance was solid overall last year. Despite a challenging environment, with share prices plummeting and shifts in customer funds in the period leading up to the takeover of Credit Suisse by UBS, the banks in Switzerland posted almost unchanged aggregate net income of CHF 70.3 bn. This was just 0.9% lower than the very good prior-year result and reflects the banks' high levels of customer trust and first-class services.
- A mix of different trends among the various bank categories and business areas were behind this overall picture in 2022. Interest operations fared very well in the wake of the SNB's turnaround on interest rates, while commission business and services declined.
- Aggregate annual profit fell by 16.3% to CHF 6.5 bn.
- Two key figures were lower than in 2021 as a result of rising interest rates and falling share prices: the balance sheet total by 6.9% at CHF 3,339.7 bn and assets under management by 11.2% at CHF 7,846.8 bn.
- In 2022, the 235 Swiss banks recorded an increase in domestic headcount for the third period in a row, adding 1,429 full-time equivalents. This brings the number of staff to 92,019, back above the level recorded in 2017. Headcount also increased slightly in the first half of 2023.

New: Swiss Banking Outlook

The Swiss Bankers Association (SBA) has included the Swiss Banking Outlook for the first time in the 2023 edition of the Banking Barometer. It provides a useful overview of expected trends in macroeconomic and financial market indicators as well as the Swiss banking industry's prospects going forward. The consensus estimates for 2023 of the financial market experts who contributed to the Swiss Banking Outlook include economic growth of 0.9% and an inflation rate of 2.4%. A majority of the experts do not expect the SNB to hike interest rates beyond the current level of 1.75%. The rate hike of 22 June 2023 was already priced in at the time of the survey. The SNB policy rate is more likely to fall in 2024 in view of the expected inflation trend.

Swiss Banking Outlook: consensus forecasts of 16 financial market experts

In all, 16 seasoned financial market experts from SBA member institutions responded to the written survey on the short- and medium-term outlook for the banking industry. They include chief economists, chief investment officers and leading investment specialists. They represent member institutions that account for approximately two thirds of the aggregate balance sheet total of all banks in Switzerland. The Swiss Banking Outlook thus provides a set of meaningful forecasts for the industry with regard to key economic and financial market indicators as well as topics relevant to Swiss banking up to the end of 2024. The survey was conducted at the end of May 2023 and will be repeated periodically in future.

Improving economic outlook: growth of 1.5% forecast for 2024

The Swiss Banking Outlook's consensus forecast for economic growth in 2024 is 1.5%, but the individual respondents' opinions vary considerably in view of the increasing erosion of purchasing power and the current geopolitical risks. The consensus on inflation is that the rate will fall from 2.4% in 2023 to 1.6% in 2024. The outlook for the stock markets is also seen as positive.

Good performance expected: banks profiting from interest rate turnaround

Against an improving backdrop, the Swiss Banking Outlook anticipates an increase in net income for 2023, driven primarily by an improving result from interest operations. As regards mortgages, higher interest rates and generally modest economic growth should lead to a below-average increase.

Digital customer experience and sustainable finance seen as major opportunities for Swiss banking

Besides rising interest rates, the Swiss Banking Outlook also suggests that the future earnings prospects of banks in Switzerland hinge on further improvements in the customer experience thanks to digital channels. Continued promotion of sustainable finance is likely to generate strong growth in the volume of sustainable investments again in 2023. Risks to banks' income are seen in particular in the high cost of updating IT systems and the increasing density of regulation.

About the Banking Barometer

The SBA's annual Banking Barometer details the key figures and trends in the Swiss banking sector based on data supplied by the Swiss National Bank (SNB) as well as the results of surveys conducted among the SBA's member institutions. It is available as an interactive, reader-friendly web publication. The Banking Barometer will be presented at a media conference in Zurich at 9 a.m. on 5 September 2023 by Martin Hess, Head of Economic and Monetary Policy. Additional facts and figures can be found in the Banking Barometer 2023.

Business performance of banks in Switzerland in 2022: solid results

As interest rates started to rise, stock markets slumped, and shifts in customer funds were seen in the period leading up to the takeover of Credit Suisse by UBS, the banks in Switzerland posted almost unchanged aggregate net income of CHF 70.3 bn. This was just 0.9% lower than the very good prior-year result, illustrating the high level of trust customers place in the banks, which in turn translates into strong demand for their services.

Other key figures showed a decline compared with 2021: aggregate annual profit fell by 16.3% to CHF 6.5 bn, while the balance sheet total was down 6.9% at CHF 3,339.7 bn and assets under management were down 11.2% at CHF 7,846.8 bn as a result of rising interest rates and falling share prices.

Interest rate turnaround

The result from interest operations benefited from the SNB's decision to put an end to negative interest rates, rising by 2.8% to CHF 24.5 bn and accounting for the largest share of net income for the banks in Switzerland at 34.9%. The result from trading activities rose by an impressive 17.8% due to the increased market volatility in 2022. However, the negative stock market environment led to a downturn in commission business and services.

Gross operating profit down

Gross operating profit was down 5.1% year-on-year. Operating expenses, which are made up of personnel expenses and general and administrative expenses, rose by 1.9% despite the slight fall in aggregate net income. The banks paid corporate taxes totalling CHF 2.1 bn, in line with the long-term average. Aggregate annual profit fell by 16.3% to CHF 6.5 bn.

Lower balance sheet total

The aggregate balance sheet total of all banks in Switzerland contracted by 6.9% to CHF 3,339.7 bn in 2022. This was mainly due to liquid assets – which had recorded a huge increase between 2012 and 2021 – falling sharply for the first time in years following the interest rate turnaround. Mortgage loans remain the largest asset item, making up 35.2% of the total.

Negative stock market trend weighing on assets under management

Assets under management by banks in Switzerland fell by 11.2% year-on-year to CHF 7,846.8 bn at the end of 2022, mainly due to a marked 13.9% fall in securities holdings. The Swiss franc remained the dominant investment currency with a share of more than 50%. Switzerland was still the world leader in cross-border wealth management for private clients in 2022, with holdings down 6.1% year-on-year at CHF 2,249.3 bn.

Headcount up for third year in succession

The number of people employed in the banking sector in Switzerland rose for the third successive year to 92,019 full-time equivalents at the end of 2022, an increase of 1.6%. The unemployment rate in the financial sector was slightly lower than that of the overall economy at 2.0%.

The editorial deadline for the Banking Barometer 2023 was 14.8.2023.

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