

Margins, costs and the compliance burden

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The profitability of Swiss wealth management has come under pressure from several sides at once. Clients have become more price-conscious, partly because the end of banking secrecy removed the premium they had paid for discretion. Passive investment products have lowered the fees that clients are willing to pay for portfolio management. Digital platforms have made comparison easier. As a result, the gross margin of Swiss private banks, measured as revenues relative to assets under management, has declined over the past fifteen years, according to the industry studies mentioned above.¹

Costs have moved in the opposite direction. Regulation has multiplied since 2008. The Financial Services Act introduced duties of information, suitability and documentation in advice. The anti-money laundering rules have been tightened repeatedly, while sanctions screening became an operational discipline of its own after February 2022. Banks serving clients from many countries must comply with the rules of each target market, which often require local licences, registrations or partners.² Information technology has become the largest single cost item for many institutions, since core banking systems must be renewed, cyber risks controlled and client interfaces modernised.

The combination of falling margins and rising costs explains much of the consolidation described above. It also explains why many smaller banks outsource core processes to specialised providers, whether banking software firms or larger banks that offer their infrastructure to others. In Switzerland, providers of core banking software and of operational services have become an important part of the banking ecosystem.³ Whether a bank with assets of five or ten billion francs can remain independent in 2035 will depend largely on whether it can buy such services at a cost that leaves room for a profit.

1 Notes

1. On the decline of gross margins (revenues in basis points of assets under management) and the development of cost-income ratios at Swiss private banks since 2010, see the annual studies of KPMG and the University of St. Gallen and the Banking Barometer of the Swiss Bankers Association. Figures to be verified. ↩
2. On the cost of regulation for Swiss banks (FinSA, AMLA amendments, sanctions compliance, cross-border rules), see the Federal Council's reports on the financial centre and the publications of the Swiss Bankers Association on regulatory costs. To be verified. ↩
3. On the outsourcing of core banking and operations by Swiss banks to specialised providers and the corresponding FINMA rules on outsourcing (FINMA Circular 2018/3), see the publications of FINMA and the Swiss Bankers Association. Circular number and current status to be verified. ↩

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