EY Bank Barometer 2018

10 Years After the Financial Crisis - A New Wave of Optimism?

Media Conference, 11 January 2018
Introduction

- Study Design
- Market Environment
- Operating Business Development
- Negative Interest Rates
- Automatic Exchange of Information
- Financial Market Regulation
- Lending Business
- Structural Change and FinTech
- Priorities for 2018
- Outlook - Banking in 7 to 10 Years
- Key Messages
1. Study design
Study design

- Survey by EY in November 2017
- Survey of 100 banks in Switzerland\(^1\)
- 8th edition since 2010

Breakdown of survey sample

<table>
<thead>
<tr>
<th>Type of bank</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private banks (^2)</td>
<td>31%</td>
<td>27%</td>
<td>39%</td>
</tr>
<tr>
<td>Banks under foreign control</td>
<td>33%</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>Regional banks</td>
<td>22%</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>Cantonal banks</td>
<td>14%</td>
<td>16%</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank size by customer assets</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5 billion francs</td>
<td>52%</td>
<td>68%</td>
<td>55%</td>
</tr>
<tr>
<td>Between 5 and 10 billion francs</td>
<td>14%</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>Between 10 and 50 billion francs</td>
<td>22%</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Over 50 billion francs</td>
<td>12%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

\(^1\) The Swiss units of the two big banks were surveyed and their input was included in the general analysis, but not in the evaluations by type of bank

\(^2\) Including investment banks
2. Market Environment
The financial and economic crisis shook the financial world to its core when it hit in 2007. Since then, central banks have kept interest rates low and flooded the markets with liquidity. The prices of many asset classes have skyrocketed as a result. This is reflected by the all-time-highs on stock markets around the world and real estate prices.

The exceptional macroeconomic conditions have held strong for several years now, fundamental laws of economics (such as interest rates as a pricing mechanism) have virtually been put into deep freeze and the risk of corrections on the capital markets should not be underestimated. The room for maneuver of central banks to react to future crises is likely to be extremely restricted in view of their balance sheet structures and the current exchange rate.

Sources: www.snb.ch, www.msci.com; Interest rate in %, money supply in CHF bn
Volume growth – higher risks, lower returns

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>2'125</td>
<td>2'847</td>
<td>2'715</td>
<td>3'026</td>
<td>3'101</td>
<td>976</td>
<td>46%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>513</td>
<td>647</td>
<td>767</td>
<td>943</td>
<td>968</td>
<td>455</td>
<td>89%</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>885</td>
<td>1'211</td>
<td>1'389</td>
<td>1'723</td>
<td>1'771</td>
<td>886</td>
<td>100%</td>
</tr>
<tr>
<td>Securities holdings</td>
<td>3'716</td>
<td>4'412</td>
<td>4'453</td>
<td>5'588</td>
<td>5'654</td>
<td>1'938</td>
<td>52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of banks</td>
<td>375</td>
<td>337</td>
<td>320</td>
<td>266</td>
<td>261</td>
<td>-114</td>
<td>-30%</td>
</tr>
<tr>
<td>Number of branches in Switzerland</td>
<td>3'809</td>
<td>3'535</td>
<td>3'442</td>
<td>3'167</td>
<td>3'029</td>
<td>-780</td>
<td>-20%</td>
</tr>
<tr>
<td>Number of employees (FTE)</td>
<td>124'998</td>
<td>119'464</td>
<td>132'013</td>
<td>123'889</td>
<td>120'843</td>
<td>-4'155</td>
<td>-3%</td>
</tr>
<tr>
<td>Business performance (in CHF bn)</td>
<td>68.7</td>
<td>68.6</td>
<td>61.5</td>
<td>63.7</td>
<td>61.9</td>
<td>-6.8</td>
<td>-10%</td>
</tr>
<tr>
<td>Business performance/FTE (in CHF 000s)</td>
<td>549.4</td>
<td>574.2</td>
<td>465.9</td>
<td>514.0</td>
<td>512.2</td>
<td>-37.2</td>
<td>-7%</td>
</tr>
</tbody>
</table>

Source: www.snb.ch

- Banks have significantly increased their business volumes since 2000. The aggregated total assets of all banks in Switzerland have risen by more than 46% during this period. Mortgage lending by banks has grown even more dramatically (89%). Banks have managed to attract assets in the investment business as well: the securities holdings of bank customers have grown by 52% over the past 16 years.

- This massive growth in business volumes is not reflected in banks’ income statements, however. Indeed, banks’ aggregated business performance has even fallen by 10% during the same period. This trend can be explained by the erosion of margins in the traditional banking business at Swiss banks.
Volatile, falling profits

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>23.7</td>
<td>22.5</td>
<td>19.8</td>
<td>23.8</td>
<td>23.4</td>
<td>-0.3</td>
<td>1%</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>28.9</td>
<td>28.0</td>
<td>24.9</td>
<td>22.4</td>
<td>20.9</td>
<td>-8.0</td>
<td>-28%</td>
</tr>
<tr>
<td>Net trading income</td>
<td>12.5</td>
<td>11.2</td>
<td>11.8</td>
<td>8.6</td>
<td>6.2</td>
<td>-6.3</td>
<td>-51%</td>
</tr>
<tr>
<td>Other income</td>
<td>3.7</td>
<td>6.9</td>
<td>5.0</td>
<td>8.9</td>
<td>11.4</td>
<td>7.7</td>
<td>210%</td>
</tr>
<tr>
<td>Business performance</td>
<td>68.7</td>
<td>68.6</td>
<td>61.5</td>
<td>63.7</td>
<td>61.9</td>
<td>-6.8</td>
<td>-10%</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>-24.1</td>
<td>-26.2</td>
<td>-29.2</td>
<td>-25.9</td>
<td>-26.1</td>
<td>-2.0</td>
<td>8%</td>
</tr>
<tr>
<td>Non-personnel expenses</td>
<td>-13.4</td>
<td>-12.8</td>
<td>-13.3</td>
<td>-18.8</td>
<td>-19.9</td>
<td>-6.5</td>
<td>49%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>-37.5</td>
<td>-39.0</td>
<td>-42.5</td>
<td>-44.7</td>
<td>-46.0</td>
<td>-8.5</td>
<td>23%</td>
</tr>
<tr>
<td>Impairments/depreciation</td>
<td>-8.3</td>
<td>-4.9</td>
<td>-11.2</td>
<td>-12.0</td>
<td>-7.9</td>
<td>0.4</td>
<td>-5%</td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>0.2</td>
<td>4.7</td>
<td>4.1</td>
<td>11.2</td>
<td>2.3</td>
<td>2.1</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Taxes</td>
<td>-3.8</td>
<td>-4.8</td>
<td>-1.3</td>
<td>-2.2</td>
<td>-2.3</td>
<td>1.5</td>
<td>-39%</td>
</tr>
<tr>
<td>Net income</td>
<td>19.2</td>
<td>24.7</td>
<td>10.7</td>
<td>15.8</td>
<td>7.9</td>
<td>-11.3</td>
<td>-59%</td>
</tr>
</tbody>
</table>

Source: www.snb.ch

- Income from banks' core activities has decreased considerably in recent years. As a result, since 2000 net fee and commission income has fallen by 28%, and net trading income by 51%. Net interest income was the only parameter that remained stable during the same period.
- Expenses rose during the same period. Initiatives to reduce personnel expenses in the banking sector have had a very limited effect so far. In spite of slightly declining headcount, personnel expenses have increased by 8%. Non-personnel expenses rose by as much as 49% during the period under observation.
Securities holdings and customer deposits at record high

The securities holdings of Swiss banks have reached a new record high with a volume of CHF 5,654 billion. The sharpest rise has been among institutional customers. While the assets of Swiss private customers have maintained a relatively constant trend, the securities holdings of foreign private customers have fallen dramatically, halving from around CHF 1,000 billion to just CHF 500 billion.

Client deposits are also at a record level. This is not especially surprising given that many customers are still holding onto very large cash holdings in view of the persisting uncertainty.

Source: www.snb.ch
3. Operating Business Development
“How would you assess the current development of your operating business (over the past 6 to 12 months)?”

The majority of banks continue to assess business development over recent months as positive. 82% (previous year: 80%) say they have increased their operating income.

Indeed, many banks have shown themselves to be extremely resilient in recent years and have navigated the challenging landscape with its new regulatory provisions, shrinking margins and negative interest rates relatively well.
A New Wave of Optimism?

“What kind of development do you expect for your organization’s operating business in the next 6 to 12 months?”

The vast majority of banks have a positive outlook for the near future. 82% (previous year: 68%) expect operating income to rise in the coming 6 to 12 months.

There are plenty of good reasons for this optimism. Many banks have demonstrated a relatively high level of resilience to the challenges they have faced in recent years, which has given them a new sense of self-confidence. The banking industry is also of the opinion that the wave of regulations has crested, and this will be followed by a gradual normalization accompanied by an improvement in framework conditions. Finally, the expectation is that the economic recovery and the quantitative easing has not yet reached its peak.
Retail banks are taking the future in their stride

“How would you assess the current development of your operating business (over the past 6 to 12 months)?”

Cantonal banks

“What kind of development do you expect for your organization’s operating business in the next 6 to 12 months?”

Regional banks

Cantonal banks

► Cantonal and regional banks have a predominantly positive view of how their business performed last year. Cantonal banks are also very optimistic about the future. In the case of regional banks however, confidence for the next twelve months is on the wane.  
► Cantonal banks are convinced that in these turbulent times for the banking sector they will be able to reap the benefits due to their good reputation, their strong customer loyalty and, last but not least, the existing state guarantees. In uncertain times, security is a sought-after commodity.
Private banks express optimism

“How would you assess the current development of your operating business (over the past 6 to 12 months)?”

Banks under foreign control

Private banks

“What kind of development do you expect for your organization’s operating business in the next 6 to 12 months?”

Banks under foreign control

Private banks

► Private banks are looking to the future with confidence again. 88% of private banks (previous year: 53%) expect income to grow in the coming 12 months.

► The framework conditions for private banks have undergone a major upheaval since the financial crisis (tax transparency, investor protection, etc.). The regulations that have been put in place create clarity and legal certainty in many areas. It would seem that the (remaining) private banks have adjusted themselves to the new market conditions.
Relatively stable personnel situation expected in the short term

“How do you expect the number of employees in your organization to develop in the next 6 to 12 months?”

The majority of banks surveyed expect headcount to remain relatively constant in the coming months. Only 14% of banks (previous year: 15%) plan to reduce the number of employees by 5% or more. It would seem that banks are not expecting the accelerating pace of digitization and the emerging process of structural change to result in any major job cuts for the time being. It remains uncertain whether headcount can be kept stable in the long term as well, however.
Employment situation at private banks and banks under foreign control is recovering

“How do you expect the number of employees in your organization to develop in the next 6 to 12 months?”

The majority of cantonal and regional banks expect headcount to remain stable.

The employment situation at private banks has recovered. While in the previous year more than one quarter of all private banks expected headcount to decline, today this figure is just 16%. At banks under foreign control, the positive trend that got underway last year is continuing.
4. Negative Interest Rates
Banks are suffering due to negative interest rates

“In January 2015, the SNB introduced negative interest rates and is expected to keep rates low for some time. How would you describe the situation for your organization?”

<table>
<thead>
<tr>
<th>Year</th>
<th>Private banks</th>
<th>Banks under foreign control</th>
<th>Regional banks</th>
<th>Cantonal banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>10% 45% 45%</td>
<td>9% 18% 44% 29%</td>
<td>5% 36% 59% 26%</td>
<td>6% 56% 71% 33%</td>
</tr>
<tr>
<td>2016</td>
<td>6% 10% 32%</td>
<td>4% 7% 44% 29%</td>
<td>15% 36% 59% 26%</td>
<td>5% 18% 55% 33%</td>
</tr>
<tr>
<td>2015</td>
<td>2% 13% 45%</td>
<td>4% 7% 78% 11%</td>
<td>6% 40% 43% 11%</td>
<td>6% 29% 55% 33%</td>
</tr>
</tbody>
</table>

> Like last year, 86% of the banks surveyed anticipate negative repercussions for their institution resulting from the SNB’s low interest rate policy. This negative assessment among cantonal and regional banks of how the low interest rate policy is affecting their business has sharpened versus last year.

> Negative interest rates are squeezing margins in the lending business and creating profitability pressure in the long run. In addition, the investment crisis caused by the low interest rate environment is pushing more and more institutional investors and non-banks into the lending business, eroding banks’ margins even further.
“Does your organization intend to introduce negative interest rates in the private customer business?”

<table>
<thead>
<tr>
<th>Year</th>
<th>Private banks</th>
<th>Regional banks</th>
<th>Cantonal banks</th>
<th>Banks under foreign control</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>20% 40% 27% 13%</td>
<td>75% 19% 31% 23%</td>
<td>46% 31% 25% 23%</td>
<td>43% 9% 27% 21%</td>
</tr>
<tr>
<td>2016</td>
<td>73% 5% 5% 17%</td>
<td>62% 19% 35% 25%</td>
<td>40% 35% 25% 20%</td>
<td>61% 10% 15% 14%</td>
</tr>
<tr>
<td>2015</td>
<td>61% 10% 15% 14%</td>
<td>80% 6% 12% 4%</td>
<td>80% 10% 15% 8%</td>
<td>67% 10% 15% 8%</td>
</tr>
</tbody>
</table>

- For the first time, the majority of banks are no longer categorically ruling out passing on negative interest rates. 57% percent of Swiss banks (previous year: 35%) can now envision introducing negative interest rates in the private customer business under certain circumstances.
- However, retail customers do not need to worry about having negative interest rates applied to their assets for the time being.
Continued sharp decline in deposits feared

“Assuming Swiss banks were to introduce negative interest rates in the private customer business, would you expect a strong (> 10%) decrease in deposits (run on the bank)?”

<table>
<thead>
<tr>
<th>Year</th>
<th>Private banks</th>
<th>Banks under foreign control</th>
<th>Regional banks</th>
<th>Cantonal banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13% 26% 35% 48% 32%</td>
<td>4% 18% 48% 30%</td>
<td>24% 30% 32% 14%</td>
<td>6% 33% 28% 33%</td>
</tr>
<tr>
<td>2017</td>
<td>40% 47% 13%</td>
<td>6% 33% 49% 12%</td>
<td>27% 18% 18% 37%</td>
<td>14% 65% 7%</td>
</tr>
</tbody>
</table>

- Banks assess the risk of a run on the bank the same as they did a year ago: 40% of banks (previous year: 40%) expect a decrease of at least 10% of customer deposits if Swiss banks were to introduce negative interest rates in the private customer business.
- Retail banks would be especially hard hit by a massive drop-off in customer deposits, possibly leading to refinancing difficulties. There is no question of passing on negative interest rates to retail customers for the time being.
Negative interest rates have a deep impact

“Which of the following consequences of the sustained low-interest environment do you consider to be the most severe?”

- Price adjustments
- Challenging hedging environment
- Excessive risk appetite in the lending business
- Margin erosion
- All

Only 3% of the banks surveyed have not experienced any serious consequences due to the persistently low interest rate environment. Although banks have dealt with the negative interest rates exceptionally well so far, the main danger posed by the low interest rate policy for the majority of banks is the erosion of margins in the interest rate business.

In spite of the undeniably negative repercussions of the low interest rate policy on the banking business, the majority of banks are convinced that the low interest rate environment has so far not led to an increased risk appetite in the lending business.
No end to interest rate policy expected for the time being

“The vast majority of banks (74%) expect the national bank to end its expansive monetary policy in the medium term (that is, in one to three years), and that interest rates will reverse as a result.

It cannot be predicted with any degree of certainty how well banks will be able to digest the repercussions of an interest rate reversal. What is clear, however, is that an abrupt and sharp interest rate rise would seriously dent banks’ net interest income. Nevertheless, over time, a gradual increase in interest rates would have a positive impact on banks’ results.
5. Automatic Exchange of Information (AEI)
The impact of AEI is making itself felt

“Since the implementation of data collection for the AEI on 1 January 2017, which will be reported for the first time in 2018, have developments in connection with banking secrecy, tax transparency and automatic exchange of information overall led to significant outflows of foreign customers’ assets at your organization?”

As before, only a minority of 11% say they saw significant outflows of assets.

Nevertheless, the share of banks which had to contend with losses of assets of 2% or more in the last 12 month increased sharply from 29% to 42%. Only 58% (previous year: 71%) did not see any (that is, less than 2%) outflows of foreign customer assets.
Uncertainty about AEI for Swiss customers

“Do you expect that current developments in connection with the automatic exchange of information will also apply to domestic banking customers?”

For the third year in succession, there is uncertainty among the banks surveyed as to whether AEI will also be extended to Swiss customers. While the percentage of banks with a clear opinion (Yes or No) has decreased, the general agreement rate (Yes or Probably) has risen slightly.

Regardless of banks’ assessment of the situation, the most recent political signals currently do not point toward a rapid erosion of bank-customer confidentiality in Switzerland.
6. Financial Market Regulation
“10 years after the financial crisis, would you say that regulation has improved the stability of the Swiss financial system?”

In the opinion of Swiss banks, the regulatory agenda has had its desired effect: 87% of banks are of the conviction that the financial market is more stable today than it was before the financial crisis.

Indeed, banks have scaled back their trading books, built up more capital and gradually implemented more stringent liquidity and derivatives trading rules. They have also improved their resolvability, i.e. their ability to isolate risks through emergency planning.
Banks recognize that a lot of the regulations introduced in recent years have made the financial system more stable overall. However, there are also specific areas where the banking industry feels that regulators have been over-zealous in their financial market regulation.

Banks view areas of potential over-regulation related to the topics of investor protection (71%), liquidity guidelines (62%) and funds regulation (62%). The guidelines with respect to investor protection and funds regulations are perceived by many as purely an exercise in documentation.

Balanced assessment of financial market regulation

“In which of the following areas has Swiss regulation potentially gone too deep and resulted in negative impacts?”

- Market conduct: 2% Yes, 31% Probably, 53% Probably not, 14% No
- Derivatives trading: 18% Yes, 31% Probably, 42% Probably not, 9% No
- Cybercrime: 2% Yes, 20% Probably, 51% Probably not, 27% No
- Funds regulation: 20% Yes, 42% Probably, 32% Probably not, 6% No
- KYC: 14% Yes, 27% Probably, 46% Probably not, 13% No
- Tax transparency: 15% Yes, 32% Probably, 40% Probably not, 13% No
- Investor protection: 34% Yes, 37% Probably, 26% Probably not, 3% No
- Liquidity: 18% Yes, 44% Probably, 26% Probably not, 12% No
- Capital: 8% Yes, 35% Probably, 38% Probably not, 19% No
FIDLEG: negative repercussions outweigh positive effects

“Soon the Financial Services Act will be enforced. Considering the latest draft, which of the following impacts do you expect on your business due to the new regulation?”

<table>
<thead>
<tr>
<th>Impact</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved consumer protection</td>
<td>8%</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>41%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Better quality of investment advice</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>39%</td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Outsourcing to specialists</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>34%</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>Improved documentation</td>
<td>22%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>57%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Restriction in product range</td>
<td>23%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>49%</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td>20%</td>
</tr>
<tr>
<td>Cost increase of banking services</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>51%</td>
<td>47%</td>
</tr>
<tr>
<td></td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Swiss banks have a primarily negative opinion of FIDLEG. They fear that FIDLEG will lead to a more restricted product range (72%) and to higher costs (75%) for end-customers, without any commensurate increase in the quality of investment advice. Only 45% of all banks (previous year: 64%) think quality has improved.

Against this backdrop, banks are becoming increasingly doubtful as to whether the new rules will achieve the intended objective of the proposed regulation - to strengthen investor protection.
No doors opened by Brexit

“Do you expect Brexit and the associated negotiations between the EU and the UK to improve Swiss banks' opportunities for market access to the EU as a financial market in the long term?”

Unchanged from last year, the vast majority (68%) of banks do not expect the negotiations between the EU and the UK to unlock new opportunities for Swiss banks. Creating the conditions for market access remains a key political task, however it is unclear for many banks how political actors will approach this task.

Unchanged from last year, the vast majority (68%) of banks do not expect the negotiations between the EU and the UK to unlock new opportunities for Swiss banks. Creating the conditions for market access remains a key political task, however it is unclear for many banks how political actors will approach this task.
7. Lending Business
Only 25% of banks are still pursuing a restrictive lending policy

“How do you expect the lending policy of Swiss banks in the residential property segment to develop in the next 6 to 12 months?”

- Financing for SMEs
  - 2017 Combined: 1% (somewhat more restrictive), 4% (more restrictive), 4% (remain unchanged), 21% (somewhat more expansive), 4% (more expansive)
  - 2016 Combined: 10% (somewhat more restrictive), 6% (more restrictive), 25% (remain unchanged), 28% (somewhat more expansive), 5% (more expansive)

- Financing for residential property
  - 2017 Combined: 1% (somewhat more restrictive), 4% (more restrictive), 4% (remain unchanged), 21% (somewhat more expansive), 26% (more expansive)
  - 2016 Combined: 2% (somewhat more restrictive), 2% (more restrictive), 10% (remain unchanged), 53% (somewhat more expansive), 31% (more expansive)

并发症：

- Only 25% of the banks surveyed say they will be pursuing a restrictive lending policy in the coming months. Four years ago, this figure was almost 60%. The majority of the banks surveyed intend to continue their current lending policy.
- The increasingly optimistic outlook of banks should have an especially positive impact on financing for SMEs. Only 17% of the institutions surveyed anticipate restricting lending in this segment.
Practically no credit defaults so far...

“In comparison to the prior year, what level of risk provisioning (impairment losses and provisions) do you expect you will need to cover your residential property financing business in the next 6 to 12 months”

- Banks assess the risks arising from the lending business to be even lower than last year. Only 20% (previous year: 30%) think that impairment losses and provisions will increase in the next twelve months.
- When assessing the risks in connection with SME financing, in particular, banks are much more optimistic than last year. Even if recent years have been characterized by an unusually small number of credit defaults, it is unlikely this scenario will last forever.
... in spite of rising risks on the real estate market

“Would you agree with the following statement: The current housing boom and the price increase for investment properties is a considerable risk for the Swiss real estate market?”

The dearth of investments and negative interest rates are forcing many investors onto the investment property market. 71% of banks are of the opinion that the current housing boom and the price increase for investment properties pose a considerable risk for the Swiss real estate market.

It should be noted that the greatest risks for banks focused on the Swiss market remain the mortgage and real estate market. Prices for investment properties have risen sharply in many regions in recent years, while yields have dropped off considerably.
8. Structural Change and FinTech
Structural change is advancing - but scepticism is spreading

“In your opinion, is a fundamental structural change (sustained transformation of the value chain) already taking place in the Swiss financial services industry?”

The vast majority of banks (73%) are of the opinion that the Swiss financial industry is in the grips of a fundamental structural change. Scepticism surrounding this question has surprisingly increased compared with the previous year: one quarter of all banks - therefore, considerably more than the previous year - have expressed doubt in the structural change.

This view is surprising given the wide range of new challenges confronting banks in the present environment. It is clear that there is uncertainty regarding the topic of structural change. It is difficult to grasp and the implications for existing business models still hard to quantify.

The vast majority of banks (73%) are of the opinion that the Swiss financial industry is in the grips of a fundamental structural change. Scepticism surrounding this question has surprisingly increased compared with the previous year: one quarter of all banks - therefore, considerably more than the previous year - have expressed doubt in the structural change.

This view is surprising given the wide range of new challenges confronting banks in the present environment. It is clear that there is uncertainty regarding the topic of structural change. It is difficult to grasp and the implications for existing business models still hard to quantify.
More than one half of banks (55%) think that payments is the area most severely affected by structural change. This is followed, at quite some distance, by the areas of investment advice (20%) and asset management (13%), which were topics of much greater concern last year.

The payments industry has undergone some rapid changes in recent months. Several mobile payments systems are poised for rollout. Thus, the innovative ideas coming out of this business area are increasingly being turned into concrete applications, making structural change in this industry increasingly real and tangible.
Quo vadis, payments?

“In your opinion, will Swiss banks be able to derive profits from payment settlements in the future?”

- 70% of all banks are of the current opinion that Swiss banks will no longer be able to operate payments at a profit in the long run.
- The majority of banks no longer see payments as a lucrative business area going forward. However, payments serve as an interface to customers, supply valuable customer information and – together with the linked transaction accounts – constitutes a major source of income in banks’ deposit business.
Banks recognize the extent of digitization

“The term “digitization” is currently a popular buzzword. What is, in your view, the significance and potential value-adding proposition of digitization in the financial services industry?”

- Digitization will fundamentally revolutionize the financial services industry
- Digitization will add an important sales and distribution channel
- Digitization is overrated and will recede again

-One half of all banks (previous year: 26%) now expect technological development to have a fundamental impact on strategies, business models and business processes.

- Digitization is the strongest driver of long-term structural change. The responses provided by banks show that they are gradually realizing the full potential of digitization. In order to take full advantage of this trend, however, further progress needs to be made in the standardization of business processes.
Are banks’ IT operations “fit” for the future?

“Would you say that your current IT architecture is “fit for purpose” to face current and future challenges?”

- **Private banks**
  - Yes: 16%
  - Probably: 44%
  - Probably not: 31%
  - No: 9%

- **Banks under foreign control**
  - Yes: 6%
  - Probably: 62%
  - Probably not: 24%
  - No: 8%

- **Regional banks**
  - Yes: 18%
  - Probably: 59%
  - Probably not: 18%
  - No: 5%

- **Cantonal banks**
  - Yes: 21%
  - Probably: 51%
  - Probably not: 21%
  - No: 7%

67% of the banks surveyed are convinced that their current IT infrastructure is well equipped to deal with future challenges. This conviction is evident among all banking groups.

The results largely reflect the situation that in recent years a lot of banks have updated their core bank applications and the associated peripheral systems. The rapid pace of technological progress looks set to increase the number of systems and the diversity this brings with it, which will further exacerbate complexity and likely require additional investment.
“Which of the following evolving technologies / businesses represent a potential threat for well-established financial institutions?”

- **Private banks:**
  - Marketplaces (especially for lending)/peer to peer lending: 21%
  - Cryptocurrencies: 3%
  - Roboadvisors: 14%
  - Blockchain: 38%
  - Banks under foreign control: 10%
  - None: 14%

- **Banks under foreign control:**
  - Marketplaces (especially for lending)/peer to peer lending: 9%
  - Cryptocurrencies: 3%
  - Roboadvisors: 18%
  - Blockchain: 32%
  - Banks under foreign control: 26%
  - None: 12%

- **Regional banks:**
  - Marketplaces (especially for lending)/peer to peer lending: 35%
  - Cryptocurrencies: 10%
  - Roboadvisors: 15%
  - Blockchain: 5%
  - Banks under foreign control: 35%

- **Cantonal banks:**
  - Marketplaces (especially for lending)/peer to peer lending: 14%
  - Cryptocurrencies: 7%
  - Roboadvisors: 22%
  - Blockchain: 29%
  - Banks under foreign control: 14%
  - None: 14%

- **Blockchain as a game changer?**

  - There is uncertainty among banks about which FinTech phenomena pose the greatest threat to established financial institutions. The greatest threat potential is currently ascribed to blockchain technology (28%).
  - The varying levels of importance attached by banks shows that established financial institutions still have no clear understanding of the central FinTech phenomena, and these are currently very difficult to grasp.
Robots are welcome, but not on the front line

“Do you plan on the implementation of robots robotics in your business? If yes, in which main areas?”

- The majority of the banks surveyed also anticipate using robots or virtual assistants in the future. A total of 75% of banks are open to the idea of using robots in the future.
- The potential for robots is considered to be especially high in the areas of analysis and decision-making (e.g. investment recommendations, credit decisions) and in the middle/back office. From today’s perspective, it appears doubtful that the area of application of robots will extend to encompass client advisory and compliance activities.
9. Priorities for 2018
In the years following the financial crisis, the topic of risk and regulation was pushed firmly into the foreground due to the implementation of several new regulatory requirements. A realignment of priorities now seems to be underway. In the foreseeable future banks want to increasingly hone their focus on the topics of growth and innovation.

This shift in mood has extended to almost all banking groups. Regional banks remain the exception in this regard – their primary focus continues to be cost management (41%).
Cyber security is the overriding issue

“Which of the following topics and activities do you expect to be of particular importance for the financial industry over the next 6 to 12 months?”

For the foreseeable future, banks want to gear their strategic focus increasingly to the topics of innovation and growth. Alongside investments in new sales channels and digitization, partnerships with non-banks are also increasingly shifting into the spotlight.

Advancing digitization is also giving rise to new risks. It is therefore hardly surprising that cyber security is currently considered a key topic.

For the foreseeable future, banks want to gear their strategic focus increasingly to the topics of innovation and growth. Alongside investments in new sales channels and digitization, partnerships with non-banks are also increasingly shifting into the spotlight.

Advancing digitization is also giving rise to new risks. It is therefore hardly surprising that cyber security is currently considered a key topic.
10. Outlook – Banking in 7 to 10 Years
Is the wave of regulation nearing an end?

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

In the future, the Swiss banking sector will be substantially more regulated.

In the years following the financial crisis, banks scaled back their trading books, improved their resolvability (their ability to isolate risks through emergency planning), increased their capital and gradually implemented more stringent liquidity and derivatives trading guidelines. Banks are of the conviction that these measures have created a more stable financial system.

With a lot already achieved, the banking industry is now of the opinion that the wave of regulation has peaked, which will be followed by a normalization accompanied by an improvement in framework conditions. 37% anticipate that the industry will be subjected to the same level of regulation in the coming 7 to 10 years. This is the highest value since the start of study.
Regulation: cantonal banks expect the trend to reverse

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”
In the future, the Swiss banking sector will be substantially more regulated.

The trend is evident across all banking groups that the financial industry is not expecting any increased regulation.

This trend reversal is most keenly anticipated by cantonal and private banks. 46% (previous year: 12%) of cantonal banks or 44% (previous year: 12%) of private banks agree with this assumption that regulation will not become any more stringent.
Higher yields in the forecast again?

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

In the future, banks’ shareholders will have to accept lower returns.

- Banks seem to be a lot more relaxed than in previous years when it comes to forecasting their yield prospects: one quarter of all banks (26%) disagree that shareholders will have to adapt to falling profitability in the years ahead. This is a sharp rise on the previous year, when only 8% shared this view.
- Banks want to benefit from the positive economic environment and are striving for growth, which should ultimately also benefit shareholders.
Optimism is on the rise among all banking groups

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

In the future, banks’ shareholders will have to accept lower returns.

Higher profitability expectations are evident among all banking groups.

Private banks and banks under foreign control have seen the strongest rise: 34% of private banks (previous year: 3%) and 24% of banks under foreign control (previous year: 0%) do not anticipate that profitability will fall any further, based on current assumptions.
Consolidation not yet complete

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”
In the future, there will be substantially fewer banking institutions in Switzerland.

Even though around 30% of banks disappeared during the period from 2000 to 2016, banks still expect the number of institutions to see a further decline.

The consolidation process in the Swiss financial industry will continue, say banks. Even the burgeoning optimism among banks will not be able to stem this trend for the time being. Past experience has shown that smaller institutions in particular suffer under the weight of new regulatory requirements.
Branches fall victim to structural change

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

The number of bank branches will decrease considerably.

- No topic in this year’s survey generated greater consensus among banks than the question surrounding the future of the branch network. 96% of banks - a new high - expect a continued streamlining of the branch network going forward.
- More and more customers are favoring digital channels such as e-banking or mobile banking apps. Traditional over-the-counter transactions have lost a lot of their significance, meaning customers only have to visit their bank branch very occasionally. To make sure that this dying out of branches does not weaken the customer interface, it will be important to further expand digital channels while at the same time enhancing the customer experience in those branches that are left.
Banks have competition from outside the sector on their heels

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?” Competitors outside the sector will threaten the market position of banks.

- Entirely agree
- Partly agree
- Partly disagree
- Entirely disagree

Banks increasingly start to realize that competitors from outside the sector are threatening their market position and thus putting more and more pressure on banks' traditional business models.

Given the rapid pace of technology development, it is to be expected that going forward more providers from outside the sector will enter the market and come into direct competition with banks for selected components of the value chain. This will expose banks to an increased pressure to innovate.
Cantonal banks appear more relaxed

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

Competitors outside the sector will threaten the market position of banks.

Among three-quarters of banking groups, the expectation that their market position will be threatened by competition from outside the sector has increased versus the previous year.

Cantonal banks are considerably more relaxed than they were last year: only slightly less than one half of the cantonal banks surveyed (46%) still feel threatened by competition from outside the sector (previous year: 83 percent). There is a widespread conviction among cantonal banks that they will be able to defend their market position and fend off new competitors due to their strong local roots and customer focus.
Customer loyalty sees further decline

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”
The loyalty of bank customers will decrease considerably.

Almost three-quarters of all banks (72%) expect customer loyalty to decline in the future (previous year: 67%).

- Digital offerings allow customers to find out about products and services 24/7 and better and quicker than ever before. The relevance of personal advice purely as a way of disseminating information is falling. Banks need to find new ways of fostering proximity to their customers and offering added value through comprehensive yet personalized advice.
Price pressure is increasing

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”
The price of bank services will fall.

- 67% of the banks surveyed expect the prices for banking services to fall in the next seven to ten years. Price pressure on banks has risen again versus the previous year (previous year: 52%).
- Competitors from outside the sector are encroaching on the traditional turf of banks and are enticing away customers with cheap services. In addition, customers are increasingly on the lookout for digital solutions, for which they are no longer willing to pay such high prices. Price pressure is a realistic assumption.
Growing price pressure in private banking

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

The price of bank services will fall.

Private banking is evidently subjected to stronger price pressure than retail banking. 82% of banks under foreign control (previous year: 63%) and 78% of private banks (previous year: 65%) expect banking services to become cheaper in the next seven to ten years.

Cantonal banks and regional banks are more optimistic: more than half of the institutions surveyed (62% and 55% respectively) are convinced that the prices for banking services will fall in the next seven to ten years.
Industrialization and sourcing remain important

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?”

The industrialization and sourcing of business processes will increase considerably.

- Entirely agree: 37%
- Partly agree: 55%
- Partly disagree: 6%
- Entirely disagree: 2%

The topics of industrialization and sourcing of business processes will remain as important as they have ever been. Since 2013 around 90% of all surveyed banks expect business processes in the banking industry to become more and more standardized.

Digitization is the strongest driver of sustainable structural change. However, banks first need to make further progress in standardizing and industrializing business processes in order to tap into the full potential of digitization.
Banks are concerned about the next generation of talents

“How do you see banking evolving in 7 to 10 years? To what extent do you agree with the following statement?“ Talent recruitment will become increasingly difficult

70% of all banks forecast that it will become increasingly difficult going forward to recruit talents.

Digitization and structural transformation are changing the world of work. Previous job profiles are being replaced by new, more complex and more challenging career paths. In order to navigate this process of structural change, banks need new employees who better meet the shifting requirements. The challenges that are expected to arise in recruiting new talents could become problematic for banks.
“How do you see banking evolving in 7 to 10 years?”
Do the following business divisions have a promising future?

- Retail Banking
  - 2017: 35%, Entirely agree; 10%, Partly agree; 54%, Partly disagree; 1%, Entirely disagree
  - 2017: 1%, Entirely agree; 19%, Partly agree; 23%, Partly disagree; 2%, Entirely disagree
- Asset Management
  - 2017: 5%, Entirely agree; 43%, Partly agree; 47%, Partly disagree; 5%, Entirely disagree

Switzerland’s banking industry has good prospects for the future

When asked about the future prospects for the Swiss banking industry, banks are, by and large, optimistic. Almost 80% see good prospects for private banking, compared with two-thirds for asset management and retail banking.

The private banking arms of Swiss banks will be able to benefit from the growth in global assets thanks to the political and economic stability of Switzerland and the excellent reputation enjoyed by its financial center.
11. Key Messages
Key messages

Exceptional macroeconomic conditions

- The exceptional macroeconomic conditions have held strong for several years now and the risk of corrections on the capital markets should not be underestimated.
- The fundamental laws of economics (such as interest rates as a pricing mechanism) have virtually been put into deep freeze, which could lead to dangerous false assumptions and incorrect valuations.

Financial market regulation – target achieved? Banks are now expecting an end to the wave of regulation

- A great deal has been done in the wake of the financial crisis both globally and at home in Switzerland to correct weaknesses in the financial system.
- The vast majority of banks are of the clear conviction that the financial market is more stable today than it was before the financial crisis.
- Against this backdrop, the banking industry increasingly believes that the wave of regulation has peaked and this will be followed by a gradual normalization accompanied by an improvement in framework conditions.

Banks are suffering due to negative interest rates – but no negative interest rates for retail customers

- Banks are feeling the strain of negative interest rates. Their negative perception of the low interest rate policy is increasing, year after year.
- As a result of these developments, over one half of banks are no longer categorically ruling out passing on negative interest rates. Only for retail customers does such a measure remain taboo for the vast majority of banks.

Strategic focus on innovation and earnings growth

- For many years, the spotlight was on the implementation of numerous new regulatory requirements.
- For the foreseeable future, banks now want to gear their strategic focus increasingly to the topics of innovation and growth. Alongside investments in new sales channels and digitization, partnerships with non-banks are also shifting into the spotlight.
- Advancing digitization is also giving rise to new risks. It is therefore hardly surprising that banks rank cyber security as priority no. 1 for the coming months.
Key messages

Banks recognize the extent of digitization

- Swiss banks are increasingly recognizing the potential of digitization. Digitization is the strongest driver of long-term structural change.

- The vast majority of the banks surveyed also anticipate using robots or virtual assistants in the future. The potential for robots is considered to be especially high in the areas of analysis and decision-making (e.g. investment recommendations, credit decisions) and in the middle/back office. For this to happen, however, banks first need to make further progress in standardizing and industrializing business processes.

Structural change is advancing - but scepticism is spreading

- There is broad consensus among banks that the Swiss financial industry is in the grips of a fundamental structural change. However, scepticism with regard to this question is increasing.

- Banks’ differing perceptions of the situation clearly indicate the uncertainty regarding the topic of structural change. This is difficult to grasp and the implications for existing business models is still difficult to quantify. Banks have trouble identifying the concrete implications for them. There is general agreement however when it comes to the question of which business area will be most severely affected by the structural change: payments.

A New Wave of Optimism?

- Swiss banks are looking to the near future with relative confidence. Only a small minority of 18% (previous year: 32%) expect declining operating results for the next six to twelve months. This is the lowest value since the start of study.

- There are also plenty of good reasons for this optimism. Many banks have demonstrated a relatively high level of resilience to the challenges they have faced in recent years, which has given them a new sense of self-confidence. The banking industry is also of the opinion that the wave of regulation has peaked, and this will be followed by a normalization accompanied by an improvement in framework conditions. It would also seem that some of the geopolitical risk factors that were at play just a year ago have subsided - or at least perceived to be. Moreover, it is reasonable to assume that the economic recovery underway in many parts of the world and the money supply injected by central banks has not quite run their course.

- These are all good signs for the near future. In view of the fundamental challenges ahead, it remains to be seen whether this optimism will translate into a longer-term perspective.