Mr. Olivier Calloud,
Chief Executive Officer,
Piguet Galland & Cie SA

Written By

Olivier Calloud, *Chief Executive Officer, Piguet Galland & Cie SA*

Piguet Galland: The Emergence of a New Private-Banking Model in Switzerland

Switzerland's private-banking landscape has undergone a major transformation over the past 10 years.

According to consultancy firm KPMG, which carries out an annual review of the industry for its "Clarity on Performance of Swiss Private Banks" report, this transformation is reflected in the steep drop in the number of private banks operating in Switzerland. This figure has fallen by more than 40 percent, from 163 in 2010 to 96 at the end of 2021, and for smaller private banks (with less than CHF 5 billion in assets under management), the decline is even more dramatic—down 60 percent, from 105 in 2010 to 44 at end-2021. This drop is due mainly to market consolidation through mergers and acquisitions, some spectacular bankruptcies and a few firms simply withdrawing from the market and giving up their Swiss banking licences (especially the Swiss subsidiaries of international banks).

Structural shifts in the industry

This transformation has come hand in hand with the deterioration in some key operating ratios. For instance, the cost-to-income ratio for banks rose from 76.6 percent in 2010 to 85.9 percent in 2020. This is obviously an average figure—some banks have ratios exceeding 100 percent and have posted operating losses for years, indicating that the market consolidation seen over the past 10 years is almost certain to continue. The KPMG study also found that the gap between poorly performing private banks (which are growing in number) and their stronger peers has widened year after year.

This trend stems in part from a series of crises that battered the global financial sector after 2007: the subprime mortgage crisis in 2007, Lehman Brothers in 2008, Bernie Madoff's Ponzi scheme in 2008 and the eurozone debt crisis in 2010. In response to this succession of multifaceted banking and financial crises, governments in the main OECD (Organisation for Economic Co-operation and Development) countries beefed up their banking regulations considerably and, in some cases, instituted direct legal actions against recalcitrant banks. In Switzerland, this clampdown meant that tax-related banking secrecy was practically abolished, especially for clients outside Switzerland with assets held in and managed by Swiss banks.

The loss of Swiss banks' ability to ensure tax-related banking secrecy for offshore clients was one of the main developments that triggered the transformation of the country's financial industry. Until then, banking secrecy had served as a sort of economic rent for Swiss banks, providing them with comfortable revenue streams while discouraging any inclinations to change the *status quo*. After all, why reform a system that's working so well? But with the economic rent gone, Swiss banks found themselves subject to the same laws of gravity as any other industry: For a business to succeed, it has to offer products and services tailored to its target segments, successfully promote those products and services, and distribute them across its market, setting up the right business processes to deliver its offering efficiently and profitably. But beyond the issue of their products and services offering, the real challenge Swiss private banks faced in 2010 and 2011 was deciding what value propositions they wanted to proffer to clients going forward in an increasingly transparent (and taxed) banking environment.

Switzerland offers unique opportunities for private bankers

Piguet Galland was established on April 1, 2011, at the start of a decade of major transformation. Our company was created from the merger of two banks that had long been key figures of the Swiss banking landscape: Banque Piguet (founded in 1856) and Banque Franck, Galland (founded in 1889). These establishments joined forces in order to create a mid-sized bank that could grow its business across French-speaking Switzerland. However, given the banking industry's climate at the time, we were soon confronted with the issue of

Piguet Galland & Cie SA, administrative headquarters in Geneva, Switzerland. In 2016, Piguet Galland acquired its Arbre à Vent® from the really first series of this urban wind turbine designed by world famous Swiss designer Claudio Colucci. It is a silent sustainable energy solution. It offers an average power of 3 kW and could power 25 streetlights or provides the electrical needs of a 4-person household (excluding heating).

> "The loss of Swiss banks' ability to ensure tax-related banking secrecy for offshore clients was one of the main developments that triggered the transformation of the country's financial industry."

what business model we wanted to adopt in response to our rapidly changing, highly competitive market. The industry's reputation was in tatters after four years of crises and bankruptcies, as were the sentiments of clients and employees.

We wanted a fresh business model that would successfully navigate the new private-banking landscape. We quickly decided that we needed to focus our efforts on the Swiss market. Acquiring offshore clients and managing their assets can be a complicated, costly and relatively risky endeavour—especially for a private bank with only 160 employees, all based in Switzerland. To be able to provide effective advisory and asset-management services in a range of target countries, we would need to be perfectly familiar with the regulations for prospective clients in other countries and know the investment and tax rules inside and out in a slew of jurisdictions.

Of course, Switzerland is a small country with a population of just 8.6 million, but it's also a wealthy one with one of the world's highest per-capita GDPs (gross domestic products). What's more, its funded pension system provides attractive opportunities for asset managers, especially as the Baby Boomer generation steadily reaches retirement age. Focusing on the domestic market also means we can better manage one of the main risks in private banking: the reputational risk associated with money laundering. However, it's also true that Switzerland's market is mature and doesn't have the same growth potential as some emerging regions. It's also a highly competitive market with a dense ecosystem of many different banks and independent asset managers. In order to concentrate our activities on Switzerland and bolster our business-development prospects in such a demanding environment, it was essential for us to start by refining our products and services offering.

> “In late 2012, we revamped our business model and updated our mission statement, positioning ourselves as the family doctor taking care of our clients’ financial health.”

As a first step in tailoring our products and services more closely to the Swiss market, we held a series of focus groups with potential clients. The goal was to pinpoint the unmet needs and aspirations of the persons in our target audience. We soon found that our competitors tended to concentrate mainly on managing clients’ financial assets (cash and investment portfolios) and didn’t really take a holistic, coherent approach that encompassed all the other elements of clients’ wealth, such as business assets, real properties and pension assets. During our focus groups’ interviews, participants often said they’d like to turn to a single, trusted advisor who had a comprehensive view of all aspects of their wealth. That’s when the idea surfaced of a “family doctor” who takes care of clients’ wealth—and we naturally took this concept on board.

A family doctor looking after our clients’ financial health

In serving the role of a “financial family doctor”, we knew we’d need to rely on a variety of skills—not just those traditionally associated with asset and portfolio management but also expertise in financial planning, wealth advisory and pension planning. By developing in-depth know-how in these areas, we would be able to advise clients on the entire range of assets that made up their wealth. We further realised we needed to expand the range of loans, especially mortgages, that we provided in order to help clients purchase the assets that generally constituted key components of their wealth. In 2012, two years after the merger, we began setting up a range of products and services spanning three equally important areas: asset management, wealth advisory and financing.

Determining our target market and developing a combination of products and services tailored to clients’ perceived needs were key steps in building our new business model. But these steps in and of themselves weren’t enough to galvanise our energy and ensure success. We also had to set our focus on a mission and bring meaning to the work we did every day—that is, give our employees good reasons to get out of bed in the morning: to serve our clients with enthusiasm and help transform our bank.

Since we seek to build trust-based relationships with our clients, we regularly speak with them about their plans and dreams for the future—and sometimes their worries. We’ve found that what usually keeps our clients up at night aren’t their investment portfolios but rather concerns about their health, needs, relationships, children’s futures or businesses. Each of these issues has significant implications on how their wealth should be managed. In our role as the family doctor taking care of that wealth, we have the duty not only to provide expert advice on all of these various aspects but also to give proactive recommendations on the subjects most important to our clients and ensure that their finances are aligned with their future goals. This is what prompted us to give ourselves the mission of bringing peace of mind to our clients by working with them to help them achieve their life goals. That’s a much more motivating reason to get out of bed in the morning than merely selling investment funds and other banking products.

A modern view of private banking

In late 2012, we revamped our business model and updated our mission statement, positioning ourselves as the family doctor taking care of our clients’ financial health and bringing peace of mind by helping them achieve their life goals. At that point, we thought the heavy lifting was done—but we were wrong. It turns out that it’s much easier to outline a strategy on paper than it is to implement it in an organisation, with all the operational and behavioural complexities that execution entails. Effective change management was the challenge we faced. Getting our employees on board and implementing the change took a great deal of energy and conviction from our management team. However, the enthusiastic feedback we received from our clients convinced us that our strategic vision was the right one and encouraged us to keep implementing the business model we had chosen.

We’ve hired people with new skillsets over the past 10 years; we’ve also invested in employee training, established Piguet Galland’s reputation in our target market, built up our distribution channels, developed our tools and enhanced our business processes. It’s been a lengthy endeavour, but it is now paying off. We’ve increased our business volumes—and our profits, too.

In 2021, Piguet Galland was named “Best Private Bank of the Year Switzerland” by *International Banker* magazine. It’s an appropriate reward for the decade of effort we’ve invested since the merger that created our bank. It’s also symbolic that the previous year’s winner of the award was UBS, one of the world’s largest asset managers. That a boutique bank like Piguet Galland, which operates only in Switzerland and has 160 employees and CHF 7 billion in assets under management, can follow such a behemoth in the *International Banker* rankings shows that many different business models can successfully co-exist in today’s private-banking industry. That’s great news because we firmly believe that this kind of diversity is what makes a financial centre like Switzerland so attractive. Clients can choose among different types of business models, each of which can create value and help them achieve their life goals! «