Offprint

Neue Zürcher Zeitung

TRANSLATION OF AN INTERVIEW PUBLISHED
IN GERMAN IN NEUE ZÜRCHER ZEITUNG

14 SEPTEMBER 2017

"We definitely have to work harder"

Guy de Picciotto, CEO of Geneva-based bank UBP, believes that the financial sector could be at the start of a new era, past problems have been solved, and banks now have the chance to draw on their traditional strengths.

Recently, Swiss wealth managers seem to have been almost entirely preoccupied with costs. Now, the time has come to get back to growth. What does this mean for Switzerland as a financial centre?
Guy de Picciotto: Several factors have meant that banks have concentrated on costs. First, there was the fallout from the 2008 financial crisis. Then there were the changes to banking secrecy and the automatic exchange of information. And third, there was the raft of rules and regulations that made expenses skyrocket. On top of that came the strong franc and low interest rates. Together, this all put a strain on banks' profitability. At the same time, however, banks continued to innovate; they opened up new markets and took over competitors in an effort to achieve economies of scale.

Is the industry facing a reboot?
The transformation is more or less complete. Banks have invested a lot of money in their systems in an effort, for example, to better serve and advise their clients. The franc has weakened slightly and central banks are striving to normalise monetary policy. Consequently, wealth managers' profitability will rise again, as can already be seen in the mid-year figures.

SELINA HABERLAND / NZZ

Guy de Picciotto,
UBP's Chief Executive Officer

Is this the new normal?
Yes, because the industry has lost a competitive advantage – banking secrecy – that it had had for decades. That has fundamentally changed banks' relationships with both clients and regulators. Today, there is a lot more transparency than before and that's a good thing. These new conditions also offer new opportunities that should be seized.

How competitive is the Swiss financial centre following this transformation?
In 2000, lots of market observers were predicting the end of private banking. They said the Internet would make the industry redundant. But we're still here, albeit in a new form. Service providers have also survived the end of traditional banking secrecy and the tax issue with the United States. Switzerland's old strengths, such as its legal system and its stable currency, are once again proving to be advantageous and are strengthening the financial centre. Moreover, we know from experience how to deal with internationally oriented, wealthy clients. We don't need to hide from the Anglo-Saxon players, although sometimes they do give the impression that they rule the financial world.

UBP
Union Bancaire Privée

Union Bancaire Privée, UBP SA
Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1, Switzerland
ubp@ubp.com | www.ubp.com

But in the last ten years in Switzerland, dozens of wealth managers have gone under.
There's a simple explanation for that. Which ones have actually disappeared? In the first instance, it's foreign banks whose parent companies found themselves in difficulty and had to reposition themselves. Second, it's those players whose cost-income ratio was 90% and above. Third, there were the banks that appeared on the regulatory authorities' radar because they had broken the rules. What is important for Switzerland, however, is this: the banks disappeared, but the clients' assets stayed in the country.

Is the financial centre stronger or weaker than before 2008?
Much stronger! We have more solid relationships with clients. The extra regulations have created more clarity, so we have been able to expand our range of services. Costs may have risen, but Switzerland's financial sector has increased its strength and attractiveness.

At the same time, cross-border business has become more complex than before: today, banks must adhere to countless regulations.
It's true that the business has become more challenging. Before the financial crisis, there weren't any regulations to speak of on cross-border business. Now, wealth managers operate in a tightly regulated environment, but we have adjusted to it.

Does that mean the cross-border business will continue to be the core business of Swiss wealth managers?
We are clearly an export sector. A larger proportion of clients outside Asia are still booked with UBP in Switzerland, and also partially in London.

Many big banks are, however, strengthening the so-called "onshore" business, meaning they can provide clients with services in their home countries, believing this to be simpler from a regulatory perspective.
Their business model is different from ours. I'm not sure whether an onshore strategy necessarily involves lower costs and risks than cross-border business. Banks that strengthen their onshore business are directly competing with domestic players. Establishing a brand in foreign markets is a very complex and costly task.

> *"We know from experience how to deal with wealthy clients."*

From a Zurich-based perspective, there is a growing impression that Geneva has lost some of its importance as a financial centre in the last few years.
That's a misconception. For me, it's very important that the two financial centres are not played off against each other. In Geneva there are still more pure-player private banks than in Zurich, and in the last five years, more wealth managers and foreign banks have shut their doors in Zurich than have in Geneva. We have to protect the importance of the Swiss financial centre as a whole.

Many wealth managers have just discovered the domestic market and are opening subsidiaries in this country. Do you not think Switzerland is too small for that?
Some banks have seized the opportunities presented to them, as they have been able to take over whole teams from big banks. At the same time, these players have expanded their product ranges through, for example, mortgage lending. In any case, you don't need a lot of capital to open a small branch.

In German-speaking Switzerland, UBP only has offices in Zurich and Basel. Why is that?
It's because I don't speak German very well! No, but in all seriousness, UBP has always concentrated more on its international business. It's also possible that many wealthy clients don't know us as well as other Swiss banks that have a longer history.

All the same, UBP manages some CHF 30 billion in Zurich. How much of that is generated locally?
About 30%. The rest is assets from foreign clients. Our presence in Zurich largely stems from the acquisition of foreign banks, as well as from developing our growth markets.

You seem to be decidedly optimistic. Where does this confidence come from?
Wealth management offers good growth prospects and remains a lucrative business, but we definitely have to work harder.

Has it not become more challenging to advise clients with declared assets? Previously, anyone with unreported income was almost handcuffed to a bank.
Even with the automatic exchange of information, clients aren't so quick to change bank when they're unhappy with the service. Banking relationships are mostly very strong and, on top of that, it's very complicated to open an account today. It's a nightmare right around the world.

Which markets does UBP target?
The Middle East, Latin America, Eastern Europe and Asia.

So, almost the whole world, except Western Europe?
In comparison with the markets I've just mentioned, Western Europe has become less important but we are active in the region, and we're

TRANSLATION OF AN INTERVIEW PUBLISHED
IN GERMAN IN NEUE ZÜRCHER ZEITUNG
14 SEPTEMBER 2017

selectively expanding our presence. For example, we have local expertise in Italy.

Since UBP took over Coutts International two years ago, you have had quite a presence in Asia. That said, your bank is still rather a small player there. How do you want to change that?
When an acquisition opportunity arises we'll seize it. That also applies to Switzerland and London.

Many banks still have difficulty turning a profit in Asia. How is UBP doing?
Managing over CHF 10 billion in private clients' assets, UBP is not so profitable there, but this is also due to the goodwill charges we have to write off. We need another CHF 10 billion in assets.

How are things looking in the United States? You once said that UBP had to build up a presence there in order to provide services to Latin American clients.
The United States has rather disappeared off our radar.

Why is that?
The economic situation is tough in several Latin American countries. On top of this, it seems to me that Latin American clients are no longer as keen to bring their money into the United States.

What's the reason for that? President Trump?
I don't know. Perhaps they've noticed that the service in the US is not as good as they expected.

> *"Everything will be faster and will cost less."*

What will the wealth management business look like in ten years?
The sector will be in a solid position. After all, what is there to upset the industry, or "disrupt" it, as you say these days?

Fintech entrepreneurs believe that they could turn the industry on its head.
I don't think it'll go that far. Rather, technology will help us to communicate even more closely with clients. And, thanks to big data, we can offer our clients products and services exactly tailored to their needs. On top of this, blockchain technology will make it possible to reduce the number of intermediaries and to build direct B2B relationships. This means that it will be possible to sidestep certain dominant providers such as SWIFT and Euroclear. Everything will be faster and will cost less. It's possible that our revenue will be slightly lower in the future, but in that case we'll just have to adjust our cost structure accordingly.

UBP could be affected by a company-specific disruption. The bank belongs to your family. What would happen if you couldn't find a successor?
We're a big family. My brother and my sister are already part of the business, and we all have children. We'll see whether they're interested in the banking business. We've got options.

Would an IPO be an option?
Anything but that. We don't need any capital for our growth. Besides, wealth management is a long-term oriented business that isn't necessarily compatible with short-term market pressures.

What would happen if no member of the family wanted to head up the bank?
If that were to happen, we would then really have to consider our options. I cannot imagine that our family would only sit on the board of directors with the CEO coming from outside. My father founded the bank in 1969 and it would be wonderful if it stayed in family hands for generations to come. ◆