

Pressure on margins

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Wealth management margins have been under continuous pressure for two decades, which largely explains the consolidation of the sector. Several factors contribute to this.

Fee transparency, imposed by regulation and demanded by clients, makes comparisons easier and pushes prices down. Institutional clients and large fortunes negotiate tight terms.

Competition has intensified. The large universal banks, foreign banks, independent asset managers, online banks and digital platforms offer wealth management services at a range of prices. Low-cost index funds have reduced the perceived value of active management.

The end of banking secrecy removed part of the value that clients attached to Swiss service. A client who had not declared his assets in his own country or paid his taxes might accept high fees in return for discretion, whereas a client whose assets are declared compares Swiss fees with those of his country of residence.

Fixed compliance and technology costs have increased, reducing the net margin even where the gross margin holds up.

The fall in interest rates over a long period reduced the interest margin, an important source of revenue for institutions that grant Lombard loans and pay little on deposits.

Pressure factor	Effect on profitability
Fee transparency	decline in management and custody fees
Increased competition	pressure on prices, client acquisition costs
End of banking secrecy	disappearance of the discretion premium
Fixed compliance and technology costs	rise in the cost-income ratio of small institutions

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Pressure factor	Effect on profitability
Low interest rates	reduction in the interest margin

Caution. Pressure on margins strikes small institutions first, since their fixed costs cannot be spread over sufficient assets. The consolidation of the Geneva sector is the direct consequence of this logic, which continues to operate.

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