University of St.Gallen

Swiss Institute of Banking and Finance

Retail banking 2035

A study by EY and the University of St. Gallen

Building a better working world

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Editorial

From left to right: Prof Dr Andreas Blumer, Prof Dr Markus Schmid, Roman Sandmeier

In 2012, EY published a highly acclaimed study on retail banking in 2020 with the University of St. Gallen. A lot has happened since then. And yet, despite all the challenges, the Swiss retail banking business has proved to be stable and resilient and even achieved record results in 2023. According to the EY Banking Barometer 2024[1], confidence is high: Around 84% of the cantonal and regional banks surveyed are forecasting continued growth in income in the short term, while around 82% are optimistic in the long term. But is this confidence misplaced? What is the outlook from here? What issues will banks focus on going forward and how might retail banking differ from today in 2035?

The study "Retail Banking 2035", which EY Switzerland has written in conjunction with the University of St. Gallen in 2024, is designed to provide answers to this question.

The idea and concept of the study
Colleagues from the Swiss Institute of Banking and Finance at the University of St. Gallen and EY together devised a number of propositions and questions relating to the future of retail banking in Switzerland. In devising these propositions and questions, we gathered the views and expectations of experts from various disciplines. These included banking consultants and auditors, specialists in information and communications technology (ICT) and sustainability, as well as experts from outside the financial sector, e.g. the retail and consumer goods industries.

A time horizon of around ten years may seem long or short depending on your perspective. You might conclude that a lot has happened in the last ten years – or alternatively that, fundamentally, very little has changed in retail banking in Switzerland. Either way, the longer time horizon provides scope for more ambitious propositions and more creative ideas.

In in-depth discussions, we considered issues that could shape the retail banking business in 2035 and asked representatives from the industry which areas they expect innovations to happen in as a result of forces such as technological developments, new growth potential or changes in business models and vertical integration.

The study is a joint project and the results are primarily based on the fascinating contributions from representatives of 33 retail banks. The participating institutes are listed in the appendix. The study covered all four language regions of Switzerland.

We would like to thank all those who took part for the enthusiastic discussions and the valuable insights they contributed.

We hope you enjoy reading the report and find some stimulating insights in it. We look forward to further interesting discussions on this topic.

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1 *cf. EY, 2024*

Introduction

Importance of the banking industry for the Swiss economy
In its annual Financial Stability Report[2], the Swiss National Bank (SNB) analyzes the importance of the banking industry for the Swiss economy. According to the 2024 Financial Stability Report, the banking sector's assets amounted to around CHF 3,400 billion at the end of 2023, which is equivalent to around 430% of Switzerland's gross domestic product (GDP). By way of comparison, the SNB notes that this ratio is 340% of GDP in the UK and 100% in the US. The banking sector also contributes around 5% of value added in Switzerland and employs around 110,000 people.

According to a publication by the Swiss Bankers Association (SBA)[3], with "[…] over CHF 1,000 billion in mortgage loans, around 22 million debit and credit cards issued, more than 160 million card payments and over 12 million cash withdrawals monthly […], retail banking is a mass market business that is central to the Swiss economy."

Swiss banking business highly profitable
In its Swiss Banking Outlook of March 2024, the SBA[4] communicated positive earnings expectations overall for the Swiss banking center. It expects the Swiss banks' aggregate operating profit for the current year to be similar to the record year of 2023.

Net interest income is expected to decline from last year's extraordinarily high levels due to falling interest rates and growing competition, but the SBA expects this to be compensated by increasing fee and commission earnings.

While growth is expected in the lending business, it could be below the average of the last five years. Meanwhile, declining construction activity and the continuing high interest rates are having a dampening effect on the mortgage business, which is important for retail banks.

A 2024 study on European retail banking[5] by the consultancy firm Kearney also shows that Switzerland is at the top of the rankings in terms of profitability. Income per client of EUR 1,901 is more than double the median of EUR 889 for 13 western European countries. Switzerland also leads the way in profit per client at EUR 967 compared to the median of EUR 400.

2 cf. SNB, 2024
3 cf. SBA, 2023
4 cf. SBA, 2024
5 cf. Kearney, 2024

Backdrop and key developments
The financial and economic data set out above are just one aspect to take into account when thinking about retail banking and how it might develop. Retail banks are typically deeply rooted in their region and close to their customers. As a result, they are right at the forefront of economic, political and social developments and have to adapt to them or try to play an active role in shaping them. Customer needs are changing and banks have to adapt to these changing needs, ideally anticipating them and fulfilling them proactively. Technological developments and innovation are other key drivers of change, even if it is not always clear when something is truly innovative rather than just the ongoing process of technical improvements. Technological and digital developments will shape all retail banks and history shows that innovation cycles are becoming shorter and the pace of innovation is increasing. In combination with demographic changes, technological developments require new employee profiles. Financial institutions therefore need to think about how they can recruit and retain the skilled workers they will need in the future. While in the past banks faced competition from pension funds and insurance companies in the lending business, nowadays fintechs and big techs are offering new services such as advanced payment and pension solutions and weakening customer loyalty to financial institutions, including Swiss banks.

An added influence in Switzerland is the collapse of Credit Suisse (CS), which has reshaped the competitive landscape and will also bring tighter regulation in its wake. For financial crises to trigger a wave of regulation is nothing new and we can expect the same after the takeover of CS by UBS. For retail banks, this will primarily mean additional costs.

Structure of the study

The team of experts from the Swiss Institute of Banking and Finance at the University of St. Gallen and banking consultants and auditors from EY began by analyzing the current situation and went on to derive ten propositions for the study based on this analysis. These propositions are intended to draw out issues that will be of particular importance for the development of the retail banking business in Switzerland up to 2035. Many banks have a shorter strategic planning horizon of three to five years, but as the business changes on an evolutionary basis and relevant trends generally develop over longer cycles, we wanted to base the study on a longer planning horizon of around ten years. These ten propositions formed the basis for the third step, the survey of experts, which we carried out in spring and summer 2024. The results of the interviews were summarized for each proposition to reflect the experts' assessment of the market.

We were able to secure the participation of CEOs and other senior representatives from 33 retail banks in Switzerland in the survey. A list of all participating institutions can be found in the appendix. As a result, we achieved almost complete coverage of the retail banking market and would like to take this opportunity to thank everyone involved for their support.

We rounded off the discussions on all of the propositions with a brief analysis of our own. This additional perspective is intended to contribute to a critical discussion of the issues and stimulate debate.

Definition of retail banking and affluent banking (as a basis for understanding this study)

For the purposes of this study, we have used a standard definition of retail banking. In retail banking, banks offer products and services to meet the day-to-day financial needs of private individuals and corporate clients, primarily in the SME sector. This is mainly based around deposit-taking and the lending business for mortgages and other loans, supplemented by the business with investments and payments. Retail banks have high recognition value as a result of their branches, counters and ATMs. Customers now mainly interact with the banks through digital channels, including e-banking, mobile banking and in some cases other specialized apps.

However, some areas of retail banking are not exclusive to banks and are also covered by other market players such as fintechs, big techs or companies from outside the industry that are trying to access this valuable interface in the credit card or payments business, for example. Retail clients are defined as persons with bankable assets of up to between CHF 250,000 and CHF 1 million, depending on the bank.

We also use the term "affluent banking" in the study. There is no uniform definition for this segment. While retail customers in a strict sense are generally defined as clients with bankable assets of up to CHF 100,000 to CHF 200,000, affluent clients are often defined as clients with bankable assets from around CHF 100,000 or CHF 200,000 up to around CHF 4 million. The rationale for the above thresholds is that these assets are not sufficient to finance a household with a comfortable standard of living purely from investment income. In simple terms, affluent clients rank between retail clients and private banking clients. Due to their financial situation, they have different and additional needs to retail customers, but are not yet eligible for the full personalized advisory service enjoyed by clients in the private banking segment (HNWI and UHNWI).

Executive summary

Our comprehensive study reflects the views of 33 retail banks on ten succinct propositions on the shape of retail banking in 2035. This resulted in the following findings, which provide material for interesting reading and fruitful debate:

Gradual decrease in value-added due to margin pressure
Against the backdrop of geopolitical tensions, survey participants continue to view Switzerland as stable and believe it will remain attractive in the future. Participants agreed with the thesis of a gradual erosion of margins driven by the interest rate environment (with a temporary improvement in the asset and liability margin), rising customer expectations and fiercer competition, partly due to new technologies and platforms. Despite the growing influence of new providers and other challenges, the industry remains confident and continues to believe in the value of central features of retail banking, such as closeness to the customer and advisory quality. However, keeping revenues stable in the core maturity transformation business by expanding volumes may not be a viable model in future. And in the strategically important investment business, margins could fall further and may not be compensated by additional volumes.

Uncertainty about the medium-term implications of innovative technologies
There were different views on the impact of innovative technologies on competition. Participants agree that technology influences competition, while overall the impact of innovative technologies is thought to be overstated. Genuine innovations with material implications for value creation are rare, said respondents. Artificial intelligence (AI) and quantum computing could possibly change this – but even they will not do so overnight. Fintech and big tech companies are seen as catalysts for innovation and the epitome of convenience, but not as direct competitors – at least as long as they do not gain control of the customer interface. In banking experts' view, the tech multinationals do not see entering the Swiss market as worthwhile due to its small size, at least at the moment. The high regulatory hurdles surrounding the Swiss market are another barrier to them.

Rising expectations and reputational risks due to societal change
Trust is key for banks, and their regional presence is often used as an argument by banks to differentiate themselves, not least when it comes to sustainability. Responsibility to society is also an issue for banks, but its implementation remains somewhat diffuse. Specific issues such as managers' salaries, fair interest rates and sustainability are all issues of concern. In addition, demographic developments as a megatrend will become a much bigger issue for the banks than it already is.

Ambivalent view on regulation
On the one hand, banks view regulation positively as a mark of quality that connects the expectations of society and financial policymakers with operational requirements and is thus in the interests of the financial center and the individual institutions; it also protects the Swiss market from those whom they regard as intruders. However, they are critical of disproportionate regulation and the cost implications.

No financial incentives for banks to be sustainable
There is agreement that sustainability initiatives have become a standard, but also that sustainability is not a real differentiator and only can be so if it is shown to make a difference at a regional level. An ongoing, strong customer need, significant earnings potential and the associated economic value added for banks are largely absent. On the other hand, reputational risks are increasing. Banks sometimes feel increasingly pushed into the role of "sustainability policemen", especially as there is no legislative framework in many areas.

Traditional retail banking remains a successful business model

However, this does not absolve the industry from constantly adapting. Banks need to remain agile, for example with regard to macroeconomic developments, revenue diversification, positioning in the financial ecosystem, cost management and customer orientation. There is room for improvement compared to other sectors, as the banks acknowledge self-critically, for example regarding the use of customer data and its analysis – a resource that is still waiting to be tapped.

The core issue in financial advice is cost efficiency in scaling

Retail banking is considered to be down-to-earth and reliable, but needs a breath of fresh air in its approach to providing financial advice. Retail banks need to approach customers more proactively, make more active use of life events (and use the data to identify them in time), and support customers throughout their entire lifecycle – in a manner not dissimilar to that of a general practitioner. The banks' aim must be to become the customer's trusted "principal bank". To achieve this, financial advice must offer more holistic added value for the client; personal communication founded on trust remains crucial. AI will not change that for the time being, but will support client advisors in the background and make processes more efficient. The fact that all banks have been keen to expand their customer advisory services and make them more customer-focused for years begs the question why this objective has not been achieved so far.

Comprehensive financial advice beyond the banking business does not achieve the desired results

Participants confirm that there is a demand for advisory services, particularly in the context of expanding the range of bank products centered around life phases and events. Financial planning is often mentioned as the basis for these kind of services. Matching the offering with customer needs is sometimes difficult, however, because many customers lack basic financial literacy and have to have things explained to them first. Moreover, an even broader range outside of the expanded bank offering complicates the provision of advice and processes. A look at the insurance sector gives grounds for skepticism about bancassurance: past failures, the complexity of the business, regulation and a reluctance to cooperate have caused retail banks to hesitate.

Channel integration remains a central goal of the customer experience

Customers have high expectations of their interactions with banks. They want the same convenience of other areas of everyday life from banks, as well as availability around the clock on all channels, preferably without interruptions and yet with interoperability – they do not want to be asked the same thing again when switching channels, for example from online to bank advisor. However, implementing all customer wishes is expensive, especially due to outdated and convoluted IT infrastructures.

Branches will still be part of the business model of the future

Branches remain crucial as channels and are important for a high market share in the regions. The way the branches are used and the associated processes have already been brought into line with business models (proposition 5) and the approach to financial advice (proposition 6). This optimization of branches' function will continue.

Vertical integration will not decline radically over the coming decade

There is no doubt that processes and the design of the value chain need to be reassessed. However, the banks do not like handing over their own activities to third parties. Although there are activities the banks would be willing to consider, the fear of risks and of losing control is great, and the potential for cost savings is often too low; the customer interface is in any case non-negotiable. Due to the comfortable situation of the retail banks, the pressure to do something is simply too low overall. However, if outsourcing did nevertheless become necessary in the future (e.g. due to a shortage of skilled workers or as a cost-cutting measure), this would have to be prepared over a prolonged period, as numerous interfaces have to be created.

Attracting, developing and retaining employees is becoming increasingly important

When it comes to recruiting suitable employees, banks face the challenge of adapting existing job profiles to future requirements. A realignment of job roles is required, especially in technical areas. Continuing development of older employees, and training and development of younger employees is critical. Demographic changes will exacerbate the shortage of skilled workers in the future. In order to remain attractive for talented individuals, banks also have to offer their employees a sense of purpose and good development opportunities alongside flexible working time models.

Look back at 2020 scenarios

Technology scenario

Summary of the scenario

- Resistance to mobile payments is diminishing thanks to improved security measures.
- Digital money has advantages over cash, e.g. fast credit transfers.
- New technologies give customers more bargaining power through non-stop online availability and opportunities to compare.
- Banks' role is changing dramatically. They are increasingly acting as utilities rather than service providers and are becoming an execution platform, which reduces the personal links with customers.
- The banking landscape is changing radically, the value chain is dissolving and banks are being divided up into advisors and providers.
- Providers from outside the industry and peer-to-peer marketplaces are gaining ground, weakening customers' trust in traditional banks and reducing the number of retail banks.

Basically, we can say that the technology scenario only came true in parts and its forecast of the speed and disruptive nature of the new digital technologies that were emerging at the time was exaggerated. Nevertheless, it is also true that a large number of fintechs have, with varying degrees of success, tried to penetrate retail banking, particularly business with more attractive margins, but the direct impact on the market has so far been limited.

Compared to their counterparts in the US and Europe, Swiss banking customers are more reluctant to adopt purely digital offerings, particularly from non-banks and technology groups. The market entry of neobanks and corporations such as Apple, Amazon and Google has materialized only at the margins, and we are very far from these new providers being in any way dominant on the market. On the other hand, digital offerings such as mobile banking apps from traditional banks are popular with clients. TWINT is the only fully digital offering that is successful on a large scale. However, this new offering did not have any significant impact on the established banks' business model and was seen more as an extension of the banks' existing products than a competitor – and eventually it was launched by the banks themselves.

In general, mobile banking is widely used in Switzerland and logins are growing rapidly at an annual login rate of over 33%.[6] Initial concerns about information security and financial losses in the event of smartphone theft have been laid to rest by advances in cybersecurity, such as two-factor authentication and biometric safeguards (e.g. Face ID and Touch ID). Buy-now-pay-later offerings are also growing in Switzerland, particularly among younger demographics. However, these are mainly integrated in online shops and not offered by banks, as consumer credit is seen as too risky.

The general frequency of face-to-face meetings at banks has declined in Switzerland and business is increasingly conducted digitally or via video calls. Nevertheless, Swiss bank clients continue to consult their bank advisors for important financial decisions (e.g. mortgages or investment decisions). The forecast price elasticity and increase in customers' bargaining power also failed to materialize to the extent outlined in 2020. In spite of the availability and increasing use of online consumer portals such as "comparis" and "moneyland", market observations show that the majority of bank customers have remained relatively loyal to their banks and are not particularly price-sensitive. This was particularly evident when banks were slow to pass on increases in interest rates to customer deposit accounts.[7]

6 *cf. HSLU, 2024a*
7 *cf. HSLU, 2023*

The forecast that digital competition would mean that banks could be seen by customers as utilities rather than service providers and lose their interface with customers did not materialize either. There were no significant disruptive changes to traditional value chains and the branch network remained largely intact. Today, banks are even reinvesting in modernizing and redesigning their branches. And even providers that were originally purely digital have noticed that it is beneficial to have a limited physical presence in the form of customer service centers. Surveys also show that it is mainly small and medium-sized banks with a strong branch presence that score particularly well in customer reviews.[8] This year's HSLU[9] survey also shows that banks with a physical presence in their region have a higher market share than competitors without a physical presence there. Peer-to-peer-lending marketplaces have also not gained widespread acceptance and have remained more of a niche market.

The example of TWINT shows that new approaches and partnerships between banks and platform solutions can also have resounding success in Switzerland.

Initially, PostFinance, Berner Kantonalbank, Valiant, Basler Kantonalbank and Bank Coop, as well as UBS, Zürcher Kantonalbank and SIX through a separate company (Paymit), were looking to launch a new payment solution.

Following the foundation of its predecessor company in 2014 and the merger with Paymit and founding of TWINT AG in 2016, TWINT had around five million users by January 2023. In 2023, over 590 million transactions were processed through TWINT and more than half of the Swiss population uses it regularly. At its core, it was about making everyday life a little easier for bank customers, ensuring that payments and everything related to can be integrated smoothly into our lives, so we no longer have to worry about a thing.[10]

10 *cf. TWINT, 2024*

8 *cf. HSLU, 2019*
9 *cf. HSLU, 2024a*

Consolidation scenario

Summary of the scenario

- Banks will be unable to raise revenue sufficiently to compensate for rising costs.
- Regulation will lead to high implementation costs, particularly at smaller banks.
- Banks below a certain size will be unable to spread these costs in a profitable way.
- Industry-wide consolidation is expected, particularly among savings banks and cantonal and regional banks, as smaller banks will struggle to operate profitably.
- Gradual consolidation, starting with collaborations in the value chain.
- Weaker market players will be integrated into larger umbrella institutions, but the brands will be retained due to their regional significance.
- Retail banks will break up their value chains and outsource some of their work processes.
- Small and medium-sized banks will transfer downstream work processes to specialist companies.
- White labeling, where entire business areas are outsourced and marketed under the bank's name, will become common.
- Banks will focus on advising and supporting clients.
- Outsourcing will be an intermediate step towards further consolidation in the Swiss retail banking market.

Overall, the consolidation scenario for the Swiss retail banking market only partly materialized.

The main reason for the absence of a wave of consolidation was that, despite a difficult environment, the banks found ways to keep earnings stable and maintain market share, meaning that the business was not threatened to such an extent that disposals or mergers were needed. The total number of banks in Switzerland fell from 297 in 2012 to 236 in 2023 (see Figure 1[11]). In the retail banking market, the forecast wave of consolidation for small and medium-sized banks did not materialize: the number of cantonal banks remained stable, while the number of regional banks fell from 66 in 2012 to 58 in 2023. Mergers were most likely to occur among the currently almost 220 Raiffeisen banks. Of course, the crisis at CS led to its takeover by UBS, which means that Switzerland now only has one global systemically important bank with a corresponding Swiss retail client business.

11 The Raiffeisen Group counts as one bank in the SNB's statistics.

Structure of the Swiss banking sector (number of banks)

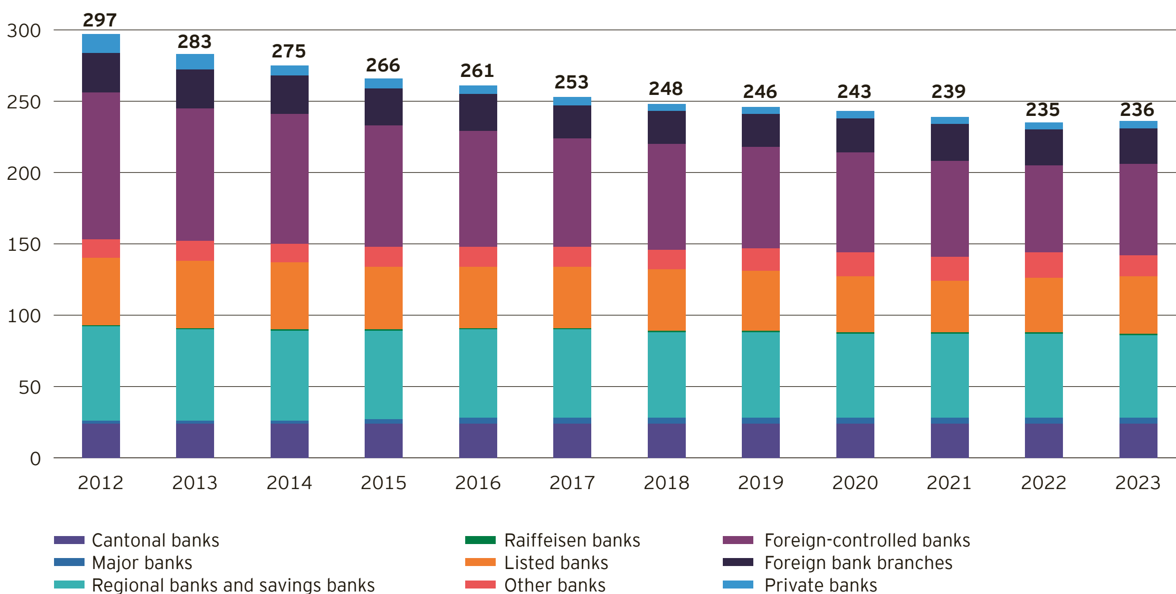


Figure 1: Number of banks in Switzerland by group. Source: SNB

In other words, there were idiosyncratic but not systemic reasons for the mergers of Swiss banks. Although the economic pressure from the low interest rate environment in the pre-COVID period, the digitalization of banking products, rising compliance costs and increased capital requirements was high, particularly for small and medium-sized institutions, most banks were able to cope. Pressure on margins was largely offset by an increase in lending volumes (see proposition 1). As a result, revenues remained stable and the wave of consolidation forecast in this scenario did not occur.

Some parts of the value chain – mainly support activities such as IT and settlement processes – have been outsourced to external service providers, in some cases for some time, but the value chains in traditional retail banking have remained largely unchanged overall. Diversification into the fee-based advisory business was also limited (see proposition 5). The lending business continues to account for a large proportion of total income and, in the vast majority of cases, continues to be operated by the banks in their own right.

White labeling, i.e. handing over certain business areas to external parties whose products are then marketed under the banks' brand, has continued to develop and become a widespread practice in the industry (e.g. in the credit card and fund business). However, it has not experienced the major breakthrough that was expected. One example of this is that other cantonal banks sold their stakes in Swisscanto, which was originally set up to pool the cantonal banks' fund business, to Zürcher Kantonalbank. Since then, some cantonal banks have even built up their own fund business again.

Swiss island scenario

Summary of the scenario

- The isolation and independence of Switzerland have led to a banking island. As an island shaped by tradition, mentality and geography, Switzerland is cut off from international trends.
- Switzerland has many small banks and few large banks, because multilingualism and federalism favor cantonal and regional customer relationships.
- Security and customer contact are so important in Switzerland that branches are retained. Branches are also resilient to competition, such as from mortgage platforms on the internet.
- Swiss customers are loyal to their banks and are not lured away by innovations by competitors. They would have to receive a very considerable benefit to induce them to switch the banking relationship they have held for many years.
- Mobile banking will become more prevalent in the existing business, as this channel offers a high degree of convenience.

This scenario has come closest to reality: Swiss banks have an extremely loyal clientele with strong demand for advisory services. This makes Switzerland something of a self-sufficient island in the banking sector, which sets it apart from the US and other European countries.

Switzerland continued to have a large number of banks, although their number decreased slightly (see consolidation scenario). Cantonal, Raiffeisen and regional banks in particular continue to prosper and reflect the political and regional differences in Switzerland.

Swiss banks have retained more branches than most other countries (see Figure 2). While there has been a more pronounced decline in neighboring countries such as Germany and Italy, Swiss bank customers seem to prefer branches offering personal advice to digital services. In rural regions such as Jura, Appenzell and Graubünden in particular, there is still a preference for face-to-face contact in branches.[12]

Swiss customers remain very loyal. They seldom switch to competing banks, often due to a lack of knowledge about their own costs or the differences in costs and interest rates between banks. Although rising interest rates have changed what Swiss banks are offering over the past year or two, customers are often unfamiliar with the latest offers; only around 7% of the population know the interest rates they are currently receiving.[13]

To date, many internet banks have had little success in competing with traditional banks for customers. While internet banking pioneers were initially successful in attracting customers, neobanks lost 5.6% of their customers last year.[14] Experience so far shows that clients continue to place their trust in established banks.

12 cf. HSLU, 2024b
13 cf. HSLU, 2023
14 cf. HSG and ZHAW, 2023

Decline in bank branches 2012 vs. 2022

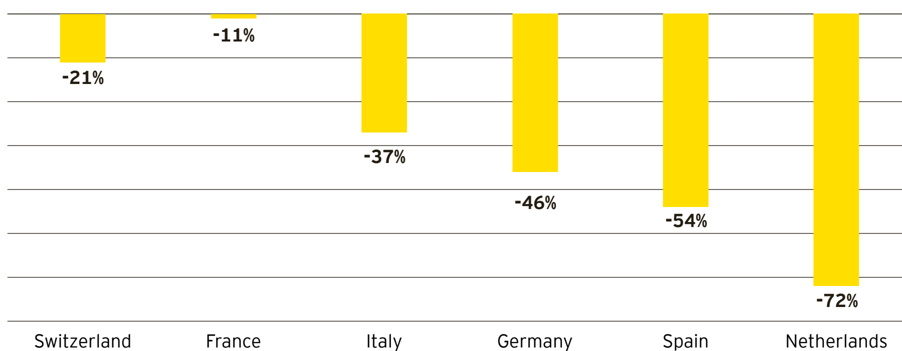


Figure 2: Decline in bank branches between 2012 and 2022. Source: Bank for International Settlements, BIS (2023)

Our 10 current PROPOSITIONS

1. Margins in retail banking will continue to fall incrementally in the long term.
2. Innovative technologies will lead to greater competition in the medium term.
3. Pressure on retail banks from regulators and society remains high.
4. ESG initiatives do not produce any material added financial value for retail banks.
5. Traditional retail banking business models are not a long-term guarantor of success.
6. New ways of delivering customer advice are needed to tap additional customer revenue potential (type of service provided).
7. To secure customer lifetime value, retail banks must transform themselves into an integrated financial services provider (content of service provided).
8. Rising customer experience expectations in all channels are leading to increasing costs for retail banks.
9. Retail banks will increasingly have different levels of vertical integration.
10. Today's employee profiles are inadequate to meet future requirements.

1

Margins in retail banking will continue to fall incrementally in the long term.

Background

The SNB raised key interest rates in June, September and December 2022 and again in March and June 2023. Despite the temporary relief this gave to margins in retail banking, pressure on margins will persist. The main factors that will exacerbate these pressures are a likely return to looser monetary policy in the medium to long term, increasing competition from both established players and non-banks (especially in day-to-day banking), rising regulatory costs and the costs of modernizing IT systems and cybersecurity.

Volume expansion as temporary compensation

Despite a temporary increase in the net interest margins of domestic banks compared to the previous year (+20 basis points in 2023) to an average of 1.10%[15], margin pressure on Swiss retail banks can be expected to increase in the long term, especially as the SNB has already lowered its official interest rates again.

In recent years, banks have largely been able to compensate for declining margins by expanding their loan volumes. Between 2012 and 2023, Swiss banks' mortgage loans rose from CHF 834 billion to CHF 1,179 billion, a growth of 41.3% (compared with 9.8% for other loans) (see Figure 3). Measured by the return on assets, the profitability of Swiss banks fell sharply from 2017. With the increase in mortgage volumes during the pandemic, it began to rise again and was additionally boosted by rising interest margins from 2022 (see Figure 4).

However, this recovery in profitability is unlikely to be very long-lasting for two reasons. Firstly, in a largely saturated and competitive market, it can be assumed that only a limited further expansion of credit will be possible in the medium to long term and will hardly be profitable at all. Secondly, official interest rates are likely to remain at a low level in the medium to long term. Already in 2024, the SNB became the first major central bank to cut its key interest rate in two steps from 1.75% to 1.25% in March and June and is likely to continue to pursue a loose monetary policy in the medium term, as inflation remains very low in Switzerland and there are even risks of deflation. In addition, the strong Swiss franc poses a challenge to the export economy. Lower interest rates would help to reduce upward pressure on the currency. Furthermore, persistently slow economic growth, both in Switzerland and globally, could prompt the SNB to keep monetary policy loose in order to stimulate the economy. This forecast is in line with expectations on the medium to long-term Swiss government bond market and the inverted yield curve.

15 cf. SNB, 2024

Increased transparency and price pressure due to technology and competition

Increasing price transparency due to the internet and the use of AI are giving clients more of an insight into banks' cost and service structures. Comparison portals and financial apps (e.g. "comparis" or "moneyland") enable customers to find the best deals and put banks under greater price pressure. For example, the first banks have begun to abolish certain fees introduced during the low-interest phase, which could lead to a domino effect where other banks follow suit. This will reduce fee income and increase price elasticity of customers and margin pressure on retail banks.

Competition from new entrants

New market players are entering the retail banking market both from inside and outside the financial industry. Fintech companies, tech giants and other non-banks offer some innovative financial services, mostly digital and often cheaper, that compete with traditional banking business. These new competitors are nibbling at the edges of retail banks' business models and will put additional pressure on them to reduce their margins to remain competitive.

Geopolitical uncertainties and increasing regulatory pressure
Geopolitical uncertainties and stagnant economic growth in Switzerland are also having a dampening effect on the retail banking business. Weak economic growth, uncertainties over international trade and volatile markets are leading to more cautious lending and lower capital spending, further tightening margins. These factors also adversely affect the general propensity to consume and invest, which has an impact on banks' earnings.

Regulatory changes also have a significant effect on margins in retail banking, as they feed through directly to banks' cost structure and business processes. There have been a series of regulatory changes in Switzerland in the recent past that have impacted significantly on banks' margins. Regulatory pressure can be expected to remain high or even increase further in the future.

Regulatory changes such as Basel III, the "too big to fail" regime, FINMA guidelines and client protection rules increase capital requirements, raise compliance costs and force banks to invest heavily in risk management, compliance and IT infrastructure. The recent CS crisis, where government backing was needed to resolve the crisis, also supports the forecast that the regulatory requirements for Swiss banks will be tightened further. The Federal Council's report on financial market stability of 10 April 2024 states that the CS crisis highlighted the weaknesses of the regulatory framework and that liquidity and capital requirements will have to be tightened up as a result of the crisis.[16] In addition, repeated taxpayer-funded support of some banks over the past decades as well as current political and societal trends are likely to lead to ESG (environmental, social and governance) requirements and reporting obligations being tightened up, putting additional financial pressure on Swiss retail banks and compliance pressure on their management staff. To continue to operate successfully in these more complex conditions, institutions need to realign themselves strategically either by gaining market share and increasing volumes or by focusing on profitable business areas and withdrawing from unprofitable business.

16 *cf. Federal Department of Finance, 2024*

Credit volume of Swiss banks (in CHF billion)

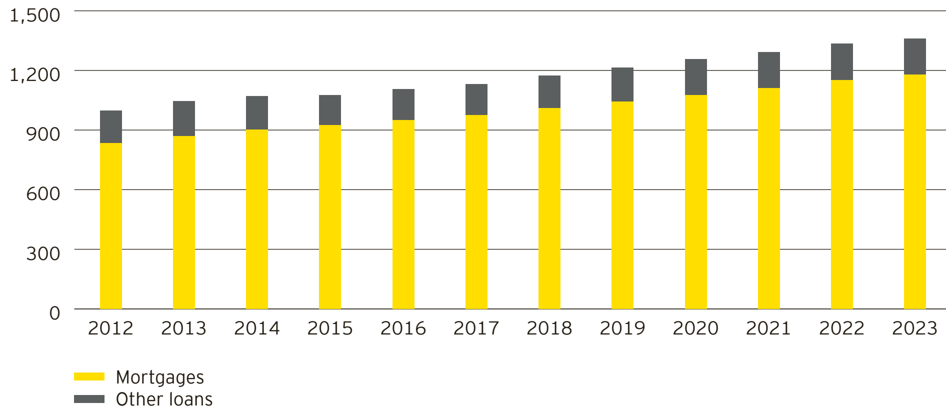


Figure 3: Lending volumes of Swiss banks (domestic business). Source: SNB

Profitability of banks with a domestic focus (in %)

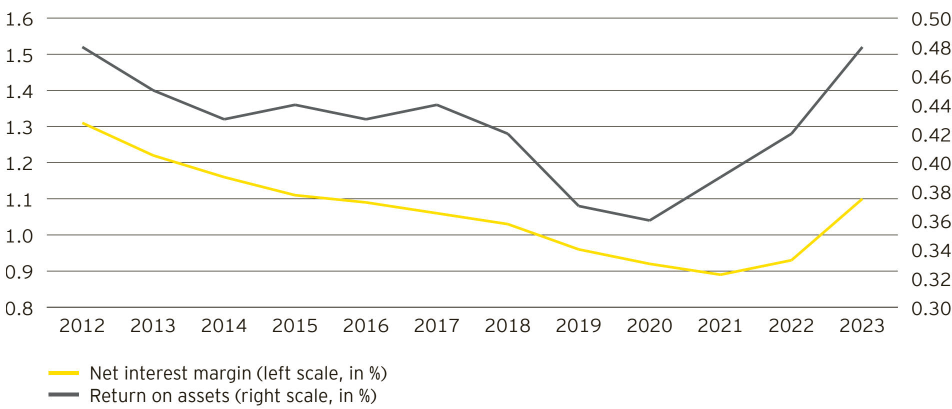
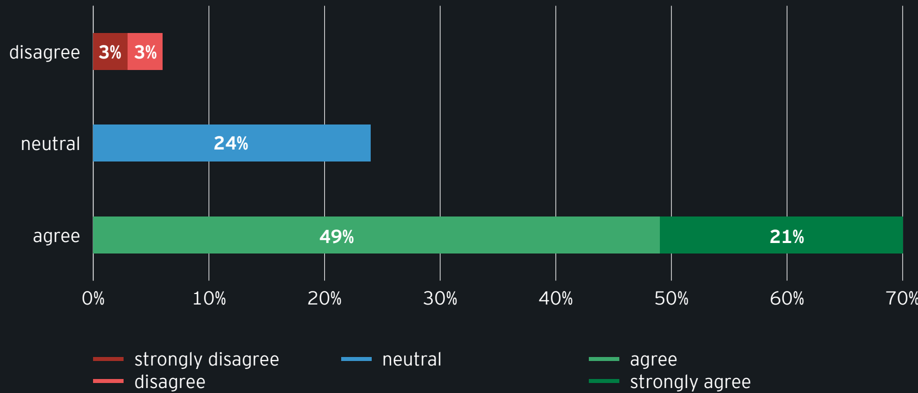


Figure 4: Bank profitability between 2012 and 2023. Source: SNB

Analysis of responses

Expert opinion

Proposition 1: Margins in retail banking will continue to fall incrementally in the long term.



The average score is 3.8 (1=strongly disagree, 5=strongly agree).

This proposition had the highest proportion of neutral responses.

Synopsis

Margins in retail banking will remain under pressure. On the other hand, by international standards Switzerland still looks like an "oasis of well-being" where there is room for everyone. And even in the recipe for profitability, not that much seems to have changed: strong customer relationships are securing margins. Swiss customers remain willing to pay extra for advice. No paradigm shift in customer behavior is expected in key needs such as buying property, investing and saving for retirement. So far, neobanks and big tech only seem to have increased competition marginally, and the Swiss retail banking market is apparently still not attractive enough for major foreign players from outside the industry. The most important driver of profitability is beyond the market players' control: in the machinery room of the banking business, the yield curve still represents the transmission belts and banks' profitability the flywheel attached to it.

Editorial note
Statistical analyses may contain rounding differences.

Analysis

Our first proposition of a gradual erosion of margins in retail banking was supported by the banks taking part in the survey. The interest rate environment, customer expectations, new platforms and technologies, as well as increasing competition, were cited as drivers for the shrinking margins. New providers are increasingly appearing, but their influence is seen as limited.

Nonetheless, the industry is not succumbing to panic. One of the strengths of Swiss retail banking is the ability for banks to position themselves on the basis of quality rather than price; the price sensitivity of Swiss clients is still not very pronounced. Many banks could also live with lower margins. Support for the traditional banks is also seen in the low proportion of switching among clients, which the experts believe banks need to continue to utilize to maintain interest and commission margins.

> There is no pressure to thoroughly optimize, automate or digitize. There is still plenty of meat on the bone.

Interest rates the main driver of margins
Survey participants expect the decline in margins to continue in spite of the normalization of the interest rate environment since 2022. Interest rate trends lie at the heart of retail banking, the maturity transformation process, where short-term client deposits are lent out over the long term and at higher interest rates. The steepness of the yield curve is key for profitability: the higher the interest rates on loans or investments, the more likely the client is to accept higher margins, the participants say.

Falling margins in commission business and cards
Margins are expected to decline in the fee and commission business, for example in investment commissions. Most banks need a certain transaction volume to cover the costs of their infrastructure. However, they can only obtain higher volumes by lowering prices. This screw is turning slowly in the experts' view, but is contributing to a gradual downward spiral of prices and margins. Institutions are only optimistic about active asset management. Technological developments in payments continue to have a major impact on margins, and the best days of the credit and debit card business are already behind it, according to respondents.

Lending business
While the market participants taking part in the survey forecast a downward trend overall for the next ten years, lending margins could increase again. Banks expect to feel the effects of the disappearance of CS after its absorption by UBS, particularly in the corporate lending business, where financing needs are high. In their view, not all banks will be able or willing to fill this gap.

Competition: not too afraid of newcomers
One strategy to counter margin erosion is the pursuit of volume. When it comes to competition, the institutions are reasonably relaxed; the banks "aren't hurting each other all that much". However, the expansion of the cantonal banks outside their home cantons is seen as a sign of more intense competition.

The arrival of external players could shake this up in the opinion of respondents. Insurers, pension funds and family offices who entered the credit market in the negative interest rate environment have mostly pulled back again, but potential big players from the tech sector such as Google and Apple are being watched closely. If the Swiss market were to become of interest to them one day, it is to be expected that there would be more competition. Opinions are divided on competition from neobanks and fintech companies. All in all, respondents note that these new providers live off the barely profitable transaction business. Others see them as a major driver for further margin reductions, as they offer services at a fraction of the fees (see also proposition 2).

> Margins are shrinking just like the Aletsch Glacier on the front cover of the report.

Customer behavior: customers still willing to pay almost any price

Comparison platforms and AI have led to greater price transparency. Nonetheless, according to the survey participants, "price-aggressive" customers remain rare overall. The prices being asked are usually paid without complaint, and customers often do not even know how much they are paying. But banks are under no illusions: the better informed customers are, the greater the pressure on margins will be. Knowledge and transparency will increase.

Residential mortgage lending seems to be the segment the banks feel most secure in. Here they expect margins to remain stable and customers are rarely willing to change providers. They note that the relationship with the institution seems to have become more important again.

Other influences: consolidation

Increasing complexity of business models and a lack of economies of scale increase costs for smaller banks, and they lack pricing power when buying third-party products and services. Although regulation provides protection against new market entrants, it also drives up costs, for example in the area of cybersecurity. Smaller banks in particular therefore expect to see further waves of consolidation in retail banking.

Price and value: positioning with customers instead of price wars

None of the banks ignore the fact that interest rates are the main driver of margins. On the revenue side, they say banks are often dependent on external developments. However, banks regard the quality of advice as the most important earnings lever for influencing their own profitability. A pure product approach will not save margins in their view. Instead of price leadership, they need to position themselves as a customer's "principal bank". The aim of holistic financial planning must be to become the client's trusted partner in all transactions. Their conclusion is that margins can only be maintained through customer loyalty.

Banks' options to control margins

The experts' answers to the question of how to optimize margins were fairly general. They believe that they have more room for maneuver on the cost side and that costs can be reduced with the help of standardized and automated processes as well as digitalization. This includes risk and compliance processes, as costs have risen disproportionately in these areas in particular in recent years. However, this is a lengthy process that initially requires up-front investments. The search for economies of scale could also mean thinking outside the box and entering into partnerships.

As interest is the main revenue source, a bank's asset and liability management is crucial in the experts' opinion. The right strategies and decisions can boost net interest income considerably – but unfortunately the opposite is also true.

Business and economic center: Switzerland still an oasis of well-being

In the eyes of the institutions taking part in the survey, Switzerland remains an oasis of well-being thanks to political stability, low unemployment and high levels of immigration. Switzerland cannot escape geopolitical problems, but continues to gain in attractiveness in an uncertain world. Prosperity will continue to increase in their view, which is the main growth driver for the retail banking segment. Demographic change and Switzerland's attractiveness as an educational location remain well-known challenges. The baby-boomers of the 1950s and 1960s are withdrawing from the labor market and the new generations will struggle to fill this gap. For banks, however, this also means that a lot of wealth will be inherited in the coming years. Ultimately, the industry looks to the future with confidence: respondents believe retail banks will still be important players in ten years' time. Particularly in view of the ongoing levels of immigration to Switzerland, they point out that everyone needs a bank account, everyone needs somewhere to live and everyone needs financial advice.

Our point of view

Margins will remain under pressure, even if they have (temporarily) recovered as a result of the rise in interest rates. The contribution of core businesses, such as lending and investments, to profitability will remain central, albeit on the basis of lower margins compared to the situation before the financial crisis. However, further volume expansion, as occurred between 2010 and 2020, is unlikely to be an option to keep the profit contribution stable or on a growth path.

The abolition of imputed rental value, which was being discussed in the Swiss parliament at the time of this study, would also have serious implications for lending volumes and therefore also for the investment business.

Whether margin erosion accelerates or slows down for an individual institution will depend on how it reacts to market pressure – and the specific price sensitivity of its clients. To this day, many retail banks (justifiably) rely on client inertia, assuming that only a few clients will actively look for the best offer and actually switch banks.

For traditional retail banks, it will be crucial to actively solidify their position as the "principal bank". They need to focus the value-added of their products and services on enabling customers to carry out all banking transactions through them rather than obtaining individual products from a low-cost provider. This service commitment must be communicated in the market, demonstrated when advising clients and anchored in customer loyalty.

2 Innovative technologies will lead to greater competition in the medium term.

Background

In the past, innovations developed internally in Swiss retail banking have often only had limited success. TWINT, a mobile payment platform originally developed by PostFinance, was only able to gain significant market share after it merged with Paymit, a rival product of SIX, UBS and Zürcher Kantonalbank. The entry of the largest Swiss banks was key to the subsequent success of TWINT (see also scenario 1 from the 2012 study).

Challenges from digitalization
The digital transformation is forcing Swiss banks to adapt their value creation models to remain competitive. Currently, these models are highly resource-intensive and have limited digital capabilities, resulting in productivity losses. This fragmentation of available resources and insufficient integration of new technologies hampers the efficiency and competitiveness of banks. Given the increasing intensity of competition from innovative fintech companies and new technologies, Swiss banks need to improve their digital and organizational capabilities to be successful in the long term.[17] The ratio of IT experts and software developers to bank employees is relatively low, which hinders the digitalization of existing products and innovations in new banking products compared to big tech and fintech companies. It is therefore a strategic imperative for retail banks to invest sufficient time and resources in innovation. In recent years, however, profits have tended to be paid out in dividends rather than invested in innovation.

In addition to the challenges of developing their own innovations, Swiss retail banks face structural problems. Silo structures, outdated IT infrastructure, resource bottlenecks and a lack of skills have made it difficult to develop and adapt to digital trends. Customer data is often incomplete and unstructured, leaving untapped potential for cross-selling and strategic use of this data.

Competition from new entrants
New technologies have the potential to attract new market players who introduce innovative solutions and thus increase competition. More companies than ever were active in the fintech sector in Switzerland in 2023 – 483 in total. The latest advances in AI and the need for seamless integration of financial services into different applications are driving a large number of start-ups, which significantly intensifies competition.[18] Compared to other industries and sectors, retail banks are lagging behind in the digital transformation.

Developments in open banking
Another example are initiatives to promote open banking. Open banking enables flexible and seamless collaboration with third parties and provides banks with access to established digital marketplaces and platforms. While these initiatives are currently still voluntary in Switzerland, it is to be expected that future measures will further promote open banking, which will make it easier for non-banks to enter the market from a technical point of view.

Strategic advantages of traditional banks
Despite these challenges, traditional banks have some advantages over competitors from outside the industry. They often have greater capital strength, which allows them to invest in technological infrastructure and digital transformation. Their established branding helps them to gain customers' trust and they offer a wider range of financial products and services. But the most important advantage is that traditional banks have gained a large customer base through their longstanding operations. Fintech companies often have good ideas, but they lack a customer base.

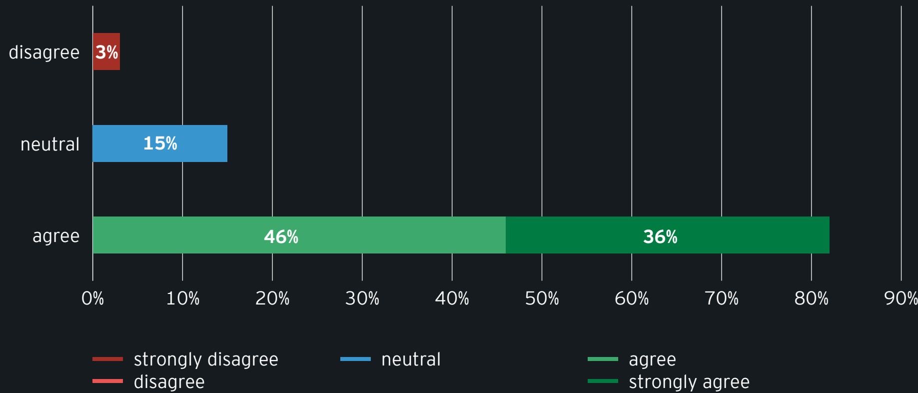
17 *cf. SBA, 2021*

18 *cf. HSLU, 2024c*

Analysis of responses

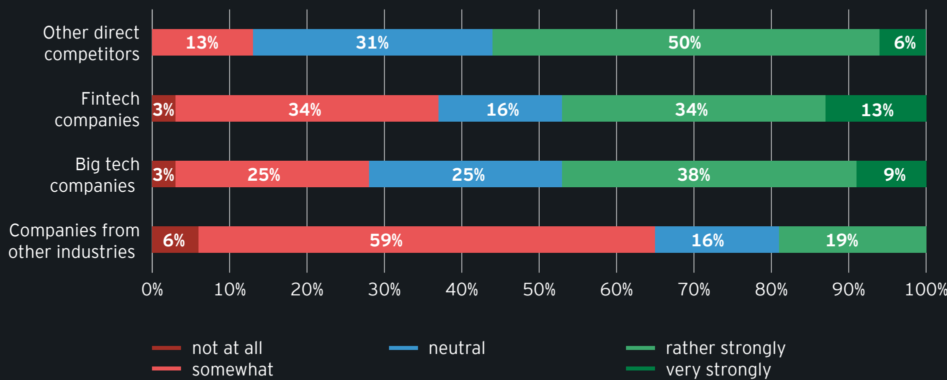
Expert opinion

Proposition 2: Innovative technologies will lead to greater competition in the medium term.



The average score is 4.2 (1=strongly agree, 5=strongly disagree).

Sub-question to proposition 2: How strongly is technology-driven competition being fuelled by the following players?



The most technology-driven competition is expected from other direct competitors. There are widely differing views on the potential influence of fintech and big tech companies. The impact of companies from outside the sector is considered to be relatively low.

Synopsis

In general the institutions predict that technology will intensify competition – but perhaps not as dramatically as might have been assumed, especially since the hype surrounding AI took off about two years ago. Digitalization is being implemented across the board to such a degree that everyone is back on the same level. In the battle for margins, the institutions firmly believe there is no escaping the relationship with the customers and the advice they are given (cf. proposition 1). This is precisely what purely price and technology-driven competitors such as neobanks and fintech companies lack. In fact, it is they who will likely have to evolve in the direction of traditional institutions in order to reach customers. Against this backdrop, how the banks should use the new technologies seems clear: to simplify their services without diluting the quality of their customer advice. Ideally, they should even improve the quality of advice.

Analysis

Will innovative technologies intensify competition in the medium term? One is tempted to say of course they will. According to the responses of survey participants, however, industry insiders take a more nuanced view. Although banks have implemented many technologies in recent years, hardly any of them have been truly innovative.

Innovation: Is boring beautiful?
Retail banking does not seem to have a reputation among its own experts for being especially innovative. According to the institutions that took part in the survey, the industry is more interested in developing what it already has. The tenor is that the importance of innovation is often overstated. A new technology has to strike a chord with customer needs, but according to participants, these needs will not change much in the next ten to fifteen years. Employees and customers also have to want to use a new technology.

> An innovation was often thought to be disruptive, but customers just weren't interested.

AI and blockchain: increase in efficiency, but not much more
Up to now, banks have seen AI as little more than a tool for increasing efficiency and improving chatbots. Robo advisors have had mixed success in the investment business; the vast majority of clients want personal advice. When it comes to blockchain, some fear that the technology is too complicated for retail banking customers. So far, the SNB has only put a central bank digital currency (CBDC) on its agenda for the wholesale business, i.e. with institutional clients, but perhaps by 2035 there will also be a digital currency for retail customers. The use of quantum computers is even more difficult to predict, which is precisely why some institutions do not want to rule out the possibility that this technology could turn everything on its head at some point.

> Swiss people tend to be traditionalists when it comes to money. They like to know what building it is kept in.

The power of convenience and marketing
However, one or two respondents also gave a caveat. Time savings and ease of use are important, even if the customer is initially reluctant to learn a new technology. With enough marketing firepower, it might be possible to achieve widespread adoption of initially unpopular technologies. If the client can be persuaded to practice using it a few times and likes the convenience and simplicity, they might be willing to accept a lower quality of advice in return.

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Those who used to listen to records found the quality of CDs inferior and now believe digital music is even worse. The same pattern was repeated in the transition from cameras to digital cameras and mobile phones. And yet they both took over because it is easier. It will be the same with simple fintech solutions, even if the advisory service is worse.

Customer interface: the determinant factor in payment transactions
According to the experts, payments which are essential for establishing a customer base are the most vulnerable to disruption from new technologies such as instant payments or token-based payment systems. ApplePay has hit the credit card sector hard. In future, payments will be embedded in customers' business processes (instant, invisible or embedded payments). Customers will no longer consciously choose a form of payment, but instead this will be seamlessly integrated in their business transaction. The key point will therefore be who has access to the customer interface.

Fellow banks in the same boat
The biggest competition generally comes from direct competitors. According to respondents, this is not because innovators are moving forward with their technological ideas, thus fueling competitiveness, but because they are all in the same boat. Every bank is busy with new technologies, but none of them are really doing anything fundamentally new. For example, the introduction of digital pension solutions prompted competitors to respond with similar solutions designed to boost volumes. In the end, no one saw an increase in volumes.

Fintech: catalysts and sources of ideas
The experience with new providers such as fintech companies and neobanks has also not been very dramatic so far. They regularly trigger innovations in the retail banking business, but are seen more as beneficial catalysts than competitors. If successful, their innovations can be adopted relatively easily and quickly by the traditional banks, the experts point out. Existing fintech companies have not been able to revolutionize the business, they say. If anything, it is the other way around: the "challenger banks" are trying to move in the direction of the traditional banks because they lack a broad customer base. They are often focused on stripped-down offerings in one niche with low-cost structures, but still the business model does not scale enough. Moreover, the bank representatives are sure that the vast majority of customers will continue to want personal advice in the future. This applies in particular to the trigger events in life: starting a family and providing financial security, buying a home, saving for a pension, and wills and inheritance. The rule here, according to respondents, is that anyone who gets the same at a bank as at a fintech will stay with the bank.

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Financial advice is like going to the dentist for many people. You do it when you have to, but then you want the dentist to treat you – in other words, you want a physical consultation.

Protected from big tech?
The banks taking part in the survey are convinced that Switzerland is too small a market for the big tech champions such as Apple and Google – and if they did want to enter it, then only for basic services that do not require a banking license. These include the credit card business, but not mortgages or asset management. However, the big multinationals lack proximity to Swiss customers, they argue. So far, the Swiss banking app TWINT is the clear market leader ahead of Apple's payment solutions. Swiss peculiarities such as its four national languages and many cantons, the different

cultures within a small area and legal differences compared to the European Union (EU) are cited as barriers to market entry, as are banking regulations. The survey respondents do seem to agree on one point though. Big tech shows banks where they need to catch up: in performance, convenience and simplicity.

Providers from outside the industry: if anyone, then insurers
Domestic retailers with millions of customers, the Swiss Federal Railways or even telecoms service providers have vast amounts of customer data and the tools to use it, and could start offering financial services thanks to open banking and embedded finance. However, these players would not be able to maintain accounts and would not be allowed to lend for regulatory reasons, argue the industry experts. At most, retailers and media companies could offer credit cards free of charge, which the banks would have to react to. According to the survey, however, traditional banks are not afraid of losing bank customers as a result. They see insurers as a more likely source of competition. Insurance advisors traditionally have a closer relationship with their customers than bank advisors.

Our point of view

The most common core banking platforms (particularly Avaloq, Finnova) have not yet reached the end of their lifecycles. Nevertheless, the question is whether cost efficiency can be further increased in the medium term by using modern technologies. So far, this does not appear to be the case, while the complexity of the systems in which the core systems are embedded, as well as that of the overall architecture, will continue to increase. In the area of data management, data quality and data linkage are not yet up to the required level. At the same time, the recognition that data management is becoming more important as a differentiating factor has become increasingly established against the backdrop of discussions about the possibilities of AI.

AI and generative AI (GenAI) are obviously hype – and at the same time a structural shift that will bring about far-reaching changes in the coming years. However, the effects will not be visible within a few months. They will take years and development will initially cost money; structural change will probably happen in waves, punctuated by periods of disillusionment, and affect the following areas in particular: control functions, process efficiency, frontline effectiveness and, finally, direct customer utility and advice.

Another area of innovation is distributed ledger technology (DLT). We consider it unlikely that the technology underlying cryptocurrencies will trigger disruption in the banking market in the coming years. In the longer term, however, there may be implications on the infrastructure side if interbank payments can be processed using CBDC tokens. This is an issue that is currently being explored by a number of central banks. In its Helvetia project, for example, the SNB has been testing various ways of using a wholesale CBDC ("digital franc") for financial institutions since 2020. Other technologies with disruptive potential include quantum computing (which goes beyond the timeframe of this study) and developments in open banking interfaces. Retail banks should develop their own views on these areas of innovation, learn from leading institutions beyond Switzerland, act in a forward-looking way and remain agile enough to take advantage of opportunities.

Point of view on the issue of Artificial Intelligence

It is still the case that very few banks are attaching the level of strategic importance to AI that it will assume in the medium term, and not all banks are approaching the issue in a sufficiently cautious and forward-looking manner: the current disillusionment is not an indication of the technology's irrelevance, but of short-termist views of the benefits. A second issue is relevant too: the use of AI could lead to individual institutions suffering reputational damage and cause regulatory incidents. It is therefore advisable for banks to gain experience of the technology with simple use cases in a protected setting. Creating a stable framework is even more important, however. Beyond the use cases, the aim is to sustainably prepare the bank for this technological quantum leap. This requires the following:

- An AI strategy to clarify what role AI should play in the business model, what capabilities should be built up over the next few years, and what investments are required to achieve this
- AI governance (including data governance) with appropriate risk management
- A training program for staff so they can use the technology responsibly

Smaller institutions in particular are faced with significant investments that will be very difficult to cope with on their own. To make sure they do not miss the boat, partnerships between institutions may make sense.

AI will not fundamentally disrupt the business model of retail banks. Over the next ten years, we will not (yet) have a personal, virtual assistant to optimize our financial affairs for us throughout our lives – even if this will be technically feasible in a few years' time.

However, the technology will be a game changer for banking in the sense that it will raise front-office effectiveness to a new level and significantly increase efficiency in middle and back offices. By way of comparison: the internet has not fundamentally changed banks' business model per se, but it has changed their operating model. The process of change with AI will be much faster by comparison. AI will thus further widen the gap between successful and less successful banks.

Regulation is fundamentally technology-neutral, but does take current trends into account. FINMA sees particular challenges in the use of AI and expects risks to be managed accordingly, in particular in the following areas:

- Governance and accountability for AI decisions
- Robustness and reliability of AI applications
- Transparency and explainability of AI decisions
- Equal treatment of financial market customers[19]

19 cf. FINMA, 2023

3 Pressure on retail banks from regulators and society remains high.

Background

Nowadays, retail banks in Switzerland face significant societal and regulatory challenges that keep pressure on these institutions high. These challenges are wide-ranging and include both exogenous shocks and rising expectations on the part of policymakers, regulators and society. The international interconnectedness of the Swiss financial center and the growing criticism of FINMA in the wake of the CS crisis, combined with the question of whether a lack of, or too loose, regulation and supervision was one of the causes of the CS crisis, have raised the pressure on politicians and regulators to take action.

Crises have increased regulatory pressure
Recent years have been marked by global crises such as the COVID-19 pandemic, geopolitical tensions and military conflicts. On top of this have come economic uncertainties and the collapse of CS, which has shaken the perceived stability of the Swiss banking market. These events have led policymakers and regulators to demand ever-stricter capital and liquidity requirements to strengthen banks' resilience to such exogenous shocks (see Figure 5 for summary). For example, the proportion of regulatory Tier 1 capital in risk-weighted assets increased by 23.5% between 2012 and 2022 (see Figure 6). Further regulatory measures and increased capital requirements are currently under discussion.[20]

Operational risks and resilience
In addition to capital and liquidity requirements to strengthen resilience, operational risks, cyber risks and ICT risks have also become more important. Banks need to create a scalable and secure infrastructure to enable digital transformation while ensuring the security of data and systems. For example, FINMA has published new guidelines on risk assessment and management to ensure that banks implement robust measures against cyberattacks and technical disruptions. In addition, institutions must conduct regular stress tests and security reviews to ensure their resilience to operational risks. These increasing demands pose significant challenges of implementation, particularly for small and medium-sized banks, in terms of staffing and funding, and are expected to become more complex in the future as technology advances rapidly.

Increased public expectations
The government has repeatedly intervened in times of crisis in the past, such as the rescue of UBS in 2008 and most recently the takeover of CS by UBS. Government support of this kind is fueling expectations, both in politics and society, that banks have to exercise not just economic but also increasingly social responsibility, that they will comply with principles of good corporate governance and act responsibly when it comes to the remuneration of management and employees. There is also a growing focus on sustainability issues, which are now a high priority for all stakeholder groups. In addition, society is increasingly concerned with global issues (geopolitics, migration, global warming) and has clear expectations of policymakers and institutions in this regard – including banks, for example their role in helping to achieve climate targets.

Despite the rise in interest rates in 2022 and 2023, customers had the impression they were not benefiting equally from the hikes. The persistently low interest rates on customer deposits despite the SNB's rate hikes combined with the banks' high profits gave rise to a widespread sense of injustice among the population, which increased societal pressure on banks to act more transparently and fairly.

20 cf. Federal Council report, 2024

Significant regulatory changes in the Swiss banking sector

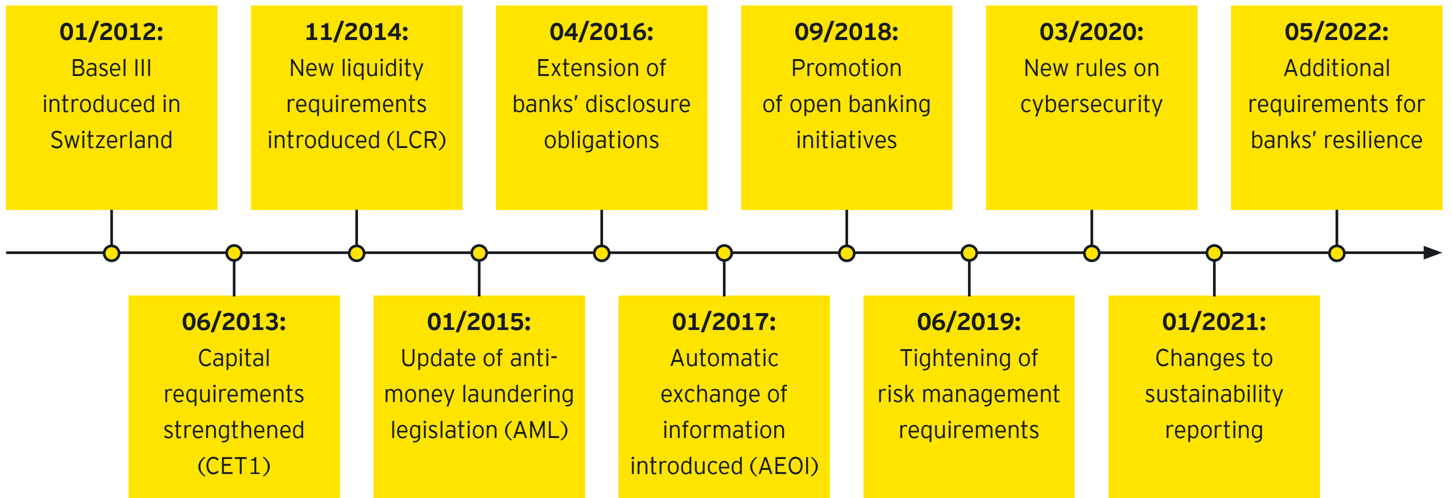


Figure 5: Significant regulatory changes in the Swiss banking sector (2012–2022). Source: Mondaq (2022)

Regulatory Tier 1 capital to risk-weighted assets (index: 2012=100)

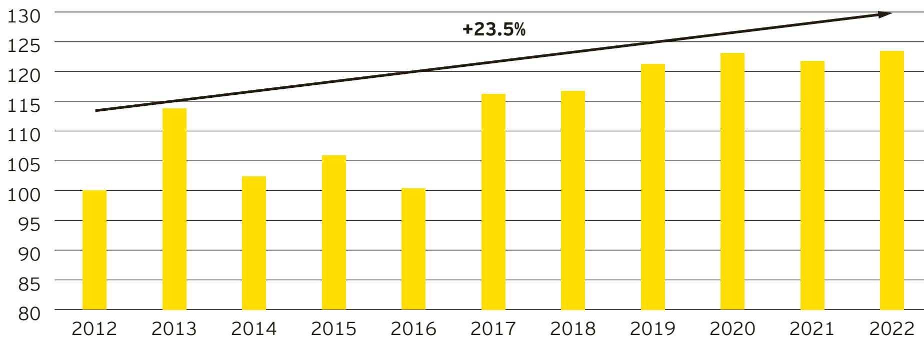
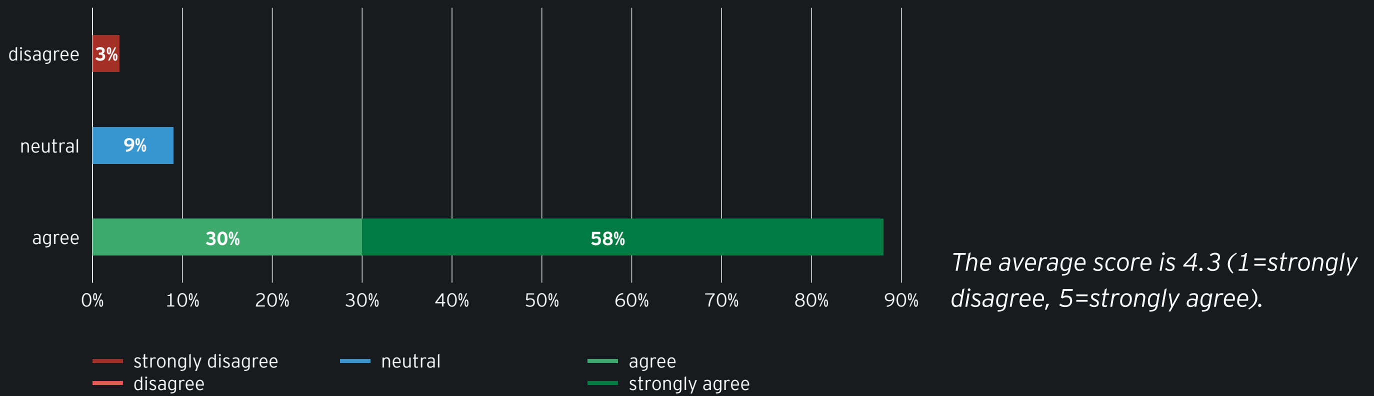


Figure 6: Evolution of regulatory Tier 1 capital to risk-weighted assets between 2012 and 2022. Source: SNB

Analysis of responses

Expert opinion

Proposition 3: Pressure on retail banks from regulators and society remains high.



The average score is 4.3 (1=strongly disagree, 5=strongly agree).

Synopsis

The public expects a lot from banks: from being anchored in the region and fulfilling their economic role to assuming social responsibility and promoting sustainability. Overall, the industry is viewed with suspicion in meeting these expectations. The remuneration of top bankers and bank bailouts are controversial issues within society. The triggers for the growing regulatory pressure include the CS crisis, the tightening of capital and liquidity requirements since the 2008 financial crisis, cyber risks, data protection and sustainability requirements. Banks believe the regulation makes sense and is in their own interests, but criticize the volume of regulation. They say that all banks should not be lumped together and put in the same boat.

Analysis

Trust is banks' most valuable asset, and therefore the image they convey of themselves and what customers think of them are all-important. The market participants who took part in the survey agree that there will continue to be pressure on the industry from society because of the central role banks play in the economy. As the institutions that effectively implement the SNB's monetary policy, they sometimes even fulfill a quasi-state function, but this is difficult to communicate to the public because of its complexity. And people are suspicious of things they do not understand.

> “
> Trust is the most important asset, and that is something you cannot regulate.

You are being watched

The public expects banks to be anchored in their region and to assume their social responsibility, including the promotion of sustainability. Here, the industry is suspected of merely engaging in greenwashing and minimizing its own risks instead of those of nature and society.

Excess profits and managerial salaries are another controversial issue. While retail banking is less in the spotlight when it comes to salaries, respondents were in no doubt that the public keeps a close eye on remuneration, and not just at the large banks. Furthermore, consumer protection in Switzerland is not as strict as in the EU and banks can still assume that the customers are capable of making their own decisions. Nonetheless, in the view of respondents, personal responsibility is weakening in Switzerland too and calls for regulation are becoming louder. It is understandable, however, that the population wants safe banks and does not want their managers to earn exorbitant salaries, because in the past the government had to support banks with taxpayers' money (even though these bailouts ultimately cost the taxpayer nothing).

Demographics and the dilemmas of digitalization

The aging of society presents the industry with a dilemma: the older generation still wants to talk to advisors – in person or over the phone. At the same time, the next generation is increasingly demanding digital solutions. It is getting harder to establish the connections with society and the population that are being asked of banks, as personal contact points are becoming fewer and fewer and are increasingly being handled digitally. Institutions expect an increase in internet fraud and deep fakes – and although customers often make mistakes, they expect the bank to protect them and reimburse them in full in the event of any losses.

There is another dilemma: banks depend on immigration, and not just because of the shortage of skilled workers. Their business model is based on population growth, since everyone needs a bank account, a roof over their head and financial advice. Nonetheless, they also have to be sensitive to society's fears, such as of a population of 10 million in Switzerland. Referendums to limit immigration could have a negative impact on the banking center. As society is becoming more and more fragmented, the number of different interest groups is increasing and pressure from them is growing via social media channels. Retail banks breathe a sigh of relief when it comes to rural regions, which our changing much more slowly.

Special case: cantonal banks

Cantonal banks are faced with special, sometimes contradictory requirements in the mandate they have to fulfill: they are supposed to remain rooted in their region, maintain a dense network of branches, give SMEs access to attractive financing solutions and avoid taking risks outside the canton which the home canton would ultimately have to stand in for due to the cantonal guarantee. At the same time, they are expected to generate as much profit as possible and pass some of it on to their cantonal owners.

Regulatory pressure also remains high

Regulation transmits a range of societal, operational and legal requirements to the banks. The CS crisis, the tightening-up of capital and liquidity requirements as part of the too big to fail regulation since the UBS rescue in 2008, cyber risks, data protection and sustainability requirements are mentioned by respondents as the background for the growing pressure. Even the banks themselves rarely think ahead, their representatives admit. Open banking and PSD2 (Revised Payment Services Directive) will pose major challenges and increase innovation and competition in payments.

Proportionality principle under threat

According to the consensus among the surveyed institutions, the banking world will be preoccupied with the CS crisis for a long time to come and it will lead to stricter regulation. The Financial Market Supervisory Authority (FINMA) is likely to be geared towards taking action more proactively and more

quickly. FINMA is also increasingly focusing on corporate governance. Under a potential senior managers regime, the board of directors will take on more responsibility as a company's highest body, reporting to it will increase and responsibilities will have to be assigned even more clearly.

As UBS has a dominant position in the retail banking market, it is right to tighten the screws here. However, there are fears that CS, which collapsed due to very specific problems, will lead to the rules being tightened up for all institutions. Things that are different should not be treated in the same way, say respondents.

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As a result of the CS crisis, we are facing a tsunami of regulatory changes. It will be more expensive, but not safer.

Support for regulation, including as self-protection
The current regulation is seen as too rigid and sometimes lagging behind events. In general, politicians do not sufficiently understand the complexity of the business and too often are on the lookout for rules to avoid being accused of doing nothing.

However, regulation is not seen by retail bankers as harmful per se. It protects the banking center from market entrants and forces banks to know their customers, monitor transactions and promote sustainability, which is in their interests anyway. Criticism tends to focus on the amount of regulation: bank representatives are convinced that once jobs have been created in regulation, they will never be abolished.

Not sustainability police
In the area of sustainability, banks feel pushed into a role they should not be asked to fulfill. They expect regulation of ESG reporting to remain an ongoing issue and that banks will need to know a lot about their customers' climate impact. However, they do not want to become their customers' sustainability police. They also warn against "solo runs" by regulators. Switzerland will have to follow what is done in other countries and, in particular, the EU (see also proposition 4).

Our point of view

Reputation management has become significantly more important for banks in recent decades. Negative news, especially for larger institutions, spreads faster, as both social and traditional media act as accelerators, rather than having a calming effect. What is already making waves is rebroadcast across the media and the amplitude is further increased. Every news provider is on the lookout for supposedly shocking news that grabs people's attention. The collapse of CS exemplified many of these challenges. Thanks to mobile banking, a bank run now takes just a few days or even hours, without any queues at the branches.

A key question for every CEO is how to protect their institution from reputational damage. Getting out of a crisis of confidence once it has started is extremely difficult, the outcome is unpredictable, and the risk of a self-fulfilling prophecy as a result of actions by stakeholders is – by definition – almost unmanageable. As a result, the greatest possible buffer of trust needs to be created in "good times" – but this takes years or even decades. Trust should not be confused with a high profile.

4 ESG initiatives do not produce any material added financial value for retail banks.

Background

Although sustainability is increasingly important to many clients, these initiatives fail to significantly improve banks' financial results.

Increased customer interest and expectations
The importance of ESG has increased dramatically in retail banking in recent years, driven by changing client requirements and a growing awareness of environmental and social responsibility. A number of representative surveys show that over 40% of customers surveyed are interested in sustainable financial products, with half of this group stating that their interest is based on a fundamental change in behavior rather than just temporary curiosity.[21] In addition, such surveys show that around 20% of respondents are willing to pay an additional premium for green financial products. A field study of several thousand members of a Dutch pension fund shows that around two-thirds indicate a clear preference for sustainable investments, even if they expect lower financial returns.[22]

There has been a sharp increase in the number of ESG funds in Switzerland: between 2018 and 2023, the number of funds increased by a factor of 5, from 423 to 2,155. At the same time, aggregate fund assets under management increased 17% over the period.[23] A survey conducted by the Lucerne University of Applied Sciences and Arts (HSLU) and PostFinance revealed that 54% of the 3,100 respondents regard ESG investing as important. Despite the increase in ESG offerings, 29% of investors feel that there are too few sustainable investment opportunities available to them.[24] These results suggest that sustainability issues play a key role for a growing number of bank customers and are therefore relevant for retail banks. At the same time, however, industry experts report that customers in Switzerland have so far shown less pronounced demand in this area compared to customers in other countries.

21 *cf. e.g. BCG, 2022; McKinsey, 2023*
22 *cf. Bauer, Ruof and Smeets, 2021*
23 *cf. Stüttgen and Mattmann, 2023*
24 *cf. HSLU, 2024d*

The SBA's new ESG guidelines also entered into force at the beginning of 2024. Under these guidelines, financial institutions are required to establish the ESG preferences of new customers from 1 January 2024 and of existing customers from 1 January 2025 and adapt the proposed investment solutions accordingly. In addition to this self-regulation, there are projects at various levels in and outside of Switzerland addressing the regulation of sustainability and climate targets.

Backlash against ESG initiatives
Despite the definite increase in customer awareness and demand, ESG initiatives are not a permanent value driver for retail banks. In the US and some European countries, there is a backlash against ESG initiatives, questioning both their effectiveness and their economic and environmental value. In the US, Republican states such as Texas and Florida have passed laws that restrict government funds from being invested in ESG-focused companies.[25] In addition, there is a growing debate about the effectiveness of ESG investments, with critics arguing that they often fail to deliver the desired results or even amount to greenwashing.[26] If ESG initiatives are perceived as not authentic, ineffective or even fraudulent greenwashing, this can damage the bank's reputation and undermine customers' and investors' confidence in the bank and in ESG investments in general.

25 *cf. The Wall Street Journal, 2022*
26 *cf. Harvard Business Review, 2022*

High implementation and running costs

Implementing and communicating about ESG initiatives requires significant investment in technology, data, training and infrastructure. These high up-front costs can have a negative impact on short-term financial results, while the subsequent economic added value is uncertain. In addition, the ongoing spending on maintaining sustainability programs, including compliance, reporting and risk management, places additional strain on banks' budgets and means that ESG progress does not provide a good return on investment for institutions.[27]

The increased requirements for sustainability reporting in Switzerland and the EU further complicate the situation. Particularly in the area of Scope 3 emissions, banks will in future have to disclose the CO_2 emissions resulting from their lending. However, banks have only a limited influence on the emissions of the projects they have financed. They are therefore critical of these regulations on the grounds that setting clear targets for emissions is a political responsibility that should not be shifted onto the banks. Thus they are calling on policymakers to establish a clear division of responsibilities and ensure that the banks operate within a clearly defined framework.

Sustainability as a potential hygiene factor

Banks are aware of the increasing importance of ESG and prioritize ESG initiatives. Many are heading in a similar direction, for economic reasons and because the regulatory framework demands it. However, this may lead to sustainability initiatives becoming a hygiene factor for banks rather than a way to differentiate themselves.

Attitude-behavior gap

Although survey results show consistently that interest in sustainable products is growing, actual buying behavior does not always correspond to this interest, which limits the economic benefits for banks (attitude-behavior gap[28]). Results from surveys that show a supposed willingness to pay for ESG products should therefore be interpreted with caution and often do not match up with actual purchasing decisions in practice. Research shows that the willingness to pay even for a real positive impact on sustainability is fairly low. Although many investors are willing to pay for some impact, their willingness to pay for additional impact units (e.g. CO_2 emissions savings) quickly starts to decline.[29] Such studies are consistent with the observation that fees and costs remain key criteria for decisions when choosing and switching banks.

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27 cf. Hohn, 2022

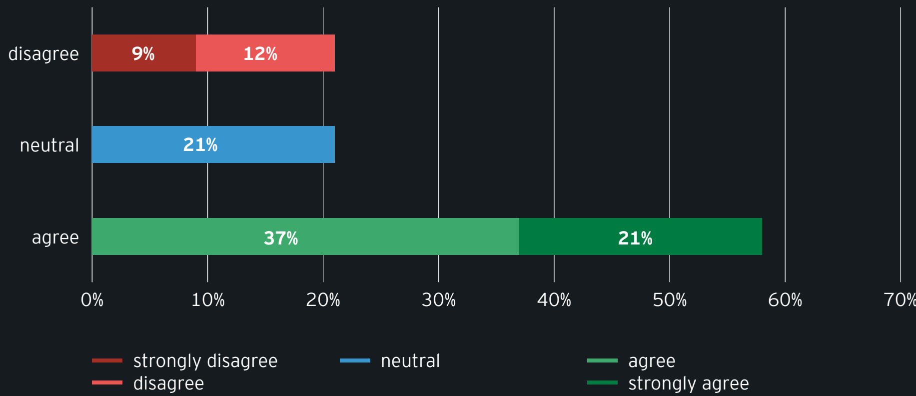
28 cf. Ajzen, 1991 and Carrington et al., 2010

29 cf. Heeb, Kölbel, Paetzold and Zeisberger, 2023

Analysis of responses

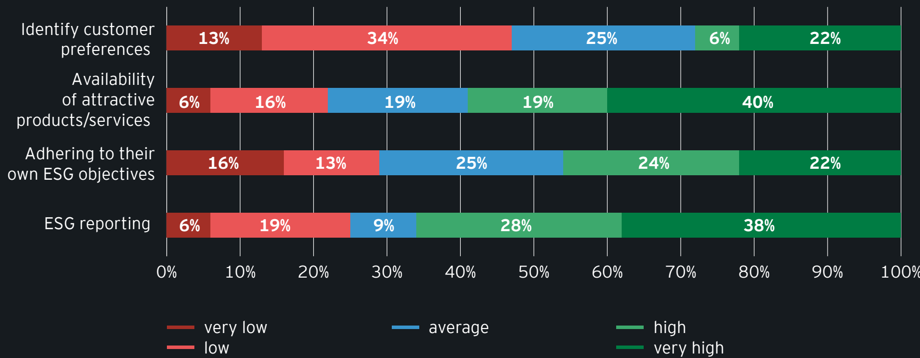
Expert opinion

Proposition 4: ESG initiatives do not produce any material added financial value for retail banks.



The average score is 3.5 (1=strongly disagree, 5=strongly agree).

Sub-question on proposition 4: In your opinion, how big are the challenges for retail banks in the implementation of sustainability issues in these areas?



The biggest challenge is reporting. Overall, establishing the customer's preferences is seen as less of a challenge.

Synopsis

The verdict on the integration of sustainability into the retail banking business is a sobering one: client demand is mediocre and selling ESG products is not financially attractive for the bank. And ESG does not offer any differentiation from the competition. There is a great deal of uncertainty due to the many different standards and reporting is a mishmash without any real information value. On top of this, there is a risk that any action taken by the bank will be regarded as greenwashing in ten years' time. The industry describes the cost of complying with regulation as huge. Nevertheless, it anticipates even more regulation and has its own demands of legislators: it is not up to banks to convince customers of the merits of sustainability. Laws are needed here.

Analysis

There is broad support in the industry for the proposition that ESG initiatives create little added value. ESG and sustainability efforts in general have become standards, something "you have to do or else you are gone". Although useful products such as ESG funds have been developed, the segment is financially unattractive for banks in view of the costs involved. And clients also lose interest if performance is not better than in traditional asset classes.

Sustainable disillusionment

Banks seem to have abandoned the illusion that they will be compensated for launching sustainable products. ESG products do not attract a premium on the market and are only used by a small proportion of customers. On top of this, there are the regulatory costs, and survey respondents describe the reporting requirements as high, including for customers. The costs are out of proportion to the revenues.

> ESG is at the top of the hierarchy of needs.

No differentiation; it is about your own reputational risk

It may be financially unattractive – but could it perhaps be an important marketing tool? Unfortunately not, according to the experts, who claim it is difficult to differentiate oneself through sustainability. ESG is now a commodity that everyone has and everyone expects. The experts also note that interest is already beginning to ebb. People are taking a more pragmatic approach again and have realized that there are other problems in the world apart from sustainability. At the moment, the financial industry is not providing end customers with any real added value or anything tangible. "When you meet customers today, you notice a certain disenchantment," says a banker. The customer is asking themselves: is what I'm doing really worthwhile?

There is therefore skepticism about highly specialized sustainability banks that have set themselves up as purely digital financial service providers with a focus on sustainable products. All traditional banks have ESG products at this stage.

The only differentiation is a negative one: a bank's reputation could be damaged if it failed to comply with sustainability standards. Those who are not there will lose, but there is nothing to win as such. The primary aim is to protect oneself against reputational risks, the experts say.

Regionalism and making things tangible

Nevertheless, the surveys reveal a number of ideas for positioning based on sustainability, for example by making loans and investments more regionally based. Clients are apathetic and sustainability therefore needs to be made more concrete – for example through certain types of mortgage where property owners, businesses and the environment benefit from sustainable behavior, such as through loans for energy-efficient construction or renovation.

If the customer is not interested
Another challenge in the banks' view lies in explaining to customers what they mean by sustainability and then reconciling this with the customer's preferences. According to survey participants, the discussions are often emotional, customers' interest is usually low and the topic is not very relevant to them – except when they are forced to replace the heating system or install solar panels on the roof. The expected return remains the more important criterion for investing.

According to respondents, banks have effectively been made responsible not only for reducing their own carbon footprint but also that of their customers with a view to achieving net-zero greenhouse gas emissions by 2050. Moreover, there are some clients who have no interest whatsoever in sustainability, particularly in the private client business.

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We have been turned into the police on money laundering, taxes and now on ESG as well.

Demand for legislation
If politicians believe that financial intermediaries are the right people to enforce sustainability requirements on their customers, then problems are inevitable, the experts warn. Banks feel pushed into a role they do not think they should be playing – the role of the sustainability police. It is not the job of the banks to tell customers how to build their houses they say. Politicians should not simply offload this task on the banks. If the government does not want oil heating, it needs to ban it by law. Bank representatives believe that the net-zero targets for 2050 can only be achieved through legislation.

Lack of clarity increases risk of greenwashing
The industry complains that there is a lack of clear guidelines at present, and that regulation is developing rapidly but remains unclear. That is why it is not advisable to move quickly in this area. It may become apparent later that many ESG products were not green at all – the risk of greenwashing is omnipresent, according to respondents. Some institutions even doubt that there are actually any real ESG products at the moment. The products are often different from what they promise and have no real impact on sustainability.

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My job in the investment business is to find out clients' interests and protect or grow their assets. I do not need to run an environmental policy with my customers' money.

Sustainability reporting: each copying the other
ESG reporting is described by all banks as very costly in terms of time and effort, and the requirements are constantly increasing. Producing adequate data quality and collating for reporting is time-consuming. The reports are not comparable due to the inconsistent standards. This leads to the banks copying what each other says, and at the end of the day the result is a mishmash of general statements with no real information value. Without international harmonization of the legal framework and clearer guidelines, there will be no progress on this front even in ten years.

Our point of view

Demand for sustainable investment products is lower than previously expected across all client segments; growth rates are shrinking after the first wave. Impact investing has performed disappointingly, while sustainable investing is becoming the new ESG but with more challenging conditions. Products that go beyond the "hygiene" requirements of sustainability are only in demand as an asset class from a niche segment outside retail banking. There are two issues to consider: as a result of the wealth transfer from the baby boomer generation, the proportion of wealthy women will increase sharply. Women bring different prerequisites (e.g. financial knowledge), have different needs (e.g. advisory topics) and in setting their investment priorities they take ESG issues into account. In addition, from previous structural changes we have learned that the shifts happen in waves lasting several years. To conclude from the current developments around ESG that it is already on the way out would be premature.

In the mortgage sector, there is a growing willingness to buy energy-efficient properties or carry out sustainable renovations to buildings and take advantage of attractive financing offers in the process. If banks are serious about meeting their sustainability targets, they will have no choice but to charge a premium on mortgages for buildings with a poor energy efficiency rating. But very few retail banks want to do this, because they (rightly) do not want to be forced into the role of sustainability policeman.

The positioning of retail banks on sustainability will end up somewhere between a pure obligation or pure hygiene factor and a mission-driven organizational purpose. Strengthening sustainability in one's own region will be critical and provide the most tangible success stories as examples. With the exception of niche providers, banks are unlikely to be able to generate added value from the issue of sustainability.

5 Traditional retail banking business models are not a long-term guarantor of success.

Background

In spite of significant technological innovations, the emergence of new, purely digital competitors and a volatile business environment, in essence retail banks continue to offer the product-related business of financing, saving and investing they have for many years. The product business is also likely to remain important for retail banking in the future. Nevertheless, as discussed in proposition 6, it is open to discussion whether the business model should also increasingly focus on individual customer advice. Many things are changing: technological progress, additional market players and changing customer behavior are increasing the pressure in this increasingly digital business segment. Retail banks therefore have to decide to what extent and in what form they want to innovate – whether through major, proactive leaps forward or incremental improvements. Banks that place too much focus on merely preserving the status quo could be at risk of not being prepared for large or disruptive changes.

Big leaps forward or incremental innovations
Disruptive innovations could fundamentally change the market and establish new business models. Banks that successfully implement such innovations will gain a competitive advantage and attract new customers. In a dynamic market environment, disruptive innovations will enable a rapid response to new trends and the rapid introduction of new products and services.

Incremental innovation, i.e. gradual improvements to existing products and services, is associated with lower risk and investment costs, and is an effective way for banks with limited budgets to remain competitive and use resources efficiently.

A balanced innovation strategy encompassing both disruptive and incremental approaches enables banks to respond flexibly to market changes while making continuous progress. It will be essential to continue developing the familiar retail banking business model and recognize that focusing purely on past capacities is not a guarantee of success.

Partly successful diversification into non-interest business
Diversification from interest-bearing business into non-interest business areas such as investment and pensions, which was intended to mitigate the downward trend in interest margins in a low-interest-rate environment, has so far had only limited success. Contrary to expectations, commission income as a proportion of total income did not increase significantly, but fell from 34% in 2012 to 25% in 2023 – albeit in a recently rising interest rate environment (see Figure 7). Swiss retail banks continue to be heavily dependent on interest-based business. However, academic studies on US banks show that diversification into non-interest businesses can lead to higher bank profitability, at least for larger banks.[30]

The only partly successful diversification strategy highlights the need for Swiss retail banks to strategically adapt to the changing market environment in order to remain successful in the future.

Innovation potential from affluent banking
Growth opportunities in affluent banking are seen as a potential new driver of fundamental changes in the banking sector. Affluent banking is aimed at affluent clients with bankable assets from around CHF 100,000 or CHF 200,000 up to around CHF 4 million and offers specialized financial services tailored to their individual needs. The number of affluent people is growing globally, significantly expanding the potential for affluent banking services. Banks can benefit from this growing client base by offering tailor-made financial solutions. Affluent clients are generally willing to pay higher fees for high-quality financial services, which allows banks to earn higher margins and increase profitability. Affluent clients can also build long-term and profitable relationships with the bank. These strong customer relationships lead to recurring revenue and increase the stability of the business model. Overall, the growth opportunities in affluent banking offer a promising opportunity for banks to diversify their business models and prepare themselves for the future.

30 *cf. Saunders, Walter and Schmid, 2020*

Innovation pressure from fintech 2.0

The rapid development of fintech and other potentially disruptive technical innovations is challenging traditional retail banking. These innovations have the potential to fundamentally change the industry's business model and jeopardize the long-term viability of traditional banks. Fintech companies and start-ups are generally much more agile and quicker to develop new products and services than established banks. This enables them to respond more quickly to customer needs and offer innovative solutions that challenge the status quo in the banking sector. Fintech companies often rely on a user-friendly and digitally-centric client experience that better meets the expectations of digitally savvy client groups in particular. In addition, through leaner organizational and cost structures and the use of new technologies, fintech companies are often able to offer financial services more cost-effectively than traditional banks. Fintech and innovations also enable the development of completely new business models in the financial services sector. These include peer-to-peer loans, blockchain-based applications and digital wallets. These new models could attack the banks' traditional business areas and bring new competitors into the market.

The first fintech boom in recent years challenged existing approaches and tested new ideas. However, these experiments have rarely had a major impact. Often, the ideas were ultimately not financially viable and profitable. However, we may only be at the beginning of a second big wave of disruption. New technologies such as AI, big data and cloud computing have the potential to change banking even more fundamentally. Fintech and disruptive innovations – or a combination of the two – are challenging the traditional business model in retail banking. On the other hand, fintech companies often lack the key driver for growth: a sufficiently large customer base. Therefore, combining a retail bank with a large client base and a fintech company with an innovative idea may be of interest to both.

Banks that want to be successful in the long term have to get to grips with new technologies and develop innovative business models. This is the only way they will be able to adapt to the changing needs of customers and compete.

Composition of total operating profit

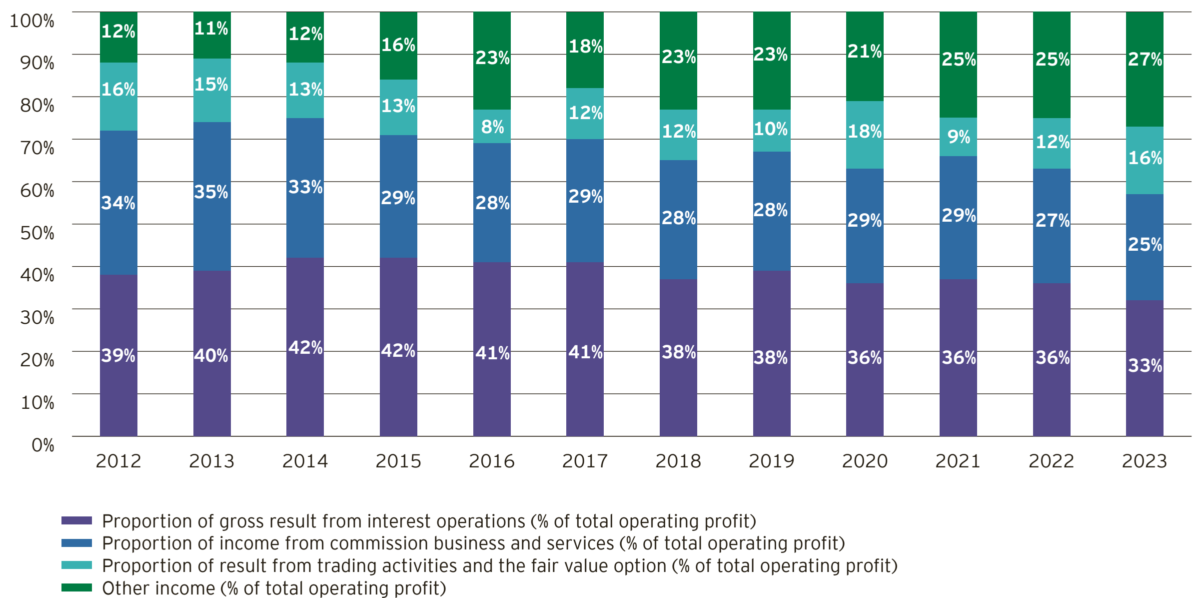
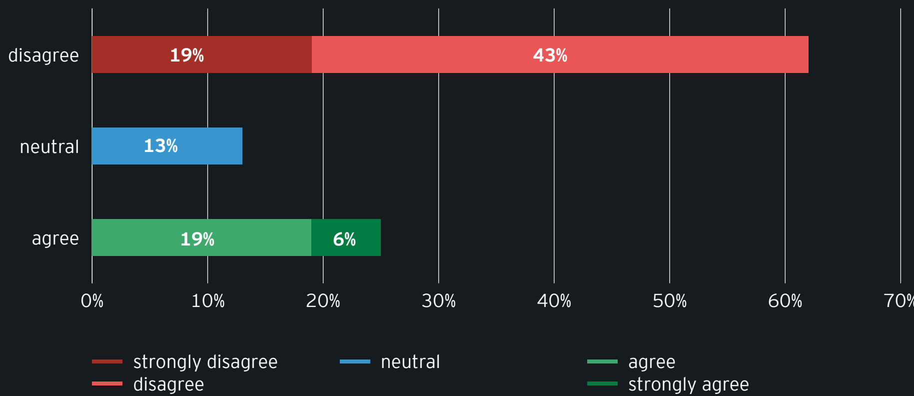


Figure 7: Earnings by business area (figures include cantonal banks, major banks, regional banks and Raiffeisen banks in Switzerland). Source: SNB

Analysis of responses

Expert opinion

Proposition 5: Traditional retail banking business models are not a long-term guarantor of success.



The average score is 2.5 (1=strongly disagree, 5=strongly agree).

Proposition with the highest level of disagreement.

Synopsis

Retail banking experts are as convinced as ever that their business model has a future. There will always be retail banking in their view, because everyone needs a bank account and financial advice. This business model will continue to be successful in the future, provided it continues to be developed to keep up with the times.

The focus will continue to be on the interest-based business, which is still profitable. However, advisory services are likely to become slightly more important at the expense of interest operations, not least due to falling interest margins.

Analysis

There was resistance to this proposition from the experts taking part in the survey. In their view, retail banking is very much still a guarantor of success. The interest business will stand the test of time. For domestic banks, retail banking is still a "bread and butter" business that can generate solid profits – provided it is done properly and continues to be developed.

> The competitive situation has enabled the banks to turn it into a sellers' market.

Timeless business model?

Traditional retail banking with branches and advisors will always exist, according to respondents, as everyone needs a bank account and financial advice, at least in key phases of life. Particularly in difficult situations, customers revert to the traditional value proposition of retail banks. When someone dies, retail banks are always among the first to be called.

According to survey participants, the main reason for the resilience of the retail banking business model is that it revolves around unchanging basic needs: saving, borrowing, paying. The majority of products will remain the same for new generations, even if the packaging and possibly the channels are designed differently.

The focus will continue to be on interest business, although its share is likely to shrink somewhat as a result of the decline in margins. Non-interest-related business, such as investment advice and cashless payments, will gain in importance. According to the institutions, the rise in interest rates has recently reduced the desire to diversify the business somewhat, but it is continuing at all banks, for example in pensions, which is supported by demographic trends. When asked which income mix is ideal, the experts have a similar answer: 60–65% in interest operations and 35–40% in commission business and other business areas would be ideal. However, many are still a long way from this, as net interest income still accounts for 70–80% of income on average. The expansion of the fee and commission business will only be achieved with significant growth in volumes in the pensions and investment business. Since everyone is pursuing the same strategy, they will have to generate even higher volumes as margins fall to significantly increase the share of the fee and commission business. And that, in turn, depends on customers' level of financial knowledge.

> Some have blue logos, some green and some red. That is the biggest differentiator in the industry.

Finding your place in the ecosystem

However, respondents also warn against having too much self-confidence. Challenging one's own business model is vital to survival. The motto "never change a working system" does not mean that banks do not have to continue developing. For retail banks, this means better advice, more personal contacts and more digitalization. People will always have to ask themselves where retail banking fits into the ecosystem. Will it continue to be the card provider? What will the branch network of the future look like? What channels, digital or otherwise, will be profitable? How far should retail banks push forward into the corporate banking business? How can the bank get involved in the client's decision-making process at an early stage?

Strategy: target market, channels, processes

According to the experts, the key question in defining the target market is whether banks still want to serve all customers. Omnichannel capability means having both a physical advisory network and digital channels – and being good at both. In future, customers will only seek personal advice if they get stuck. The skills of customer advisors need to be trained accordingly.

What should banks do themselves?

Just as you might not want to serve every customer, you should only offer the part of the value chain you are profitable in. Business models and processes need to be coordinated. The experts' view on this is set out in proposition 9.

Costs: IT is what the banks fear most
Experts identify costs as a major problem for the industry. Due to the high material and IT costs, fixed costs are on the rise. It is an open secret that the core of all providers' in-house IT is outdated. However, the huge effort involved in migrating data and processes discourages mergers or joint use of IT systems, the experts note. And when it comes to process optimization, where banks could learn a lot from industry, it is IT that often nips efforts in the bud.

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IT is the bottleneck.

Customer centricity: more experiences, use data better
Industry experts see untapped potential when it comes to customer centricity. Retail banking is not bad at retaining customers – but it is not exactly the best at attracting customers in the first place. Banks need to improve in terms of the customer experience and the customer journey, but also in terms of brand strategy, customer interfaces and easy switching of channels, according to the experts.

Banks make very little use of the customer data they have, through which they actually know everything about their customers' buying, financing and saving habits. This resource has to be exploited by means of data analysis, say respondents. However, a close eye needs to be kept on data quality and data protection. Banks could definitely learn from other sectors here: big tech firms, for example, are extremely sophisticated in their use of data and are able to tie in customers. But the experts also believe there are lessons to be learned from the consumer goods industry, for example in marketing or when testing new services on the market. Fintechs and start-ups lead the pack in agility and innovation, while the telecoms industry is a good model for onboarding, channel operation and process efficiency.

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Data is the new gold.

The growth question
When it comes to growth, it seems everyone feels the same: there is hardly any retail bank that has grown faster than the overall market in recent years. Market shares shift at a glacial pace, as customer loyalty is high, and switching banks is almost exclusively considered for important life events such as weddings and buying a house, the experts note. Therefore, the market share among children and young people is already very important. According to the experts, the industry must try to retain young people, while customer care throughout the entire lifecycle and attracting new and loyal customers are becoming more important. For example, the revenue-rich 55-65-year-olds already need to have been brought on board by the age of 45-55. The points of contact are life events such as starting a family, buying a house and making provision for retirement. Through them, a retail bank can assume the role of a lifetime companion and attempt to establish itself as the "principal bank", the experts say.

Our point of view

The core of the business model in retail and affluent banking, maturity transformation, will endure regardless of any changes that may occur down the line. However, a look at the 1980s, 2000s and the present shows that the comparative strength of the banking groups has changed: some retail banks were able to successfully expand their client base into the high-end (affluent) segment and even into the private banking segment. They were able to establish themselves as competitors of private banks by becoming a real alternative to them in the lower high net worth (i.e. affluent) retail segment. This makes them truly universal banks for private customers. Institutions that succeed in this will have competitive advantages over purely private banks. These advantages include the larger mortgage loan book and a more (or even more) stable revenue base. They can grow with customers and have an advantage in the event of inheritance, because ideally they have already started a customer relationship with the younger generation. It will be crucial to offer the individual segments the right range of services – right in the sense of profitable for the bank and relevant for clients. Neobanks and even insurers will not be real competitors here for a well-established and efficient retail bank.

The decisive factor in the outlook, however, is that it is virtually certain that demand for banking services will increase. Financial literacy among the general population – i.e. the typical clientele of retail banks – is notoriously low and will not improve in the short term; many people simply have too little interest in finance. In the absence of a radical reform of the Swiss pension system, private pension provision will become more important and public awareness of it will increase. This is an opportunity for banks that want to fulfill their social responsibility to ensure their customers' long-term financial health. The issue of improving financial literacy will therefore become increasingly important, as it is an important prerequisite for growth in the pension and investment business.

6 New ways of delivering customer advice are needed to tap additional customer revenue potential (type of service provided).

Background

In order to tap into additional revenue potential from clients and ensure long-term customer loyalty, banks' advisory approaches need to be fundamentally reoriented and adapted. Customers should be proactively supported throughout the entire lifecycle in all significant finance-related matters. The key to success is a rigorous focus on the needs of customers. And client advisors should not wait for customers to come to them, but actively approach them.

Data is the foundation for customer focus
Comprehensive customer data is the key to success in modern retail banking. By using intelligent data analysis, banks can gain deep insights into customer behavior, recognize life phases and identify potential risks and opportunities. These insights form the basis for developing customized offerings and solutions that are precisely tailored to the needs of each individual customer at the right time. In order to achieve this, banks need to update their technical infrastructure and revise their product-related processes and organization.

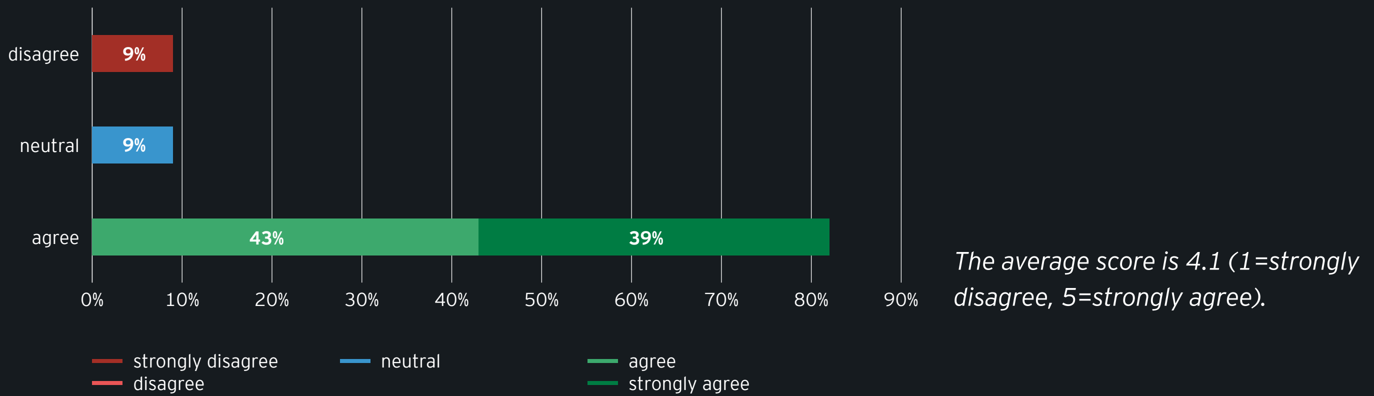
AI a turbocharger for advisory services
AI could help retail banks to understand their customers even better and thus provide better advice. AI-powered systems could, for example, create customer profiles, identify potential risks and recommend suitable products and services. This could enable bank advisors to advise their clients faster, more proactively and more individually.

Comprehensive product range through cooperation
The question is whether retail banks are able to create this added value for their customers by themselves. They may have to collaborate with other service providers to offer a full range of financial products and services (see propositions 7 and 9).

Analysis of responses

Expert opinion

Proposition 6: New ways of delivering customer advice are needed to tap additional customer revenue potential (type of service provided).



The average score is 4.1 (1=strongly disagree, 5=strongly agree).

Synopsis

Retail banks are still fairly passive when it comes to winning clients and dynamic growth would look very different. Even if client advisors are not expected to suddenly switch to cold calling, the retail banking experts who took part in the survey do call for more proactivity to secure the future of their advisory business. They need to approach customers at the right moment with the right issues. Key events such as buying a house, inheritance and the birth of a child should be used as a gateway for the initial contact. After this initial contact, customers should receive holistic support from their "principal bank" throughout their lives to achieve their financial goals.

Analysis

Retail banking is seen as down-to-earth and reliable – but not very dynamic. This is also the impression given by the survey results on the proposition that a fresh approach is needed to the banks' advisory services to generate additional customer revenue.

Is a different approach needed in retail banking?
If you believe the experts who participated in the survey, winning customers in retail banking is still a rather passive affair. The typical customer advisor waits until the customer finds his or her way into the branch, calls them or contacts them by e-mail. Banks are extremely reactive, even if they do not admit it, noted one of the experts. So does retail banking need a jolt?

Life cycle: like a general practitioner
The banks involved in the survey do not expect client advisors to suddenly start making cold calls to win new customers. However, every retail bank must have the ambition to be seen by customers as their "principal bank" – as a trusted partner who is involved in all their transactions, finances and key life stages. The comparison is with your general practitioner, whom you will ideally stay in contact with for your whole life. Customer care throughout the entire lifecycle and attracting new and loyal customers are becoming ever more important, according to respondents. This means proactively approaching customers and talking about the right issues at the right time. However, the industry is still a long way from achieving this, they say.

A holistic understanding of the customer needs broad general knowledge
Survey respondents say advisory services need to be more broad-based in future. Issues such as real estate and pensions are linked to an increasing number of other issues. For example, a bank advisor needs to be able to talk about the sustainable renovation of properties with heat pumps, solar cells and the like. Advice is increasingly moving in the direction of adding value in a holistic way; in terms of the approach, perhaps a bit like a family office.

Use customer events, do not just listen
The customer's financial planning will play an increasingly important role, according to respondents. Pensions in particular offer a multitude of points of contact to structure advice in a holistic way, for example in connection with the mortgage business, investment advice and pension planning. To be in the right place at the right time with the right service, the importance of touchpoints cannot be overstated – and the "right place" means where the customer currently is in their life. Generally speaking, advisory meetings are still very similar. The advisors listen and find out the customer's expectations. Advisors need to move, the experts say, from simply listening to actively taking advantage of life events such as starting a family, buying a house, providing for retirement, inheritance and succession.

> “
> The more digital the world is, the more the important points of contact need to be analog.

Not product salespeople
Solutions that take a holistic view of needs would also make advice less price-sensitive in the future, the experts believe. In their view, the client is willing to pay for added value. So what the industry needs is not product salespeople, but advisors with a holistic understanding of customer needs. It is not a product that is being sold, but the solution to a customer's financial problem, respondents say. It is about showing the customer how they can achieve their goals. If a bank can achieve this, customers are less interested in the specific products that solve their problems. It is about life's goals and sometimes also about life itself.

Empathetic and comprehensive advice: customers are people too
Customers need to be supported on the road to digitalization – especially older customers, the experts say. Otherwise, humanity would get lost in the flood of digital information. Sitting down at the table with someone you trust and having a serious conversation is a social need for many today. Hence respondents want advisors to talk to customers about life, not just about investing.

A key finding of the survey is that the approach to advice does not need to change completely, but does need to continue developing. Advice needs to be empathetic, comprehensive and relevant, and at the same time more hybrid, utilizing both digital and physical channels. But the basic elements of building trust will remain in place, say the experts.

Personal communication remains the key to the customer

It is one of the strongest beliefs in the industry: when it comes to important issues, face-to-face advice is needed. This survey comes to the same conclusion and the experts are certain that this will remain the case. The banks believe new technologies will have a fundamentally supportive role in the advisory process, but are no substitute for face-to-face communication.

AI potential: greater efficiency in advisory services

AI can take over human activities, but cannot replace trust, according to the survey. The majority of participants are skeptical about virtual advice. However, they can certainly envisage using AI for administration work (transcription of meetings, filing in CRM systems). AI has a great deal of potential as an assistant and this job will disappear in the view of survey participants. Health insurers, for example, already check and settle medical bills up to a certain amount purely by machine. Efficiency is also an important issue in the advisory approach, they point out.

The rise of the AI co-pilot

Given the complexity of advice and the multitude of issues involved, especially in a more holistic context, AI will become a companion and support for client advisors, according to survey participants. They believe good advisors will identify opportunities to use AI themselves. However, improved tools and data usage could also help mediocre advisors to perform well in front of clients. In participants' view, the future advisory model will therefore be a human being with an AI co-pilot at their side. Ideally, as much of the advice as possible will be provided via a tool that guides people in a structured manner through financial needs such as liquidity, investments, pension provision and financing.

> “I do not believe in a fully digital approach.

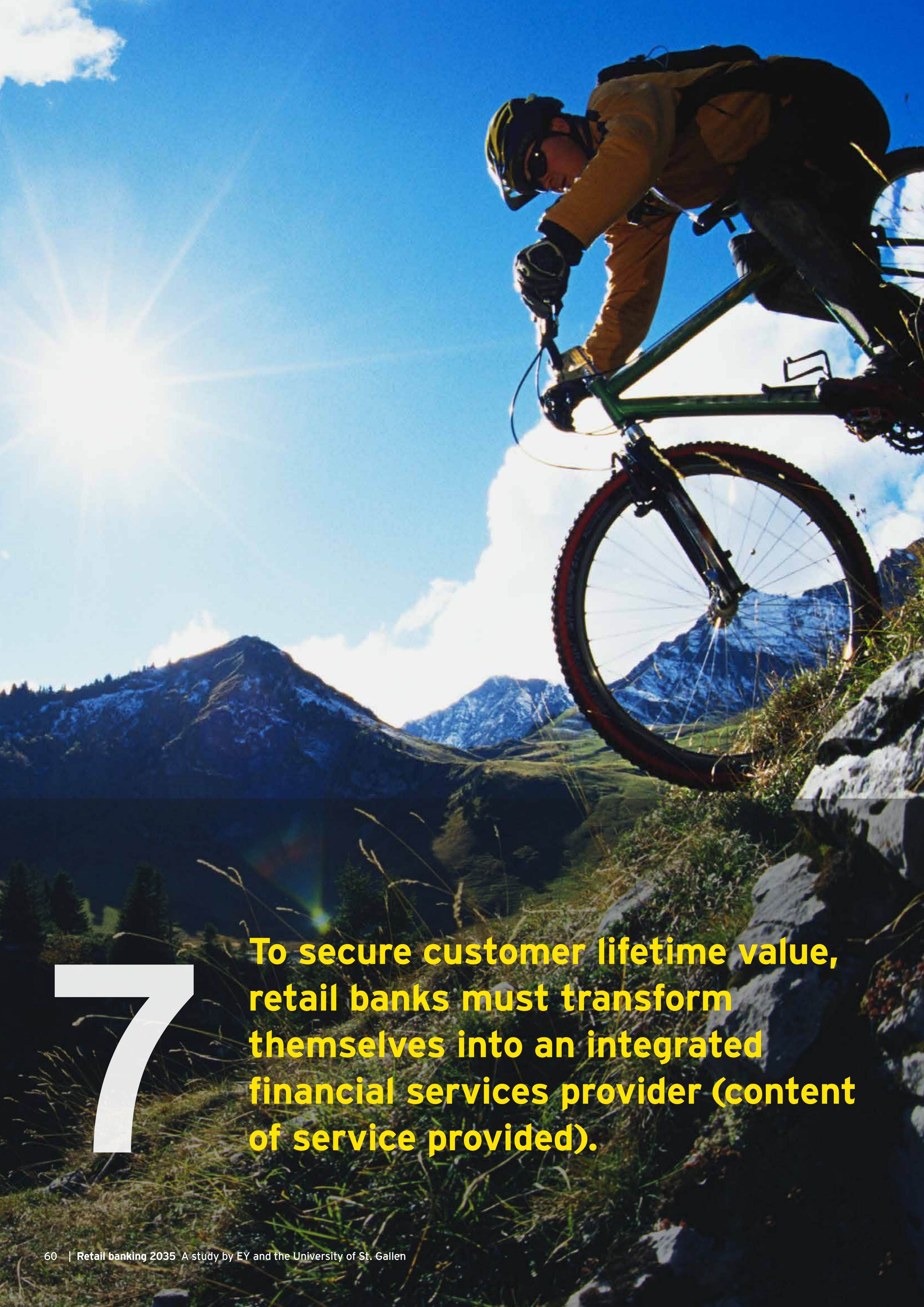
The industry does believe AI is capable of higher-level tasks beyond increasing efficiency, such as identifying investment potential on the basis of transaction data, but in the experts' view it will take longer to exploit this potential than is generally assumed. There are also legal issues that need to be clarified, such as responsibility for automated investment recommendations – regulation will almost certainly have a slowing effect on this.

Our point of view

Generally speaking, Swiss clients have a high level of confidence in their banks – at least compared to other European countries. However, clients are doubtful about whether client advisors are primarily advising in their own interests; clients also have a low interest in financial issues and a lack of understanding of them, which further raises the satisfaction threshold. Convincing customers that banks are giving them honest advice will be critical to long-term success.

Different customer segments require different approaches to advice. The move to a target-based approach, often based on a simplified financial plan, is likely to be the most promising. Even if it takes time to implement this approach and it can be detrimental to profitability in the short term, banks that succeed in doing so will make their advice more valuable to their clients and build greater customer loyalty by putting the long-term interests of their clients at the heart of what they do. In our view, the key question is not whether wealth-differentiated financial planning will replace mortgages as an anchor product in the longer term, but when and how this can be achieved cost-effectively for the majority of client relationships.

Cooperations and partnerships can also be ways to develop advisory approaches. However, to succeed they must be supported by the technical framework (e.g. open banking) and customers must see benefit for themselves in it. Another challenge: as intermediaries, banks must prevent third-party providers from taking over the client interface, otherwise the bank will be classified as a product provider and lose a large proportion of the higher-margin value added.



7

To secure customer lifetime value, retail banks must transform themselves into an integrated financial services provider (content of service provided).

Background

For the purposes of this proposition, by integrated financial service provider we mean the retail bank as the preferred point of contact for questions on any financial topic and which the retail bank can respond to by offering its own products and services, or by engaging affiliated companies or its extended network/corporations/ecosystem (like a general practitioner who carries out an initial analysis and, if necessary, refers the patients to a specialist).

Retail banks that continue to limit themselves to the traditional business of credit and investment advice have not yet tapped their clients' full potential. To achieve long-term customer loyalty, retail banks need to step up the intensity of advice to their customers throughout the entire financial lifecycle, from account opening to asset accumulation and asset protection in old age.

Retail banks as reliable partners in the financial world
Modern retail bank customers are better informed and more demanding. They expect personalized and comprehensive advice tailored to their individual needs and objectives. Nonetheless, despite the digitalization of day-to-day banking and emerging competitors (e.g. from neobanks), bank customers are more resistant to switching banks than customers in other sectors. A study by IFZ Lucerne shows that although customers say that they would switch banks in the event of significant differences in fees, they are often unaware of their own fees, which may be one of the main reasons for the observed inertia.[31] Clients also continue to rely on the expertise of their bank advisor when making important financial decisions. This underscores the bank advisor's central role as a trusted contact.

These advisory services can cover all material areas of life with financial implications, including financial planning, pensions, succession planning, tax, real estate and more. The product range should cover the customer's entire financial lifecycle in order to maximize the customer lifetime value. Bank advisors need to act as long-term advisors who help their clients to shape their individual financial future. However, it is important to remember that many customers' financial literacy is still at quite a low level. This means that discussions with customers can only be carried out in a meaningful way if their financial literacy is improved first.

In this context, the question arises as to whether insurance should be included in the financial issues and if so, whether these can be covered by the bank itself or should at least be raised in the advisory meeting and then referred to an insurance specialist in the network.

Bancassurance approaches in the past
Bancassurance solutions – i.e. cooperation between banks and insurance companies with the aim of bringing together all financial products for customers under one roof – are a well-known concept. A well-known example of this was the merger of CS and Winterthur Versicherung. However, these bancassurance approaches are considered to have failed in the past. Banks ended their strategic partnerships or sold their stakes in insurance companies (e.g. CS sold its stake in Winterthur to AXA in 2006). In the wake of the global financial crisis in particular, bancassurance initiatives were considered to have failed. The reasons for the failure were that returns were too low, the differences in banks' and insurance companies' business models were too great, incentives were too different and the financial products were excessively complex. In addition, there was only limited interest from customers in being advised on a bancassurance basis or paying a higher price for the products.[32]

However, in the wake of new technological opportunities through digitalization, the increasing importance of customer data and changing customer needs, these bancassurance approaches of the past may become more important again. Perhaps today's customers would be willing to pay more for holistic and personalized advice across all financial issues.

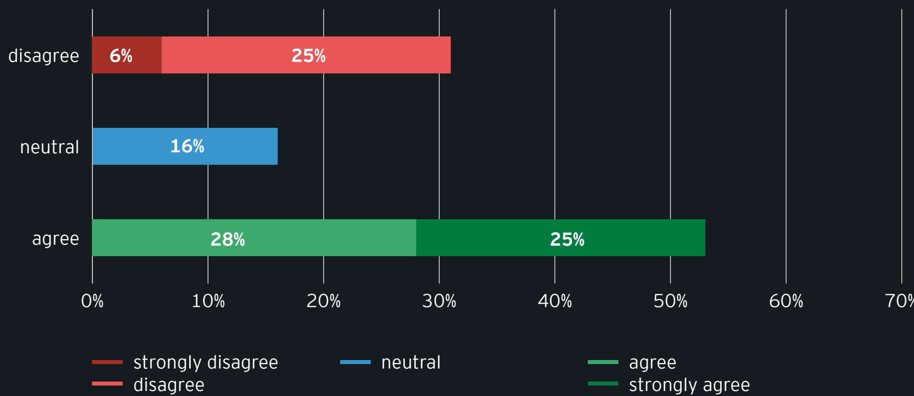
31 *cf. HSLU, 2022*

32 *cf. Ferber, 2021*

Analysis of responses

Expert opinion

Proposition 7: To secure customer lifetime value, retail banks must transform themselves into an integrated financial services provider (content of service provided).



The average score is 3.4 (1=strongly disagree, 5=strongly agree).

Proposition with the most disagreement between experts.

Synopsis

Banks often entertain the idea of offering financial services that go beyond the strict domain of banking. The best-known version of this is the bancassurance model, which unites banks and insurance companies under one roof. However, the experts caution against the differences in expertise between the two disciplines, which should not be underestimated – the life insurance business in particular is a law unto itself. According to the participating banks, there is a firm belief in Switzerland that banks and insurers are very different beasts. The retail banks are tempted by the prospect of higher volumes and more robust margins in the integrated financial services model. However, they are cautious about opening up to "outside" businesses.

Analysis

The idea that retail banks should use their closeness to customers to offer them other financial services is not new and is frequently revived as a topic of discussion in banking circles. The big question for survey participants is whether customers would be interested or not.

"Who really wants this?"
One of the questions the experts ask themselves is whether the bank should try to awaken client needs, when they differ from those the client sought out the bank for in the first place. Does the customer want the bank to talk to them about insurance policies if they came to find out about paying off their mortgage? Bank representatives believe they might be open to this, but even if they are, a bank's own business is complicated enough and it would be better not to make things even more difficult for advisors. Others point out that there is only demand for integrated financial advice from wealthy individuals, i.e. a relatively small proportion of the population, and not from typical retail bank customers. Others again say that this may be true for these customer groups, but there are also opportunities for ordinary retail bank customers.

Volume and customer loyalty from a single source
A broader business model offering an extensive range of financial services promises higher volumes. The banks cannot be completely immune to this temptation. According to the institutions participating in the survey, their business model is always volume-based. Whether it be loans, mortgages, deposits or custody accounts, you can only monetize products held with the bank. But if everything could be offered from a single source, this could also help to retain customers. Nevertheless, some participants voiced the fear that banks could lose their focus. "A bank is and will always be a bank," was how one respondent put it.

A price argument is also made for the integrated model. This is that the price is less important for more complex advice. However, others counter that is very difficult to put a single price tag on a package of different products where one product does not subsidize the other. And if there is no transparency, many customers would feel they have been fleeced.

> "People like free offers during good times, but when things are a bit more challenging, you might want to have someone to guide you.

"Worse image than insurers" and little interest in bancassurance
As a first step towards becoming an integrated financial services provider, it makes sense to consider expanding the product range to include insurance services. However, there is no shortage of counter-arguments. Up to now, attempts in this direction have not been very successful. In Switzerland, the image of insurers tends to be better than that of banks. Customers in Switzerland have been taught from childhood that banks and insurance companies are two very different beasts. Especially in rural areas, most people still know someone who works for an insurance company somewhere.

Integrated banking advice is a challenge for client advisors. They are wary of insurance topics and are usually not that keen to cover them. The experts warn against underestimating the technical complexity. Life insurance in particular is a separate field and a challenging one.

Bankers also see regulation as a stumbling block. As soon as banks begin to offer insurance solutions, they would be subject to insurance supervision as well, which brings us back to the issue of regulatory pressure (see proposition 3).

And even if it was possible to sell home contents insurance alongside a mortgage now and then, banks do not see this as big business.

Cooperation as an option?
One alternative would therefore be to cooperate with an insurer. However, an objection to this is that both partners usually want to hold the customer's assets, because commission alone is not lucrative enough. Moreover, most banks are more likely to envisage cooperation with partners who are close to the banking business rather than with the insurance industry.

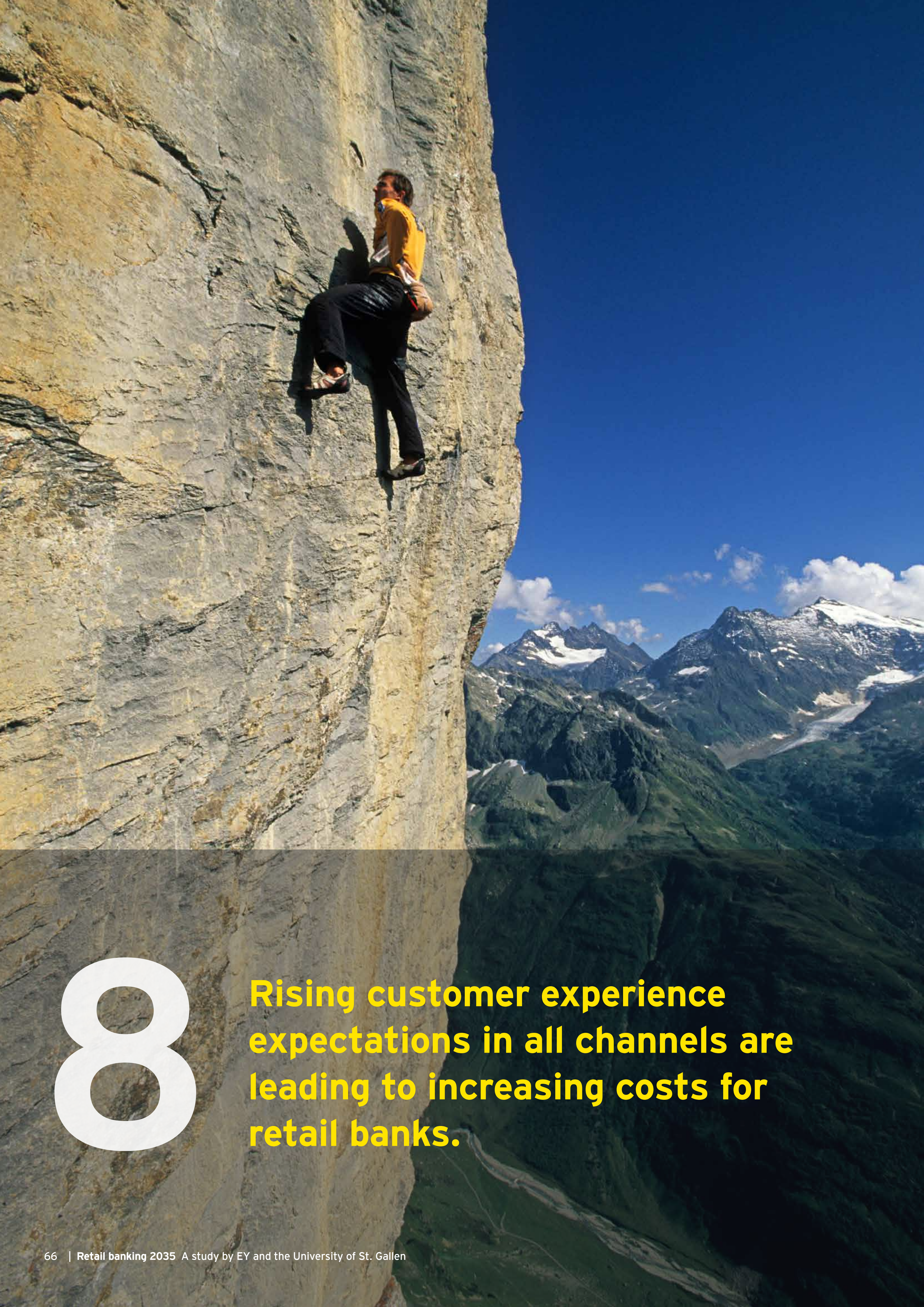
What products and services are we talking about?
Although banks are critical of the idea of having too wide a product range of financial services, they are not closed to new approaches. Advice needs to become more open, they themselves say. However, they are not equally interested in all topics. They see opportunities for holistic financial planning, including pensions, liquidity, inheritance and succession planning, as well as financial health. Banks are prepared to invest in infrastructure, processes and employee skills to achieve this. However, they note that financial planning does not cover costs. With their eye on the revenue potential from pensions and investments, several banks already offer it for free. Some institutions also see potential for added value from property projects, but exactly where is not entirely clear. Should banks recommend tradespeople and architects in future and take on the role of building consultants? Clearly it would be very difficult to do so. In general, banks have no interest whatever in moving into tax advice, even though they already have all the information from the customer: with 26 cantons with different rules, this would quickly become too time-consuming and expensive, they say. You could point out the problems, and would then have to send the client to a tax advisor.

Many clients are not confident about dealing with important financial issues like these, the experts note. They often lack a basic understanding and do not know where to start to get the information. Improving financial literacy could therefore be a win-win situation. More sophisticated products and services could be made palatable to customers in small bite-sized chunks. Information events, e.g. about how to read and understand a pension fund statement, are often well received. That is something the banks believe they can build on.

Our point of view

For high net worth clients, family offices have the role and function of wraparound wealth managers who cover all financial needs – but typically in a manual and individual process and with a particular focus on specific investments. The question is whether there is a client need for integrated banking and insurance services in retail banking at all and whether these services can be offered profitably.

While a holistic view in a bancassurance sense is relevant for clients, it is not essential. Surveys show disagreement among customers. Given the diversity and complexity of financial issues, you would expect there to be a need for integrated services, but no real demand has arisen in Switzerland and it would have to be awakened first (if it exists, and we believe it does not). Integrated services should at least include financial and pension planning, but should also cover succession planning, taxes, inheritance and all issues related to building and renovating a property, if necessary with the help of internal or external experts. Efficient processes, the use of technology and, for most banks, probably also cooperation and partnerships (see proposition 9) are needed to make such a business model profitable. We do not believe that there are synergies in the distribution of banking and insurance products – the products are too different. In addition, an expanded range of services and additional products could increase compliance costs if they involved regulated market segments (e.g. sale of insurance products). In the end, bancassurance initiatives will continue to fail at the broader market level due to Swiss customers' expectations of banks and insurance companies.



8 Rising customer experience expectations in all channels are leading to increasing costs for retail banks.

Background

Customers now expect a 24/7 service from banks as well – seamlessly via all channels of their choice, swift processing of their requests and personalized advice, because this is what they are used to from other providers (e.g. online shopping).

Challenges from digital offerings
Bank customers also want to be able to use online banking without any problems at all times, real-time coordination between client advisors and call/service centers and one-stop-shop solutions that combine various banking services that are separate from each other in the process. These high expectations drive up costs. Banks need to update their infrastructure and distribution network while also performing a difficult balancing act. On the one hand, the processes have to be adjusted to meet customer requirements, while on the other hand they need to remain standardized and efficient. In addition, the risks must always be kept under control. This technical and procedural dilemma requires innovative solutions.

New concepts for the branch network
To continue meeting customers and getting younger target groups interested in financial matters, banks are rethinking their existing branch concept. Face-to-face contact with customers will still be important, but will probably be carried out in a different way. Branches will be redesigned as interactive meeting places.

Intelligent branch networks and smart branches that offer new experiences and interactive spaces are becoming increasingly important to strengthen customer loyalty and deepen customer contact. This new branch concept is based on event-like encounters between clients and bank advisors. Their aim is to inspire bank customers with enthusiasm for finance and promote financial literacy through bank advisors so that customers want to return to the branch. Traditional counters will be removed and replaced by video consultations and interactive projections in the branch of the future. This transformation of branches into experience centers is a significant cost driver, as it requires investment in infrastructure, staff and technology.

Other banks are also developing their own brands to attract younger target groups and reduce migration to purely digital neobanks.[33]

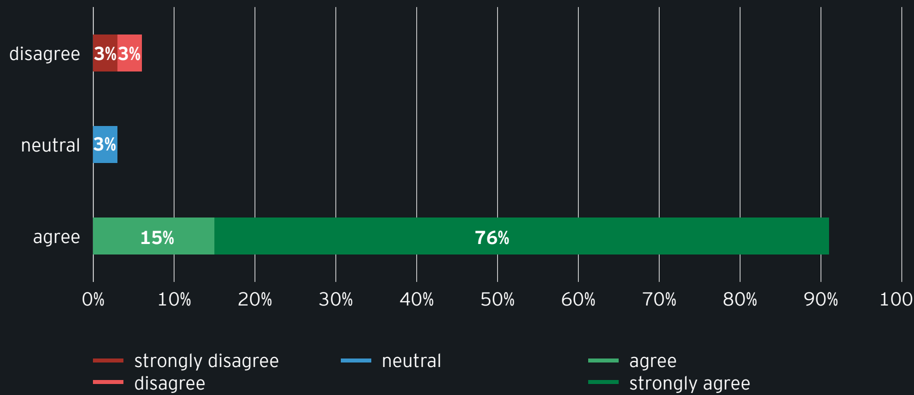
Use of new technologies
By using new technologies such as AI (e.g. chatbots in customer service), banks can push ahead with automation, which may reduce costs in the long term, but requires significant investment in the short term. The challenge here is to combine multiple channels into a single touchpoint for the customer, to meet regulatory requirements and to ensure data security and compliance.

33 *cf. HSLU, 2023*

Analysis of responses

Expert opinion

Proposition 8: Rising customer experience expectations in all channels are leading to increasing costs for retail banks.



The average score is 4.6 (1=strongly disagree, 5=strongly agree).

Proposition with the highest level of agreement.

Proposition with the most agreement between respondents.

Synopsis

Clients already want to be able to contact their bank via all channels, be they physical or digital, even if they ultimately mainly use one of them. If they use a digital channel, they also do not want to have to suddenly switch to a physical hard copy. While such channel breaks have to be avoided, the channels still need to be permeable. The customer expects each touchpoint to know anything they have already done at another touchpoint. This is expensive for banks, because although they are constantly having to digitalize more and more, they also have to keep old sales channels going. This includes, in particular, the branch network. This is a familiar place for clients and is regarded as a resilient bulwark of banks' brands.

Analysis

Banks are aware of the emotional deficit of their products, and not just in comparison with the consumer goods industry: too intangible and too abstract. More customer experience is required and a more exciting customer journey. Banks are now trying to facilitate this customer journey both digitally and physically through their offerings. With mixed success, according to the survey – and at high cost.

Cross-channel customers: phantom or cost driver?
Today, clients expect the bank to communicate through all channels: physically at the counter, via e-banking and mobile banking or via chat. According to the experts who took part in the survey, a retail bank therefore has to have to have a fully digital offering that could actually replace physical channels such as letters or counters, but these legacy channels cannot simply be switched off because they are still being used.

Banks have another problem in the multi-channel world. One respondent said that because customers tend to always want everything, or at least a little bit of everything, you cannot be top in the whole range of options. However, offering mediocre channels entails the risk of attracting negative attention.

> “
> An experience is something you have at the theater. At the bank, you want solutions for your financial needs and an efficient processing.

However, some banks report that customers generally have a preference for the channel they use. Customers either use e-banking or mobile banking for payment transactions. "We do not see the oft-mentioned cross-channel customer," they say. And they add that customers do not really want to experience anything at a bank, but would rather see their order processed efficiently.

Shift from online to mobile
However, there is one thing everyone is agreed on: if the client does go online, they expect online banking to be easy. Banks constantly warn against overestimating customers' digital fitness. Things will be different in ten years' time, but even then the banks will still have to operate in a hybrid mode.

What is already happening is a shift from e-banking to mobile banking via the app. The generation that grew up with smartphones has little patience for channel discontinuities and does not want to suddenly land on a form in the middle of the process that has to be printed out.

> “
> If it is so easy to check in with easyJet, then it should be just as easy with banking.

No channel breaks, but permeability
Avoiding channel breaks is already an increasingly important requirement for a successful multi-channel approach, according to the survey. Customers walk away if they experience channel breaks. At the same time, there is a demand for the channels to be permeable and interoperable, according to participants in the survey. When a customer calls the call center or clicks on something on the website and then calls the customer advisor, they expect the advisor to know about it.

Digital laggards to be punished from 2035
The experts predict that by 2035 at the latest, the younger, digitally savvy generation will be dominant and anyone who is lagging behind will be punished. Nobody will be willing to pay for a customer experience, they believe. Digitalization is therefore becoming a hygiene factor, a standard. You cannot stand out from the competition in a positive way with it. But those who do not meet the standard will be abandoned by their customers, as they will make comparisons with the comfort level provided by other industries and providers.

> “
> Some customers would like nothing more than to go back to the old-fashioned savings book, while for others the app is already outdated and would also like wallets for cryptocurrencies.

Wake-up call for IT

The industry believes that the cumbersome core banking systems are not yet in a position to meet these expectations. In ten years at the latest, banks' core IT infrastructure, which most people consider to be a barrier to innovation, needs to be right up to date to adequately address security concerns and make the channels for customers seamless and interface-free.

The sales network of the future: video telephony for remote advisory

In view of the respondents, the sales channel of the future will be hybrid – physical and digital. The telephone is currently the most frequently used channel, but needs to be improved, they say. Demand for video consultations is increasing. Hence video telephony should ultimately be properly introduced. It is a must for the expansion of remote advisory services, according to the experts.

Branch network continues to shrink, but will still be needed for a long time

There is also a consensus among those surveyed that cost pressure on the physical distribution network will continue. The branch network is still too dense, as more and more services are handled via digital channels.

However, physical locations will still have their place in ten years' time. The banks view the fact that even purely digital brands have opened physical locations to improve their customer proximity as confirmation of this. As the retail banking experts commented, if the bank's name is displayed on the building, the business and brand become tangible, which is particularly important for financial service providers operating on an abstract basis and it builds trust. Trust is a very precious commodity that always needs to be put first. Even traditional retail banks have not closed down branches in recent years, but opened new ones and redesigned existing ones. Retail banking needs a physical presence, and will continue to need this in the future, the experts believe. Regional roots are still crucial, especially in more rural regions. On average, the market share is three times higher with a local branch in a region.

How should banks pay for multi-channel services?

Digital channels and branches – how should they be paid for? According to the banks taking part in the survey, the additional costs of the multichannel strategy will be offset by efficiency gains through process optimization. In addition, old processes need to be increasingly switched off once new ones have been introduced, the experts say, as costs are still largely being duplicated. In a multi-channel approach, banks also need to attempt to attract customers into cheaper channels, for instance by bonus programs – so that they can scan their invoices with the app instead of sending the paper paying-in slip to the bank. In addition, the technologies themselves are expected to become more efficient, simpler and cheaper.

Our point of view

In recent years, banks have continually introduced new distribution channels and expanded the offering in these channels. Specific front-to-back process chains have been developed for many of these channels. Existing sales channels are only rarely consolidated or discontinued.

Branches are still highly valued by customers and remain an important differentiating factor for retail banks. They will not lose their importance, but will increasingly assume the role of advisory and experience centers. Whether, how quickly and how much the branch network can be pruned depends on a specific bank's individual market and customer situation. The cost pressure has to be countered with other levers. Process chains must be integrated systematically within the value chain as early as possible, starting with the customer interface. To enable this, both online banking and in-branch customer advisory services need to be rethought.

9

Retail banks will increasingly have different levels of vertical integration.

Background

Vertical integration refers to how much of a service a company provides itself and what proportion is provided by other companies.

Traditional value chains and current challenges
Apart from some IT and transaction settlement services that have been outsourced to external service providers, many retail banks still carry out most of the process steps on their value chains themselves. However, regulatory challenges, pressure on margins and competition for skilled workers make it increasingly necessary for retail banks to focus on those elements of their value chains that deliver real customer value and enable them to out-compete their increasingly diverse competitors. New market players are entering the value chain, many banking services are already being consumed digitally, customers are more technology-savvy, regulatory requirements for processes are becoming more complex and it is becoming increasingly difficult to find staff for back-end functions. At the same time, banks' operating costs are high.

Coexistence and cooperation in the ecosystem
These developments mean that banks need to coexist and collaborate with other participants in the ecosystem. This includes fintechs, telecommunications companies, retailers, tech giants and other banks. As disruptive technologies continue to advance, this need will become even more pronounced. A key question retail banks will have to ask themselves about the degree of vertical integration is this: what parts of the value chain must remain with the bank and which can be given up, and with what risks and at what price?

Economies of scale and process optimization
Efficiency gains can be achieved in a number of different ways, e.g. by focusing on individual processes, outsourcing and partnership models for specific parts of the value chain. In-source solutions for third parties allow banks to pass on their own operating costs. At present, however, process optimization and scaling usually still take place within the retail bank, and only rarely through cooperation with third parties. Due to their generally comfortable situation in recent years, retail banks have not yet had to fundamentally redesign their value chains. If a retail bank were to be developed on a "greenfield" basis today, the maximum possible proportion of activities outside the core competencies would be outsourced without question. Due to the different starting positions of banks, the degree of vertical integration will therefore increasingly differ in the future.

Future requirements for banks' value chains

In future, retail banks' value chains will have to combine customer centricity, agility, stability/resilience, quality/ compliance and efficiency even more effectively. There needs to be a balance between customer-based differentiation in distribution and efficiency-based standardization of production (mass customization), although both require front-to-back digitalization.

The question of which parts of the value chain should remain with retail banks involves the balance between relinquishing control over process steps and optimizing the value proposition. A key question will be how to design the vertical integration of the value chain: joint ventures and collaborations with third parties, technology companies or service providers will be necessary.

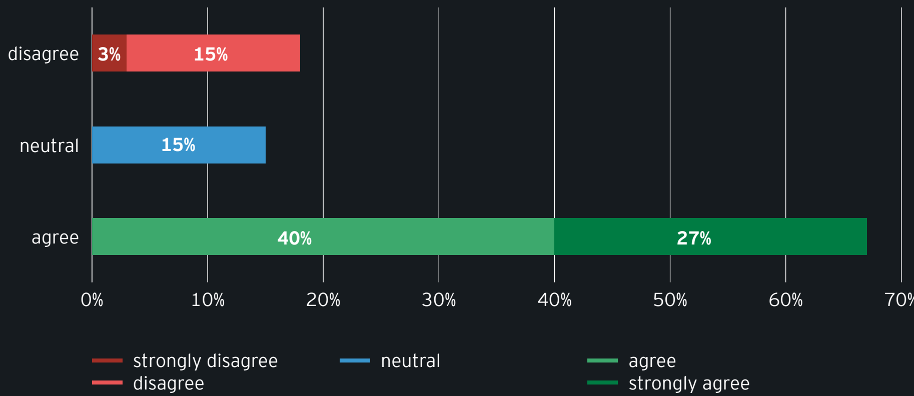
IT as a challenge

Difficulties in cooperation are often related to inflexible, different or outdated IT systems. Many core banking systems are nearing the end of their lifecycle and fundamental decisions are needed regarding their future set-up. The majority of existing banks still have a complex and fragmented IT infrastructure with many overlapping legacy systems. At the moment, the processes follow the IT. The existing IT landscape often prevents the development of new processes. The systems are often product-based and are therefore cumbersome when the bank wants to introduce new services or products, or processes are to be merged as part of collaborations with third parties. In order to meet the new demands of customers, banks have also built niche applications around the old core banking applications, which makes it even more complex for banks to cooperate and reduces flexibility.

Analysis of responses

Expert opinion

Proposition 9: Retail banks will increasingly have different levels of vertical integration.



The average score is 3.7 (1=strongly disagree, 5=strongly agree).

Synopsis

Where third-party providers have comparative advantages – in terms of cost or quality – banks are likely to increasingly purchase products and services externally in the future, even if they have to give up some degree of independence. This applies in particular to standardized offerings with low margins that do not allow for individual profiling. Banks have long been regarded as having a high level of vertical integration. As specialization increases, it will become increasingly difficult to maintain areas outside their core business. While core elements such as the customer interface are considered non-negotiable, a number of areas of activity are under scrutiny. Overall, however, the degree of pain still seems to be too low for a large wave of outsourcing in retail banking.

Analysis

Although the number of distribution channels is steadily increasing and specialization and division of labor in the provision of products and services continues, banks still do just about everything themselves. Does their workbench reach too far down the value chain?

Respondents were virtually unanimous that retail banks need to address the question of the right level of vertical integration, and thus what their core competencies are, with greater urgency. If a bank is unable to offer certain parts of its products or services at a lower cost, it makes sense to buy them from third parties. The less differentiation offered by in-house production, the more this applies.

Plan ahead – keep a close eye on digitalization

Retail banks are supertankers and strategic changes need to be planned well in advance, the industry experts taking part in the survey believe. This is particularly true in their view when it comes to outsourcing entire businesses. Given such a time horizon, it should be borne in mind that many processes are becoming more efficient with increasing digitalization. Outsourcing must therefore involve a significant price advantage for it to be worthwhile, the experts argue. They are thinking in terms of a price discount of at least 20%.

Not much has happened so far

You would actually think that banks are streamlining processes wherever possible due to pressure on margins. However, industry insiders observe that little has happened so far. If parts of the value chain have been outsourced at all in the past, it has been done very gradually and slowly.

The banks participating in the survey have an explanation as to why this is: business is still too good. Pressure on margins – as confirmed by the responses to proposition 1 – is still too low. With a cost/income ratio of 50%, retail banks simply have too little incentive to change anything. In addition, there has been no real disruption to date and the business model is too stable (proposition 5). However, there are also voices among the bankers who advise against outsourcing in general. In their view, outsourcing might make you more efficient, but even that is uncertain – but what is certain is that you are more dependent and less free in your own strategy.

Is Switzerland too small for economies of scale?

Others say that there have been repeated attempts to break up value chains, but it does not seem to work in a small country like Switzerland. They argue that the economies of scale are simply too small in Switzerland. But not everyone agrees: the degree of vertical integration in banking is "absurdly high," according to one respondent. Only large banks will be able to maintain it in this form. And with open banking, the proportion of third-party services will increase at all institutions. A partial pooling of activities could work, but this would require a strong network backed by absolute commitment and strong personalities, as well as a great deal of patience, say respondents.

Scaling will not just affect mass market products

Size, scalability and consolidation are issues that correlate with vertical integration. The size of the bank determines how cost-effectively it can offer services and thus also defines the point at which it is cheaper to buy the services externally. In the case of mass market products, a large provider can exploit major economies of scale; for smaller banks, it makes sense to source them externally. However, as there will increasingly be a shortage of expertise in specialized products, the experts believe banks should also consider buying in products and services in specialized areas.

> "A carpenter will outsource his accounting too and only do things himself that are within his core competence as a carpenter.

The customer interface is sacrosanct

Banks jealously guard one of their most important assets: the customer interface. The experts make it clear that no institution would allow third-party providers to gain control of it without a fight. Lending, including loan administration, customer advice and distribution, are also areas that banks would never sell. Settlement and monitoring, on the other hand, are up for grabs. Some experts also include clients among the core competencies (others take a different view, see below) and the specialized departments that deal with combating money laundering. This knowledge is part of the responsibility to the customer, they argue.

What do banks not need?
In the corporate banking business, for example, succession planning, transactions, mergers, real estate advisory and valuations are areas that can be outsourced, according to the experts. Tax advice is also not part of banks' core business in their view. Partnerships with tax advisors also have the advantage that the partners may refer new customers to the bank. Even in customer onboarding and the related compliance rules (know your customer, politically exposed persons, sanctions) there may be scope for outsourcing. Some experts can also envisage outsourcing the compliance department – but their work could probably also be supported with AI over time. With regulation becoming ever more complex, securities trading, back office, investment business and products such as funds and structured products, asset management, securities settlement and payments are also on this list. According to the experts, ATMs will probably no longer be needed in ten years' time or could be operated by other providers. They also believe it may be possible to buy individual components in the areas of processing, back office and products. IT and software offer further outsourcing options, as much more will be moved to the cloud anyway.

Our point of view

The focus on core competencies, building up a strong, differentiated and relevant market position and outsourcing processes in the value chain that are not central to delivering the value proposition will prevail in the long term. However, buying in these services must be significantly cheaper, higher quality and lower risk – or simply unavoidable due to the lack of capabilities within the bank. The lack of standardization of business and operational processes means that in practice there are few cases that are clearly synergistic.

Establishing joint ventures that pool a relevant part of the value chain was difficult in the past and is unlikely to be very successful in the medium term. The constraints in governance, complexity of projects and political interests are too great and unclear; a material reduction in the workforce as a result of pooling would be difficult to justify in retail banks with strong regional roots. Activities would have to be combined on a substantial scale in order to have a significant positive impact. Even then, it would take years for the investments to pay off. Nonetheless, banks would be well advised to start thinking about which areas could be outsourced in the medium to long term, as this will promote understanding of the efficiency drivers for their own development and their strategic options.

10 Today's employee profiles are inadequate to meet future requirements.

Background

The importance of human resources in the banking sector remains undisputed, but the search for skilled workers who can meet the banks' current and future job requirements is an ever-present issue. There are some shortages of skilled workers in the banking sector, which could possibly deteriorate further in the coming years. The shortage is illustrated by 6,499 vacancies in the banking industry in the fourth quarter of 2023, even if the situation is expected to ease somewhat in the short to medium term due to the redundancies at CS in connection with the takeover by UBS.[34] These workers are urgently needed to transform the sector. In addition, the banking sector currently seems to be less attractive to the younger generations (Gen Y and Gen Z), which makes it even more difficult to fill key positions.

Future competency requirements

However, the question is what sort of skilled workers will be needed in the future. Will the work of bank staff be mainly taken over by AI? Ongoing digitalization, rising customer expectations and the rapidly advancing automation of processes will change the areas of responsibility of bank staff in the branches. This requires a stronger focus on social, creative, methodological and, above all, technical skills. Banks need to significantly increase the proportion of staff with expertise in programming, data science, AI, user experience and user interface (user-friendliness and visual design of apps), process management, IT architecture and cloud technologies in order to meet the demands of the future.

The ratio of computer scientists and software engineers to bank employees needs to be increased. It will be crucial for banking experts and IT specialists to work together to modernize core banking systems and make them fit for the future. In recruiting software developers, banks have to compete both with other banks and the technology sector, which attempts to attract talent with flexible working hours and attractive salaries. There are also major regional differences. The supply of, and demand for, skilled workers of all kinds is very unevenly distributed geographically.

Integrating state-of-the-art IT infrastructures and cloud technologies is key to reducing costs and simultaneously increasing innovation capability. However, many banks have not yet created the necessary personnel and technology base to meet these requirements. Employees need to be better trained in the use of digital technologies. Seamless collaboration between people and machines and interdisciplinary collaboration across departments will be important to unlock the productivity potential of the new digital technologies.

Need for a transformation of work culture

In addition, the social skills of client advisors will become increasingly important if customer centricity is to take center stage in the future. In particular, advisors need to show empathy towards their customers and establish a relationship of trust so that customers are happy to come back to the branch for advisory meetings. The relationship between client advisor and client will increasingly be a key differentiator for banks compared to their competitors.

Banks also face the challenge of integrating modern working models and changing employee requirements. Flexibility and the ability to work from home are now key expectations of many employees. Concepts such as having several jobs at the same time and the desire for meaningful work are also gaining in importance. To remain competitive and attract and retain skilled workers, retail banks need to respond to these trends and create attractive, flexible working environments that meet the individual needs and values of their employees.

Change in management culture

Due to the relatively comfortable business situation of many retail banks, boards of directors and executives were sometimes able to focus on managing the existing business along with new opportunities here and there. Banks' profile has not changed much in recent years, although an update might be helpful in giving new impetus to the banking world and the Swiss economy.

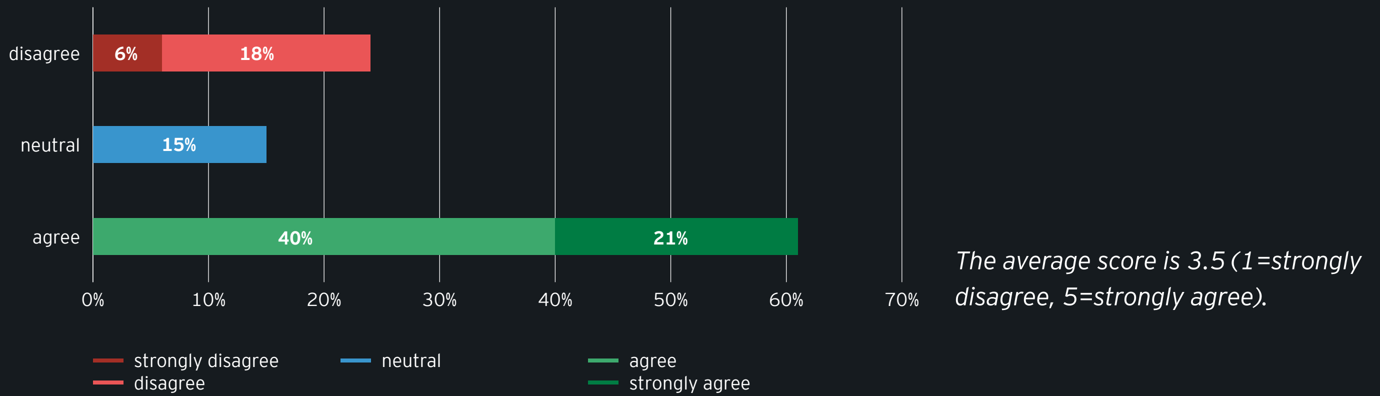
However, the call for greater agility and transformation also requires management to support change management processes. Ultimately, the mindset of all employees has to change.

34 cf. Mergele and Schönleitner, 2024

Analysis of responses

Expert opinion

Proposition 10: Today's employee profiles are inadequate to meet future requirements.



The average score is 3.5 (1=strongly disagree, 5=strongly agree).

Synopsis

The banks anticipate that they will increasingly have to train employees themselves in future. The retirement of the baby boomers from working life cannot be fully compensated by new generations. Less specialized workers will therefore need to be supported by new technologies. In terms of job profiles, the requirements are changing in the direction of more holistic advice, digital expertise and an open mindset that responds positively to change. According to the experts taking part in the survey, older employees do not perform well on the last two criteria. However, they also see deficits among young people: in addition to a lack of experience, they are less resilient. The survey responses suggest that knowledge is less important, as it can be delivered by AI in an instant. Mastering tools and using the new technology intelligently is more important.

Analysis

It is an issue that every industry is thinking about: how well do the existing job profiles fit the requirements of the future? Especially at a time when everything seems to be being disrupted like never before and nobody knows what is hype and what really are changes that mark a new era. The experts surveyed believe that technological progress will help to cushion the shortage of skilled workers. However, the banks will have to work hard on developing their internal training. But what bankers do will also change, and some jobs will become obsolete. For example, customer service assistants will be replaced by intelligent automation, the experts believe.

> Due to technology, we need fewer hands and more brains.

Or maybe not that much will change after all?
The experts participating in the survey believe that banks will need new job profiles because the technological tools, channels and customer interactions are already changing at an unprecedented rate. Older employees in particular are often less digitally savvy and less receptive to change. Nor is it in dispute that the high regulatory pressure and societal issues (see propositions 3 and 4, for example) will also have an impact on employees. However, there are also some bank representatives who expect developments to be more continuous within a stable business. In their view, the business is not changing so much that banks need completely new job profiles. Advice, for example, the core of retail banking, will remain similar.

What profiles are needed?
The participants in the survey call for banks to have more specialists. Their main argument is that automation will lead to the remaining tasks becoming increasingly complex. Unsurprisingly, the bankers expect that more digitally savvy employees will be needed: IT specialists, data analysts and bank employees with specialist knowledge, including ideas on how to implement AI. Age is a recurring topic in the survey. Older employees struggle to imagine how the customer's digital experience can be improved, participants say.

> There is no lack of knowledge, but often there is a lack of will to go out and talk to customers.

Advisors: from gatherers to hunters
According to the experts, a better advisor profile means a change in attitude: advisors have to evolve from gatherers into hunters, and doing so requires far more expertise and abilities, as well as social skills. Client advisors who can serve clients holistically as partners in all aspects of life, and not just when they are taking out a mortgage, will then be in demand. However, banks not only need better adapted advisors, but also more of them.

> In future, we need advisors to be a little more brazen. They should not be afraid to be more provocative and speak to customers directly, but on an equal footing and in a spirit of partnership.

What is missing from today's profiles

The list of gaps with regard to future requirements is long. These include, for example, problem-solving skills, financial advice, technology and soft skills such as culture and mindset.

Gaps in problem-solving capacity:

- Today, banks have assembly line workers and actually need process engineers. Problem-solving skills to standardize a process and translate it into technology are needed.
- Employees have to be able to deal with complexity.

Gaps in financial advice:

- Many employees have not undergone further training and are therefore unable to offer high-quality advice.
- The advisory approach is moving from selling products to providing comprehensive advice. It does not require product salespeople, but advisors who can ensure customers' long-term financial health.
- More advisory capacity at the counter or in branches (advice centers).

Gaps in technology:

- Fears about digitalization must diminish and more digitally savvy employees are needed.
- There are deficits in IT and project management capacity: banks need more cyber risk, cloud and AI experts, as well as data analysts.
- There is also a lack of tech skills in marketing, and the connection between data and personalized offerings does not work yet.
- There is generally too little openness to the use of technology and data knowledge.

Gaps in soft skills:

- Agility, openness to change and the ability to deal with it positively.
- Emotional intelligence and expertise to provide holistic advice.
- Personality traits are becoming more important than knowledge for the acquisition of customers.

Young employees: the downside

While at times almost messianic expectations are directed towards the new generations, bankers also identify deficits among the young, not just their lack of experience. More and more young employees need additional training, but what kind of training is not always clear: as generalists or specialists? Many of the newcomers are also no longer able to cope with pressure. Because many of them only want to work part-time, they do not build up experience as quickly as their predecessors, according to survey participants. In addition, younger employees often have different life plans and leave the bank after completing their apprenticeship. The retirement of the baby boomers and the lack of depth and breadth in the knowledge of the younger generation will cause problems for the industry, the experts conclude.

> “
> We will have to move to a lifelong learning model.

Three measures: training, training and training

The need to find and retain new employees will become even greater, and not just because of the shortage of skilled workers. The retail banking experts know that employees no longer work for the same bank their whole lives anyway. In addition, some older employees are unable or unwilling to change again. That is why it is all the more important to empower young people to grow with them. However, this requires constant investment in training, the experts say: in the training of apprentices, but also in the training of career changers. The latter is becoming ever more important, as skilled workers are becoming scarcer. Banks will therefore increasingly have to train their employees themselves. Cooperation with colleges and universities could help here, according to the experts. Employees should also be supported and empowered with technology. In the view of survey participants, experts are not just rare, but also expensive. Banks therefore need tools that also enable non-experts to do high-quality work.

"

Meaningfulness is important in a job. What motivates you to get up in the morning and go to work?

Purpose and attractiveness as an employer

The experts participating in the survey put particular emphasis on the importance of image, which has suffered at banks in the past – and salaries are no longer top-notch either. In order to be attractive for the right profiles in the market, it is essential to have a purpose, they say. In addition to meaningful work content, values and culture, working time models, family-friendliness and equal rights, fair remuneration policies and, of course, interesting career prospects are also important. If a bank wants to continue finding and retaining good employees on the job market, it is imperative that as an employer it creates attractive conditions and development opportunities for its employees.

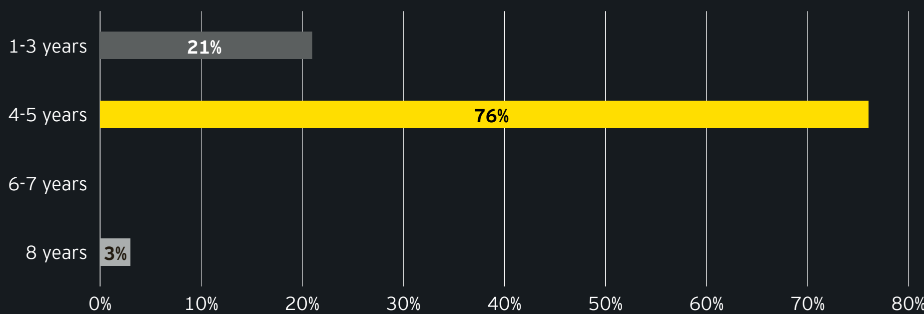
Our point of view

A differentiated HR strategy will be needed to respond adequately to the increasing demands on training levels and rising employee expectations. Especially as banks are committed to greater customer-centricity, character traits and adaptability will increasingly become more important than pure fact-based knowledge, as the latter can be learned or polished up by AI. Technological advances mean that new job profiles have to be developed and existing ones updated. While mediocre expert knowledge offers hardly any added value, in-depth specialist and technical expertise remains essential. In the battle for young workers in particular, a sense of "purpose" plays an increasingly important role, but flexible working time models are also required.

Institution-specific questions

In the previous chapters, based on the propositions, we have made a general assessment of the retail banking market. In the following chapters, we will summarize the findings on four questions about specific issues, which participants answered according to the situation at their institute.

Strategic planning horizon



For a large majority of the banks taking part in the survey, their strategy horizon is four to five years. Some have shorter horizons, but longer horizons are the exception. A number of banks pointed out that strategy reviews are carried out over shorter periods, during which they assess external and internal factors and their relevance for the existing strategy.

Our point of view

To set the strategically relevant guide rails for the long term, banks must also, alongside the medium-term strategy cycles of four to five years, develop and regularly review longer-term scenarios. This is the only way they will be prepared for longer-term trends and be able to take the necessary measures proactively and in good time.

The demise of CS is having an impact on the corporate banking business

Views on the collapse of CS vary, but most of the experts taking part in the survey are sure that the industry will feel its effects. The collapse of CS led angry customers to move to other banks and will in their view tend to support margins in the corporate banking business. This is because the gap left behind in lending is not so easy to close. It is also positive for the banks that highly qualified ex-CS employees are now available on the market. Nevertheless, the bankers stated: "We would have preferred a world with CS." In addition to the further damage to the image of the banking center as a result of the CS crisis, the banks are also concerned that UBS, as the only remaining large bank in the country, is even more dominant and even more "too big to fail". The experts also agree on regulation. As always after a crisis, this will ratchet up again.

Abolition of imputed rental value

The experts interviewed as part of the retail banking study were also asked about imputed rental value in owner-occupied property, the abolition of which has been on the political agenda for decades. A bill to this effect is scheduled for discussion in the National Council in the fall session 2024. If imputed rental value was abolished, mortgage interest would no longer be deductible from taxable income, and it would therefore become more attractive to amortize or repay mortgages. Both would particularly affect homeowners who have additional assets. This would also lead to a decline in bank deposits, as they would be used to repay mortgages. This would affect both the deposit and the lending business. The investment business could also be affected, as customers might no longer invest their surplus funds in securities but instead use them to repay the mortgage. However, the experts believe the balance sheet contraction would be limited, because there are not that many customers who can repay all or a large part of their mortgage. Young families in particular who have recently bought their own home will hardly have enough free funds to amortize the mortgage in the short term. The banks indicated that the issue is not currently a central one. It would be revisited in more detail if the subject became more concrete. As a result, many banks have not investigated the effects in detail yet. They claim that the effect is generally overstated and it is not an existential issue. Banks which have surveyed customers and estimated the effects expect business volume to decrease by 5 to 10% if imputed rental value is abolished. Mortgage volumes, deposits and investment volumes, as well as interest and commission income, would all be affected. The banks would feel this reduction if margins are falling.

Afraid of their own IT

Overall, new technologies, and certainly not new providers, do not appear to be the main problem facing Swiss banks. Ultimately, the banks' own IT systems turns out to be the opponent they fear most. Due to the idiosyncrasies of IT landscapes, migrations, adaptations and collaborations are seen as so complex, time-consuming and costly that institutions steer clear of them, even if they are urgently needed for operational reasons. Changes to the IT architecture not only consume enormous sums of money, the banks report, but also present them with major challenges in dealing with outdated legacy systems. IT should finally adapt to their needs – and not the bank to the needs of IT. The bankers say that banks should have the courage to try something new.

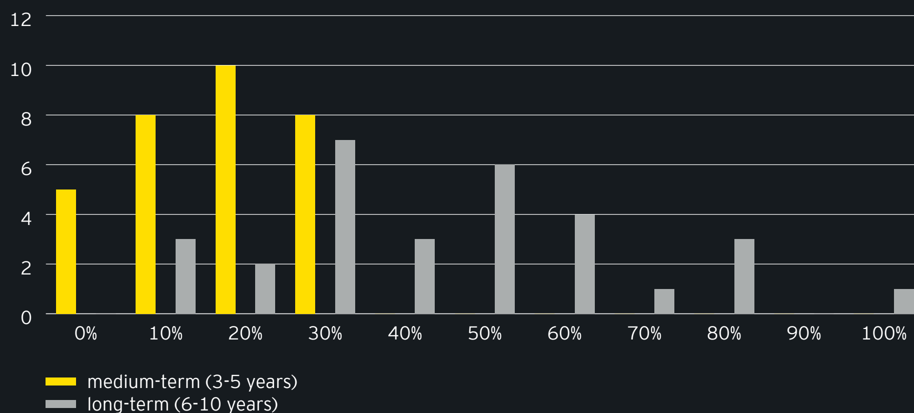
However, the improvements ultimately depend on what third-party providers develop. There are currently two dominant providers of core banking applications in Switzerland that have been parameterized in such a way that they have de facto become cumbersome, in-house applications. What is missing are flexible and agile IT systems with open interfaces, the bank representatives say. The increasing use of external specialists has already weakened the know-how available in-house, and in the banks' view this dependency will become even greater due to increasing complexity. Ultimately, the most important thing for everyone is that the systems work – the worst thing that can happen is semi-finished systems.

When it comes to the IT infrastructure, the banks attach the greatest importance to stability and resilience. After all, banks are inherently risk-averse – security is the measure of all things for them. Security remains a high priority, particularly in light of the increasing requirements for cloud and cybersecurity. However, this hinders innovation. According to the experts, how these two values should be weighted is ultimately a strategic discussion. The IT strategy must therefore be something that is discussed at board level. When it comes to innovation, banks' strategy is to be an early adopter/smart follower – rather than a first (i.e. fast) mover. In short, stability seems to be the top priority and innovation the nice-to-have. As regards customer requirements, the banks also identified availability, reliability and stability as the top priority.

Probability of disruptive changes

Conclusion

Probability of disruptive changes (number of banks per probability range)



When looking at the survey results on the probability of disruptive changes, it is important to bear in mind that "disruptive change" can be interpreted differently in terms of a material change in market positioning, value creation logic and business models. When is a development no longer evolutionary but disruptive?

Leaving aside this vagueness of definition, the survey of 33 banks shows that the probability of disruptive changes in the medium term (three to five years) is considered low with an average of 17%. Unsurprisingly, the probability of disruption is seen as higher in the long term (six to ten years), with an average of 45%.

Banks therefore do not expect any disruptive changes to occur over the next ten years.

There is still room for everyone in the oasis of well-being

Switzerland cannot escape geopolitical risks, pandemics or home-made crises, such as the recent CS crisis. So far, however, it has been spared disruption. Particularly in light of the uncertainties, Switzerland has been able to further increase its attractiveness relative to the international environment over the past two decades. A glance at the exchange rate, immigration and property prices is sufficient to largely confirm this picture – and yet it is also important to mention that the Swiss financial center is facing fierce international competition and is losing ground.

Compared to other markets, Switzerland is therefore still an oasis of well-being for retail banking with room for (almost) everyone. Despite a downward trend, margins still have a comfortable safety buffer. The banks still do not expect a tectonic change in the competitive environment, at least not in the medium term. They are certain that retail banking will still be around in ten years' time. With maturity transformation, payments and account hosting, the industry meets key needs of business and private individuals without which day-to-day life would be impossible. Neobanks, fintech and big tech have not shaken up the market. In spite of everything, their innovations have never been so fundamental that traditional banks could not absorb them successfully. In fact, it is the fintechs that cannot do without traditional institutions as partners. They have to increase their bank DNA if they want to access the greatest asset in banking: customer interfaces.

Keep your eyes open

The barriers to entry also give banks security: On the one hand, there is the special regulation that differs from the EU, fragmentation into 26 cantons and a density of banks with a high service quality that the population still trusts. And finally, the modest size of the market, which weakens foreign interest in entering the market. Or as one banker put it: "It may be a super attractive piece of meat, but it is just not big enough."

Having said this, the institutions taking part in our survey are aware that AI and other technologies such as open banking, distributed ledger and blockchain technology could have the potential for disruption in the future, as do the strategies of the major international tech multinationals to expand into financial services, should Switzerland after all hold enough appeal for them to enter the market. Even though there is currently a lot of hype surrounding AI and its importance tends to be overestimated in the short term, it could bring about fundamental changes in the longer term and therefore ultimately be underestimated – this would be a very typical phenomenon. A key question is likely to be who will be the first to offer a personal virtual assistant as a service that monitors financial well-being in a lifelong and symbiotic manner, and when they will do so.

It is also conceivable that demographic change and the change in values of the new generations will bring about more deep-seated change than anticipated. While banks expect the interest-based business to remain relatively stable, the non-interest business, which most retail banks have made it a diversification objective to expand, could be most vulnerable to disruption. Overall, these concluding points are in line with the views the banks shared with us for the ten propositions. The participants basically agree that many things are in flux (economic, political, social and technological) and that the banks will themselves have to keep moving to be able to react flexibly to change or even drive change forward themselves.

Overall, our impression of the participating banks was that they are optimistic, but also vigilant. Retail banking will continue to exist in 2035. We will see in what form and what changes in the meantime.

Appendix

Institutions participating in the survey

- Aargauische Kantonalbank
- Alternative Bank Schweiz AG
- Baloise Bank AG
- Banca dello Stato del Cantone Ticino
- Banca Popolare di Sondrio (Suisse) AG
- Bank Avera Genossenschaft
- Bank Cler AG
- LLB (Schweiz) AG
- Banque Cantonale de Fribourg
- Banque Cantonale de Genève
- Banque Cantonale Vaudoise
- Banque Raiffeisen Sion et Région société coopérative
- Basellandschaftliche Kantonalbank
- Basler Kantonalbank
- Berner Kantonalbank AG
- Glarner Kantonalbank
- Graubündner Kantonalbank
- Hypothekarbank Lenzburg AG
- Luzerner Kantonalbank AG
- Migros Bank AG
- neon Switzerland AG
- PostFinance AG
- Raiffeisen Schweiz Genossenschaft
- Raiffeisenbank Zürich Genossenschaft
- Schaffhauser Kantonalbank
- Schwyzer Kantonalbank
- St. Galler Kantonalbank AG
- Thurgauer Kantonalbank
- UBS AG
- Valiant Bank AG
- WIR Bank Genossenschaft
- Zuger Kantonalbank
- Zürcher Kantonalbank

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