HOW SWISS PRIVATE BANKS CAN SURVIVE IN HIGHLY REGULATED MARKETS

Thesis submitted in accordance with the requirements of the University of Liverpool for the degree of Doctor of Business Administration by Andreas Svoboda

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Abstract

HOW SWISS PRIVATE BANKS CAN SURVIVE IN HIGHLY REGULATED MARKETS by Andreas Svoboda

The viability of Swiss banking secrecy has been and is being challenged. Politically the America pushes the lifting of the Swiss banking as of tax evasion. Macro-economically, it is observed that the number of Swiss private banks declined by 24% from 2005 to 2013 and the speed of consolidation in the market increased in 2014 (Collardi, 2015). Therefore, how the Swiss banking sector maintains its competence and financial status without the viability of banking secrecy is without doubt worthy to be researched.

The whole thesis devotes to explore over the following two research questions:

- Is the Swiss banking secrecy still viable?
- Ways forward without the viability of Swiss banking secrecy.

In particular, the second research question accounts for the main body of the study. It has been broken up into three sub-research themes, which illustrate from perspectives of products offered, commissions taken as well as location.

Methodologically both quantitative analysis and qualitative case study were carried out to achieve convincing findings and actionable knowledge. It can be concluded that viability of banking secrecy is still viable but only for the privacy purpose. And it is believed to disappear in the near future. The findings reveal that Swiss private banks should shift their products strategies

from in-house labelled products to open platforms; commission policy should be taken transparent and the function of relationship managers should be enhanced. Furthermore, possible actionable knowledge plans are being suggested.

The novelty of the thesis lies in, that it explores the problem from a new perspective. It concentrates on the actionable variables instead of focusing on financial performance indicators. Nevertheless, it provides an actionable guidance for the Swiss banking sector on how to maintain or improve the financial performance without the viability of banking secrecy in the near future.

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1 Introduction

The purpose of this study is to provide guidance for Swiss private banks in highly regulated markets. Starting with the banking secrecy storm in 2009 and where Swiss private banks had a great outflow of clients' money. It analyses options of ways concerning how they might survive after the Swiss banking secrecy is lifted and the possibility of client data being shared with other countries.

This chapter presents a general background on the raise of Swiss private banks becoming the number one in terms of asset under management (AuM) and its recent falls due to the data delivery to the United States and the current environment Swiss private banks need to work in. In that respect it will explain the Swiss private banking, states the objectives of the research and its contribution, as well as outlining the structure of the thesis.

1.1 Research interest and choice of topic

I developed my interest in the research topic through my professional practice in the financial industry. For the last 25 years, I have worked in Swiss banks and an insurance company. During my working journey, I have gained the opportunity to work in Dublin, Singapore and Switzerland and have followed the ups and downs of the financial industry across the world.

As a Swiss person working in the financial industry, one could say that I grew up with Swiss banking secrecy. When I started my career, it was the first thing to learn what is allowed and not in respect of the banking secrecy. I was also a strong believer that banking secrecy will always remain in place and is untouchable, although the recent events have taught me to adjust my views.

As an academic practitioner in the field, I am concerned with the future of Swiss private banking. After reading articles with headlines like ‘Swiss private banking is dead’, ‘Swiss private banking is a model of the past’, etc., I have wondered myself what is true and what the future of Swiss private banking might look like. Thus, the research aims to find out potential ways of survival for the Swiss private banking sector.

When looking at the declining number of private banks in Switzerland (Collardi, 2015), slower growth in assets invested cross border (BCG, 2014) and a worsening cost-income ratio (BCG, 2014), I decided that my research should contribute to keep Switzerland attractive for private banking. There are already reports published (KPMG, 2013, Collardi, 2012, BCG, 2014, KPMG, 2013b, PWC, 2010) exploring ways forward for private banks mainly focusing on the cost and income of private banks, albeit not considering other factors. Some of them were also a pure statement that business becomes more difficult due to the many regulations. With this research, I consider not only financial performance indicators such as the cost-income ratio and AuM, but with focus on other actionable factors, namely location, product offering and commissions to provide a comprehensive view on how Swiss private banks might improve their business without the presence of banking secrecy.

1.2 Background information

It is essential to review the establishment history of private banks to shed light on the future. Accordingly, the following paragraphs present a general development of private banking industry and clearly define Swiss banking secrecy.

History of private banking

Academics hold different views concerning the identity of the first banking institution. Bromberg (1942) sees the Babylonian temples as the first bank in the world. While it had an existence for about three to four thousand years, the extant financial record could be found beyond 1884-1831 BC (Bromberg, 1942). On the other hand, Hildreth (2001) tracks the first institution called a bank to 700 years ago in Venice, which was giving out loans as the republic was falling short of funds (Hildreth, 2001).

In the early fifteenth century, Florence knew of four different kinds of banks: pawnshops, retail banks, public money changers and ‘great banks’ (De Roover, 1948). One example of such a great bank was the Medici Bank (De Roover, 1948). It took another few centuries until the first private bank was established. Cassis and Cottrell (2009) believe that Rothschild was the first private bank with a supremacy position in international finance between 1810 and 1836. The main income source in the early times of the Rothschild bank was also with government finance (Cassis and Cottrell, 2009). Coming closer to the Swiss banking sector, the oldest bank is Wegelin, which was founded in 1741 (Watson, 2013). The latest and most up-to-date researchers draw most attention to banking secrecy and tax evasion.

Definition of private banking

According to Bloomsbury Business Library (2007:5907), private banking is “a bank that is owned by a single person or a limited number of private stockholders”. It also refers to “a bank that provides banking facilities to high net worth individuals.” Private banking is still seen as banking service for rich people with liquid assets of USD 5 million or more. Nonetheless, the starting point for opening an account with a private bank can be as low as USD 250,000 (Driga et al., 2009), although most private banks expect an account value of at least USD 1 million (Aquilina et al., 2007; Allen, 2006; Beaverstock et al., 2010).

Swiss banking secrecy

Banking secrecy is defined by Palan et al. (2010:249) as laws that “strengthen the normal contractual obligation of confidentiality between a bank and its customer by providing criminal penalties to prohibit banks from revealing the existence of an account or disclosing account information without the owner’s consent”. In practice, this means that the financial privacy of clients is protected by the banking secrecy so that there will not be an unauthorised access by state or third parties (FDF, 2014). However, banking secrecy can be lifted in cases where there are sufficient grounds for suspecting the client that a crime has been committed (FDF, 2014). Nonetheless, Hirszowicz (2003:229) argues that in Swiss legal text there is no clear definition of banking secrecy.

Based upon the analysis by Honegger (1983), the following three important dimensions of Swiss banking secrecy are captured:

- Non-disclosure to foreign authorities
- Banker confidentiality within Switzerland
- Clarification of customer identity by the banks is self-regulated

Article 47 of the 1934 Swiss Banking Act criminalises “the breach of banking secrecy by introducing fines of up to 50,000 CHF or up to six months imprisonment (today 250,000 CHF and three years of prison)”. A practical example would be that a bank employee tells a friend about the money that another common friend has deposited in that bank, or the stealing of client information from a bank, which was the case in 2010 when a former information technology staff stole data on 24,000 accounts (Ball et al., 2010). Put simply, Swiss banking secrecy means that at the beginning a client could have numbered account with a password and only a restricted circle of the bank is aware of the password. This means that no names are held in the file of the client. Later, it changed that the name of the beneficial owner needed to be stored, although only limited people of the bank had access to it. When one had an account with a name, employees of the bank were not allowed to tell anyone the name of the client outside the bank and also not disclose whether this client had an account with the bank. With the decision by UBS to share data with the Internal Revenue Service (IRS) about its clients, banking secrecy started to vanish, especially as the Swiss government signed off for this data transfer to the United States (Bondi, 2010).

The ‘core’ of Swiss banking secrecy is considered by many commentators the sharing of financial data with foreign authorities and the rules regulating the access of public authorities to financial data (Fiechter, 2010).

Although banking secrecy was challenged several times already back in 1970 (, 1970), the real challenge to the Swiss banking secrecy only came in 2009. Indeed, this was also when Switzerland decided to adapt double taxation agreements to the OECD Model Convention with respect to international administrative assists (FDF, 2014), whereby banking secrecy will not only be lifted in case of tax fraud but also in case of tax evasion with the countries with which Switzerland signed such a double taxation agreement. According to Fiechter (2010:45), Switzerland was able to maintain banking secrecy for such a long time due to two reasons: the stability and the legendary neutrality of Switzerland.

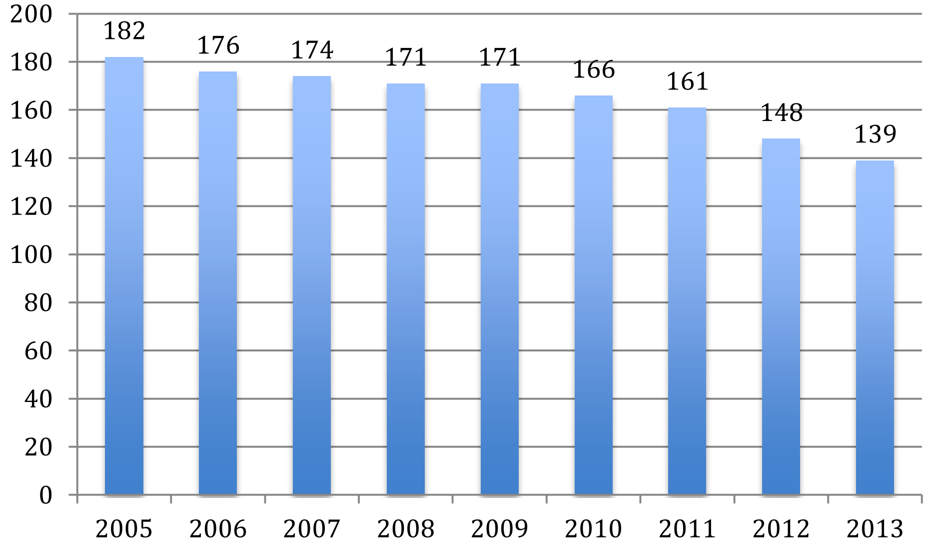
The softening of the Swiss banking secrecy is one of the key points why there is a major trend of Swiss bank closures, in addition to the fees that Swiss banks needs to pay to other countries due to non-adherence of the law in these countries.

Swiss bank closures

There is an on-going private banking closure and a consolidation within the Swiss private banking sector. Probably the most famous example of a bank closure due to helping US clients avoiding taxes is the oldest private bank in Switzerland, Bank Wegelin (Byrne, 2013).

In figure 1.1 below, it is visible that the number of Swiss private banks decreased by 24% from 2005 to 2013, while Collardi (2015:13) mentioned that the speed of consolidation in the market increased in 2014.

Table 1.1 - Number of private banks in Switzerland (2005-2013)



(Source: Association of Swiss Asset and Wealth management Banks, 20.1.2015 /Boris Collardi)

The closure and consolidation of Swiss private banks can be concluded as being linked with the following two points: 1) macro-environment changes in the private banking sector; and 2) the softening of the banking secrecy causing an asset outflow of the cross-border clients, resulting in a lower average income on the assets. Detailed discussions regarding these two points are provided below.

By receiving data from UBS, the IRS also wanted to have data about the relationship managers involved (Bondi, 2010). This culminated in an accused UBS relationship manager pleading guilty but accusing UBS of forcing him to acquire clients by selling the aspects of Swiss banking secrecy, whereby the client thus does not need to pay taxes on the income (Mathiason, 2008). This senior UBS relationship manager was working for UBS for five and he provided the US court a detailed plan of how money was smuggled out of the country, placed in the offshore structures, etc. (Mathiason, 2008). Although this relationship manager was imprisoned for his wrongdoings, one month after being released from federal prison (he served 30 months) he was awarded with USD 104 million as he had helped the IRS to provide information on taxpayers behaviour that it had been unable to detect (Rosenbaum, 2012). Due to this bank, employees saw the opportunity to easily make money by stealing data from the bank and selling it to other countries. An article by Leyendecker and Hulverscheidt (2012) focusing on the theft of banking clients data burned on a CD and offered to a state in Germany estimates that there are around 150 billion Euros of non-declared money in Swiss banks from German citizens. The CD that the state bought from the former bank employee had 750 foundations and 550 other bank information on it with a total value of 2,9 billion Euro non-declared money by the account holders.

Since the first purchase of a CD with Swiss banking client on it by a German state in 2007, an estimated 40,000 people had made a self-declaration of undeclared tax income (Leyendecker and Hulverscheidt, 2012) and paid a fine in addition to the tax.

Macro-environments in the Swiss private banking sector have dramatically changed since 2009. Given that the Swiss banking secrecy will no longer protect tax evasion, clients suddenly started to look at the fees the bank is charging. In order to attract and keep clients, Swiss private banks reacted to this challenge by lowering their premiums, which led to a decline in income. A

BGC (2014) study shows that Swiss private banks still have a high growth of assets but their income trend is only slightly positive, namely with more assets the income was only slightly higher. For example, whereas a bank previously had 100 million and generated an average income of 2% (i.e. 2 million), now the bank has doubled the asset base to 200 million but the average income has declined to 1.1%, namely equal to 2.2 million. Although the bank has grown its assets base by 100%, the income only increased by 2%; thus, assuming that the average income remained the same as before, the bank would have achieved an income of 4 million rather than only the 2.2 million. The income from 2010 to 2013 increased by only 0.6% and the income from cross-border business (clients not domiciled in Switzerland) even declined. The gross margin has been reduced from 86 to 82 basis points and in cross-border business from 107 to 93 basis points from 2010 to 2013 (BGC, 2014). To give an example, let us assume that the bank has assets of 100 million (for simplicity, no asset increase during 2010-2013), of which 70 million is with Swiss clients and 30 million based upon cross-border business. The income situation for the bank would be as follows:

Table 1.2 - Comparison of Swiss private bank income 2010 vs 2013

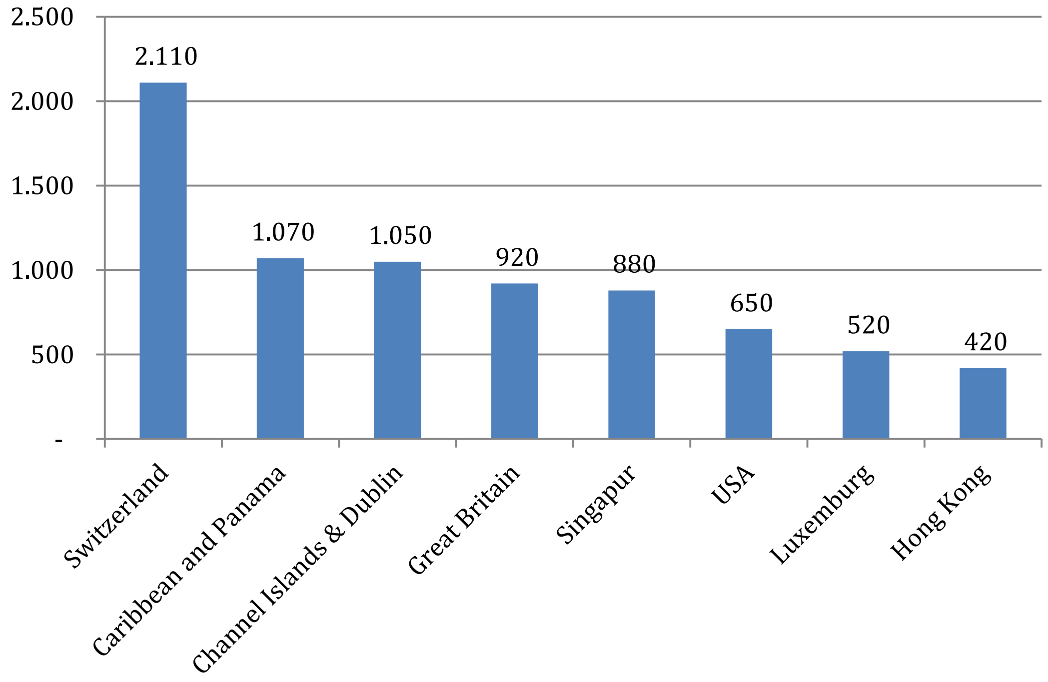
Income type	**2010**	**2013**	**Difference**
Total Bank Income	860,000	820,000	4.60%
Income from Cross boarder business	321,000	279,000	13%

(Source: own calculation for this research)

This shows that the more business that the bank has with customers in other countries (cross border), the less income the bank has with the same amount of assets in the bank. The impact on Swiss clients is not as great as these clients are used to the charge and most of them did not take advantage of Swiss banking secrecy. The BGC report mentioned that there was an increase of only 0.6% from 2010 to 2013; thus, from our example, of the 100 million assets and total bank income of 86, the bank needs 11.2 million more assets (or 11.2%) to achieve an increase of 0.6% with an average 82 basis points.

Swiss private banks attracted 2.2 trillion USD of offshore wealth in 2012, despite the banking secrecy being challenged (BCG 2013:11). This is almost double compared to the second location although current forecasts predict that Switzerland will only grow 3% until 2018, compared with Singapore or Hong Kong by 10% and 11%, respectively (BCG, 2014:24). Therefore, the position of Switzerland is at risk if other locations grow more quickly by comparison.

Figure 1.1 Assets invested cross-border in 2013 (in CHF bn)



(Source: BCG, 2014:21)

1.3 Objectives of this research

With this research I aim to find ways forward for Swiss private banks to attract more AuM as this is the key financial performance figure. At present, the banks are experiencing lower income, lost assets due to the softening of banking secrecy and they are unsure about which markets to enter. In the bank I am working with we are also focusing on how to attract more AuM which is difficult in the current environment. The only way to currently attract more AuM is by taking over another private bank and therefore has a growth in assets. Growth from within the company is rather difficult if not to say impossible. Fiechter (2010:53) aptly summarises the current situation of Swiss private banking and states that “countries cultivating a tradition of banking secrecy have to live with a new international order since the standards for exchange of information have been imposed on them”.

Therefore, the research question is centred on how Swiss private banks can survive in highly regulated markets and an automated exchange of information.

In order to narrow the scope, I consider what could be the influential factors in attracting more AuM and improve the financial performance, and most importantly these factors can be adjustable and actionable in the real practice. To maintain a client, a Swiss bank, first of all, must have the suitable products that satisfy the client’s need. How much commission a bank will take from his client influences not only the bank’s financial figures AuM but determines if the client will maintain the long-term relationship with the bank. Favourability of the bank location without speaking influences the reachability of the potential clients, which links directly to the financial performance. There are undoubted other factors such as organizational strategies, company culture, special relations with certain clients or political influences etc. In the thesis, these factors would be omitted but with full concentration on the above mentioned three factors or independent variables. Following this logic, the second research question is broken down into three sub research questions. Hence, there are four research questions or hypotheses that will be explored in the entire thesis. A general introduction to each is present as below:

Does banking secrecy still have its value in the new regulated private banking sector?

Switzerland is well known for its banking secrecy, as is stated in the Swiss law and based upon three different concepts: personality rights, contractual duties and banking law, which criminalises secrecy violations (Honegger, 1983). Swiss banking secrecy and numbered accounts have also featured in movies and different books, especially in the context of people wanting to hide money for any kind of reason. However, actions like the money laundering and dictators' assets in the 1980s and 1990s, followed by the illegal activities of UBS in the US between 2008 and 2011 and the recent cases from the OECD, G20, France and Germany (Steinlin and Trampusch, 2012) place additional pressure on banking secrecy. These new regulations have prompted prominent people to state that the Swiss banking secrecy era is over. For instance, Jacque de Saussure (chairman of Banque Pictet & Cie) mentioned during a conference that the "era of banking secrecy is over and era of transparency has begun" (Global Banking News, 2015). The Swiss government also decided to launch talks with other nations concerning the automatic exchange of account details (Global Banking News, 2014), which will put an end to banking secrecy.

By contrast, people argue that banking secrecy is still needed, not for reasons related to tax evasions but rather for privacy reasons (Wilson and Edelman, 2011). Marcovici (2014) suggests something in between, highlighting that countries that have clear rules in place and protect the tax payers' privacy should be given full transparency (equals no banking secrecy), while countries that cannot guarantee this should not receive full transparency (meaning the banking secrecy is still in place).

With my research, I would like to gather the views of practitioners in the financial industry about the future of Swiss banking secrecy and how Swiss private banks survive without the viability of banking secrecy. As this is an emerging issue in the Swiss private banking sector, few previous academic researches have touched this question. By answering this question, this research provides a detailed actionable knowledge plans from an academic practitioners' perspective regarding the Swiss private banking sector.

Which are the key drivers for profitability without banking secrecy: open platform or in-house products?

Assuming that banking secrecy will vanish in Switzerland, what should Swiss private banks do to survive? The cost-income ratio of private banks has already declined as the costs have increased and income has declined (BCG, 2014: Newtone Associates and A.T. Kearney, n.d.). The reason for the cost increase is that during the last ten years Swiss private banks have expanded their own products and included services like financial planning (Foehn, 2004). While the costs have increased, McKinsey Banking Practice (2013) points out that two-thirds of the decline in revenue margins is due to deposit margins for an average Western European private bank and the situation is unlikely to change in the near term as banks will continue to search for liquidity and capital in a low-rate environment.

Therefore, while there is not much change on the revenue side, banks should focus on the cost side. One of the key points to survive is to keep the costs capped through partnering and networking (KPMG, 2013). This would relate to an open platform where the banks partner with external parties and can also engage in networking with such a platform. This would go hand-in-hand with the view of Collardi (2012) and Marcovici (2015), suggesting that private banks should focus on client relationships and coordinate with external specialists so that the clients receive the best product or service for their needs.

On the other hand, in-house products and in-house platforms offer the advantage that the client has already checked the bank and thus is familiar with it and trusts it, while with the new product provider he is unfamiliar and might want to undertake due diligence on the provider (Auge-Dickhut et al., 2014). UBS already decided to opt for an in-house platform as a new product can be created with the simple touch of a button and the prospectus will be filed with the authorities (Shah, 2014). This platform was developed to create easier products in the equity market and is already used for other products like the exchange traded note program and commodities products (Shah, 2014).

With my research, I would like to ascertain which product strategy is better for a Swiss private bank to achieve a better financial performance without the viability of banking secrecy.

Should commissions be waived or taken transparently?

In 2012, the Swiss Federal Supreme Court decided that banks managing clients' assets need to inform the clients of the foreseeable amount and the calculation parameters of the expected retrocession of the business and that this is attributed to the client unless he waves his right and title to the asset manager, in this case the bank (Giroud & Nadelhofer, 2012). This is true for retrocessions received from third parties as well as those that the bank receives from the same group entities (Giroud & Nadelhofer, 2012). Due to this court decision, Swiss banks have started to change the terms and conditions and most banks have selected an integrated waiver where the clients waive their rights and title to the bank.

The court decision focused on retrocessions that the banks receive from managing clients' assets (Giroud & Nadelhofer, 2012), whereas it remained silent on many other issues, leaving the bank open to make its own interpretation and implementation. Indeed, I think not all banks are entirely clear what it means as the court decision was only made on 30th October 2012 and the Swiss Financial Market Supervisory Authority (FINMA) issued a communication on 26th November 2012 concerning how banks can take adequate precautionary measures based upon the court decision (Giroud & Nadelhofer, 2012). Shortly after the court decision, Giroud & Nadelhofer (2012) mentioned the following unclear issues:

- Does the decision also apply to investment advisory mandates?
- What about execution-only agreements?
- Can charging costs incurred be reimbursable expenses?

To the above points, I would like to add that the court decisions also kept quiet about other retrocessions received from other business in which banks engage, e.g. referral to an insurance broker. Another point where the court decision kept quiet is the client's residency. Accordingly, would the court decision only be valid for Swiss banks and Swiss clients or also for banks in Switzerland and its foreign clients? As the court decision solely focused on retrocessions from managing clients' assets and it left open many points, Giroud and Nadelhofer (2012) also expect many new cases that clients bring against banks to the courts in the not-too-distant future.

With my research, I would like to ascertain whether Swiss private banks should advance and declare all the retrocessions that they receive either internally or externally and for all the products despite not yet being obliged to do so, or alternatively whether a waiver leaving open questions about the right figure of retrocessions received is sufficient. I consider this an important factor because retrocessions account for a large portion of the income side in Swiss private banking.

Is Switzerland still attractive for private banking offshore business?

Within the banking community, it seems unclear whether Switzerland remains attractive for private banking offshore business. The strategy of Bank Vontobel is centralising its European activities in Geneva and Zurich while Credit Suisse and Julius Baer are going the onshore way by setting up branches in the EU (van den Hoevel, 2012).

Kuenzi (2014) argues that if there is a ‘level playing field’ from the regulatory side - namely if all countries have the same regulations - then Swiss banks will remain among the top players in private banking. With the many regulations being implemented in Switzerland, it is clear that there is not yet a regulatory level playing field across the world. Moreover, the upcoming automated exchange of information does not help much because if one wants to avoid paying taxes, there are still ways to avoid the automated data exchange by investing in real estate, art and other moves away from the wealth management industry and passive investment portfolios or by simply putting the cash in safe boxes (Marcovici, 2015).

There is currently no literature or experience to show which way is better. Hampton and Christensen (2012) perceive an end of the offshore centres as the most mobile ones will leave once the benefits are no longer there. Marcovici (2015) still sees Switzerland as a key offshore centre that can survive, while acknowledging that it must implement some changes and move away from the simple view of attracting clients with banking secrecy.

These four aspects will also form the independent and dependent variables of my research.

1.4 Significance of the research

Swiss private banks attract the vast majority of offshore wealth (BCG, 2013), although this position is now at risk as the asset growth is forecasted to be lower compared to countries like Singapore and Hong Kong (BCG, 2013). One of the reasons identified by BCG (2013) is the banking secrecy being challenged, whereby clients bring their assets to other banks in other countries. With high yet stable personnel costs (KPMG, 2013b), higher cost-income ratios (Birchler et al., 2013) and lower asset growth, Swiss private banks are at risk of losing the number one position in terms of being an offshore wealth centre.

The bank I am working with faces exactly these kinds of problems as described above. Our CEO already realised early with the UBS scandal that this might be the end of the banking secrecy. Hence he decided to open up branches in Hong Kong and Singapore. In the meantime he calls Asia the second home market of our bank (apart from Switzerland). In Switzerland itself we realised lower asset growth and lower income, leading to a higher cost-income ratio. To fight against it the decision was to lay off staff and a stronger focus on relationship managers and their performance. Low performing relationship manager need to fulfil a given target to achieve higher ratios within one or two years. If not successful they were fired.

As one can see, my research topic is a core problem for my bank. Researching on my own backyard, I am able to see if the way my bank has suggested is in line with my research findings or if other things should be done to keep the Swiss private banks alive in Switzerland on one hand. On the other hand, it provides meaningful guidance for the entire Swiss private banking sector.

The research prognoses the viability of the Swiss banking secrecy, but most importantly it shines lights on potential ways forward: how Swiss private banks attract offshore wealth at the pace of its competitors without the viability of banking secrecy. AuM was chosen as the key financial performance indicator.

The key determinants that contribute to a better AuM are identified as variables. Given that few previous academic researches have ever touched this topic, I consider my research as significant and meaningful to this emerging issue.

1.5 Innovation of this research

This research tackles an on-going and uncertain issue in the Swiss private banking sector, while Swiss private banking is undergoing a transforming process. Therefore, Swiss private banks are looking for solutions with banks moving either onshore or concentrating their business in Switzerland (van den Hoevel, 2012). My research focuses on the place Switzerland as such, with or without banking secrecy and how Swiss private banks can still ensure attracting AuM at the same pace as in previous years.

This research covers more variables and is not only restricted to banking secrecy. The current literature only considers one variable when discussing the decline in AuM. Most researchers perceive banking secrecy as the source of the problem (De Mueller, 2010; Campbell and Comer, 2014; Comisky and Lee, 2013; Farooq, 2015; Norton, 2009; Bondi, 2010, Vogler, 2001 and Hauser, 2010), whereas there are no discussions about other factors in such research papers. The focus of these researchers concentrate more on a legal perspective and laws that are implemented at present or in the future, rather than focusing on private banks and their views. My research introduces other variables as a source for a decrease or increase in AuM in addition to exploring legal points, albeit focusing on the private banks.

The open platform is also another example where my research tries to shed some light on. Platforms are often mentioned in the computer or industry environment (Sanderson & Uzumeri, 1997; Wheelwright & Clark, 1995; Bremmer, 1999) but rarely in the banking field. My research closes this gap by looking at platforms for private banks and exploring whether they might be useful for attracting AuM or resulting in a better cost-income ratio.

Methodologically, this research differentiates itself from existing research in the sense that it adopts both quantitative and qualitative methods. Quantitative analysis collects raw data through questionnaires. A database was then generated for the hypothesis testing. Corresponding findings are drawn from the database with the assist of statistic analysis tools. Quantitative analysis verifies the potential ways forward for Swiss private banks without banking secrecy theoretically. However it is not enough, as an academic practitioner, that the actionable knowledge only works theoretically. The followed qualitative case study supports and complements the quantitative research findings, because the case study was carried in the real working place. The theoretical findings can be discussed with the person involved. And most importantly, it brings new and critical findings, such as the role of the relationship managers, which was not covered in the quantitative analysis.

The combination of the two research methodologies ensures the credibility of the thesis, and enriches the perspectives on answering the research questions. They compensate as well as challenge each other.

1.6 Boundaries of this research

The research focuses on Swiss private bank only and will not include any universal or corporate banks. With the questionnaires I was able to collect the answers from 163 participants and do my statistics with. In addition I interviewed two relationship managers from two different private banks as part of my case study.

The number of participants can also be seen as a boundary of my research as well as only focusing on two private banks in Switzerland for the case study. Given the sensitivity of the nature of my research and the time involved in conducting the research I am under the opinion the numbers are high enough to conduct the research.

1.7 Structure of the thesis

Following this introduction, chapter two examines the relevant literature and is divided into four sections. The first section provides an overview of banking secrecy, then the second section explores private banking and the third section focuses on the open product and service platform. Finally, the fourth section explains the financial performance indicators and considers how

Swiss private banks might increase the ratio, before the chapter concludes with a presentation of the research questions that emerge from the literature review.

The research design and methodology is in detail explained in chapter three, providing an overview of the research design and explaining how the research framework is constructed. It discusses the respective advantages and disadvantages of qualitative, quantitative and mixed method approaches, whereby the latter was chosen as the most suitable approach for my research study. The sampling strategy and the design of the questionnaire will also be presented to ensure the validity of the research data.

Chapter four focuses on the data and quantitative analysis, introducing the variables and the hypotheses. A new model is built to explain why location, commission as well as product offerings are examined as the most influential variables. Various applicable regression and distribution analyses are conducted to verify my initial hypotheses.

Chapter five features the analysis of the case study, whereby two private banks have and respective relationship managers were chosen to conduct an interview, have a look at the documentation and undertake the observation. The thesis concludes with chapter six, summarising the findings of my research.

2 Literature review

2.2 Private banking

This section is mainly for people outside the banking industry. I will try to give an overview of the different types of banks so that it will be clear what I mean when I talk about private banks. Afterwards I will focus on the services of a private bank and the most important asset of a private banks; its clients.

2.2.1 Difference types of banks

The focus on this research is on Swiss private banks. For completeness, a brief overview of the main different types of banks is provided, highlighting the main differences in terms of the clients and services that the bank provides.

Investment banks

Investment banks cover an “area of banking which is primarily concerned with the securities business and corporate finance” UBS (2014). They normally do not take customer deposits and focus on helping companies wanting to raise money by issuing stocks or bands (Pritchard, 2015). Among other things, investment banks also consult on mergers and acquisitions (Pritchard, 2015).

Retail banks

Retail banks deal with consumers and offer a wide variety of products. Retail banking includes various financial services and products such as retail loans, retail credit, retail deposit schemes, debit card, credit cards, mutual funds, depository services and insurance products (Uppal, 2009). UBS (2014) defines retail banking as "consumer banking, personal banking, High street banking business with individuals". Offering standardised products, simplifying sales processes is the main objective of retail banking in order to fulfil customer's needs with low-cost banking services.

Commercial banks

A commercial bank is a bank that works with businesses (Pritchard, 2015). They handle banking needs for small and large business, which includes basic accounts, lines of credits, lending money for capital and real purchase, providing credit lines, letters of credit and foreign exchange, to name a few (Pritchard, 2015).

Private Banks

As outlined above, private banks serve private clients with liquid assets over USD 1 million (Beaverstock et al., 2010; Aquilina et al., 2007; Allen, 2006), although it possible to open private banking accounts with as little as USD 250,000 (Driga et al., 2009). According to UBS (2014), private banking is “investment counselling and portfolio asset management services offered to international private and institutional clients.” I consider it important to highlight that some pure private banks do not offer services to institutional clients and thus I would like to highlight the explanation of private banking from Credit Suisse (2014), stating that private banking is for “family offices and very wealthy individuals”.

2.2.2 Private bank and its services

Private banks are one of the oldest banks in Switzerland and they can be set up as a one-man company, limited liability or partnership, which means that the partner in such a private bank partnership is liable with his personal wealth for the company (Zenker, 2006). Private banking can also be a division within a global/universal bank like UBS, Credit Suisse or Citibank.

There is no clear definition of private banking as different private banks have different client segments and different type of clients, especially as the understanding of private banking has changed with time and also depends on the region (Zenker, 2006). Banks engage in market segmentation as it helps them to enhance a company’s ability to exploit marketing opportunities and develop and maintain a competitive advantage (Weinstein, 1987: Wedel & Kamakura, 2000). Typical private banking clients are so-called high net worth individuals (HNWI), whereby the definition for such persons is based upon the value of their liquid investable assets being greater than USD 1 million (Beaverstock et al., 2010; Aquilina et al., 2007; Allen, 2006). Private banking service starts from as little as USD 250,000 but a lot of people think that a client must have liquidity over USD 2 million to take advantage of private banking services (Driga et al., 2009).

In the past, the service offered in private banking included asset management, investment advice as well as services closely associated with these (Wagner, 2000; Woehle, 1999), in addition to the actual banking services. Financial planning and alternative investments were added to the private banking service in the 1990s (Ulrich, 2001).

While activities such as investment banking or extending credit to consumers and businesses are seen as high risk, private banking services are considered to be relatively low risk (Driga et al., 2009). However, the financial crisis has placed pressure on the performance of private banks in difficult market environment, while the new regulations and higher client expectations have raised questions about the value that private banks are delivering to their clients (McKinsey Banking Practice, 2013).

Aspects such as the price sensitivity of private banking clients and the individual need for advice are often not included in the segmentation of the target group (Steffensberg, 2003).

For private banks, it is important to acknowledge that the previous conditions of the era of banking secrecy have gone, whereby they must consider the transformation period as an opportunity to reposition (KPMG, 2013). The strong consolidation pressure in Swiss private banking is also mentioned by KPMG (2013) and they also see forces towards value chain disintegration and specialisation. Private banks must take the initiative to review the Swiss private banking's brand at the industry level by strengthening the values of service quality and stability that global clients demand (KPMG, 2013). KPMG (2013) suggests substantiating the Swiss resources and standards and prioritising stability and performance.

It is also worth mentioning that the relationship manager is not autocratic; rather, he/she receives the support of many functions and processes both within and outside the bank (Zenker, 2006). The key task of a private bank is the client relationship and the investment advice and/or investment management (Zenker, 2006). The product expert needs to develop new products and structures as the bank wants to keep up with today's high creativity and new developments of financial products, as the clients also gain more expertise about such products (Zenker, 2006). Without doubt, Zenker (2006) also points out that the private banker stands between the bank and the client and thus he has an extraordinary (power) position.

2.2.3 Private banking clients

There is no such thing is a typical private banking client, given that they can range among any age group, single, divorced, married, male or female busy business people, suspicious farmers, ambitious inexperienced start-up entrepreneurs and financially experienced widows, just to name a few (Spreiter, 2005).

Segura and Strehlau (2012) tried to analyse Brazilian private banking clients, defining eight investor personality types. The highest number (45,8%) proved to be individualists, which means that these clients need advisor support and to refine their investment behaviour as they only have a fragmented view of their investments (Segura and Strehlau, 2012). This might also be the reason why self-directed private banking mandates are so popular, whereby the client manages his own portfolio but can at times call upon advice from the bank (Driga et al., 2009).

There is not really a one-size-fits-all strategy for the clients. Clients from different countries have different needs and the private banker should cater to them accordingly. Romanian clients are looking for a secure place for their money as they invest money in risky business like their company or property and thus they see the private banking business as a secure, less risky offer with a lower yield (Driga et al., 2009)

Table 2.1 - Segmentation of private banking clients and their needs

Segments of private banking clients	**Needs**
VIP Clients, Special clients	Ultra wealthy clients are especially interesting for the bank. Although these clients get a high discount based on the high volume the bank might not earn so much based on a transaction level but in absolute terms these clients are still very attractive therefore banks handle these clients with special dedicated teams. Here we are talking not only about an individual client it can also be the so called family offices which deal with the assets of a wealthy family
Professional Private Investors	Clients falling under this segment do have the needed knowledge to move independently around on the financial markets. Most of the time they do delegate part of the asset management to various banks. The focus is on investment performance based on a given risk. Important for these clients is a transparent and timely reporting and sometimes even access to the information systems to get the current status online
Transaction oriented clients	These are the brokerage- and discount clients who only want to do the transaction. Advice and information will be taken somewhere else
Classical Onshore Clients	Swiss residence clients who have the need for a comprehensive asset management or want to place their investment based on the recommendation from the bank
Independent Asset Managers	Many clients do not want the bank to manage their assets and hence give their money to the independent asset managers which might have a high competence but do not have the needed infrastructure and licences to directly participate at the financial market. The private banks offer these independent asset managers a platform where they can access and manage the portfolio of their clients online

(Source: Galasso, (1999:190))

From a client's perspective, trust and commitment are the highest-rated criteria during a research of clients' satisfaction with their private bank

(Galasso, 1999). Swiss private banking clients are becoming more sensitive to price and service quality (Foehn, 2004).

In terms of private banks, the relationship manager and the clients are the core of the business. With this research, I would like to ascertain what should be improved within the private banking area, as well as determining the main two criteria upon which the private banking service should concentrate.

2.3 Location (Switzerland)

Location seems to play an important role for a private bank. In this section I would like to investigate why Switzerland became and still is the main location for offshore assets.

I will start with introducing some typical offshore private banking jurisdiction, followed by an analysis of the Swiss banking secrecy, which some authors see as the main reason for the raise of private banking in Switzerland but also being responsible for the fall. To understand the Swiss thinking a bit better an excursion will be done to explain the treatments of tax evasion from a Swiss perspective. As indicated by some scholars, clients might move their money to tax heaven countries. I therefore also want to shed some light on these tax heavens. The last point is the exchange of information which many see as the death of banking secrecy and a plain level field for all countries.

2.3.1 Typical Private Banking Locations

Private banks are mainly focused on typical private banking locations - also known as offshore locations (e.g. Switzerland, Singapore, Hong Kong) - as they have had a certain advantage (e.g. banking secrecy) or are considered as tax heavens. Under the circumstance of no banking secrecy, will the location of the bank play a more influential role?

Kuenzi (2014) sees the answer on the regulatory side: if all countries have the same regulations, then Swiss banks will remain one of the top players in private banking. This means that all countries would have the same regulations and it does not matter where the client books his money as there are no advantages from one location to another. One of the points that Kuenzi does not focus on is the tax aspect. During a presentation by Marcovici (2015), he provided a good example of such tax aspects:

Assuming that a client is resident in Hong Kong and wants to buy shares of a fashion company, if he buys shares of GAP - which is registered in the US - he would have a withholding tax of the dividend payment: the company is in a high tax country, which means that it needs to pay high taxes to the US. Thus, the profit is lower and the dividend is reduced. In addition, if the client invests a larger amount, there is also the issue of an inheritance tax. On the other hand, if the client buys shares from ESPRIT - which is listed on the Hong Kong stock exchange - the client can receive the dividends in full (no withholding tax deduction), the company is in a low tax environment (Hong Kong) and thus is taxed lower then GAP in the US. Furthermore, there is no inheritance tax in Hong Kong.

This example shows that there is no “level playing field” where all the rules are the same. Hence, if regulations only apply to some countries, then the client will quickly move to a jurisdiction where these regulations do not apply (Kuenzi, 2014). In addition, if one wants to avoid paying taxes, there are still ways to avoid the automated data exchange by investing in real estate, art and other moves away from the wealth management industry and passive investment portfolios or by simply putting the cash in safe boxes (Marcovici, 2015).

Given that the details of the AEOI are not yet finalised, where there is a simple relationship between the bank and the client it is clear but as soon as a structure - e.g. a trust - is involved, the situation becomes unclear.

Example 1: A client is domiciled in Argentina and has a bank account in a Swiss bank. The assumption is that Switzerland and Argentina have signed an automated information exchange agreement. For this example, the bank will deliver the client's data to the tax authorities in Argentina.

Example 2: A client (beneficial owner) is domiciled in Argentina and sets up a trust structure in New Zealand that has a bank account in Switzerland. The assumption is that Switzerland and Argentina have signed an automated information exchange agreement, while New Zealand and Switzerland have also signed such an agreement but there is no agreement in place between New Zealand and Argentina. Accordingly, the Swiss bank will deliver the relevant data to the tax authorities in New Zealand as the client of the Swiss bank is a New Zealand trust. A trustee (the one who manages the trust) is considered to be a financial Intermediary and takes over the reporting responsibility. However, the trustee will not deliver data to Argentina, as New Zealand did not sign the automated information exchange (AIE) agreement. Therefore, there does not yet seem to be a solution for this scenario.

The strategy for Swiss private banks is unclear and banks are currently proceeding in different ways: Bank Vontobel is centralising its European activities in Geneva and Zurich, while Credit Suisse and Julius Baer are going the onshore way by setting up branches in the EU (van den Hoevel, 2012). There is currently no literature or experience to show which way is better. Hampton and Christensen (2012) foresee an end of the offshore centres as the most mobile ones will leave once the benefits are no longer there. This view is supported by Alamá & Tortosa-Ausina (2012), who conclude that bank branch locations are related to population and income variables; however, it is not mentioned whether these branches are profitable. By contrast, Marcovici (2015) still sees Switzerland as a key offshore centre that can survive, although it must implement some changes and move away from the simple view of attracting clients with banking secrecy.

As there seems to be no common agreement on whether Switzerland will remain attractive for offshore clients to deposit money in the future, one of my research questions is to ascertain whether Switzerland remains attractive for offshore money and if a private banking service is really needed by the client.

2.3.2 Banking secrecy

Swiss banking secrecy law is based upon three different legal concepts under Swiss law: personality rights, contractual duties and banking law, which criminalises secrecy violations (Honegger, 1983). Honegger (1983) analysed the impact of insider trading and how Swiss banking secrecy helped insider traders to avoid being discovered until 1982, when Switzerland and the United States signed a memorandum of understanding. This insider trading in the US is important as it is seen as the first weakening point of Swiss banking secrecy. Steinlin and Trampusch (2012) also consider insider trading as the first point of the limitation of non-disclosure to foreign authorities by Swiss banking secrecy.

Further actions like money laundering and dictators' assets in the 1980s and 1990s, followed by the illegal activities of UBS in the US between 2008 and 2011 and the recent cases from the OECD, G20, France and Germany (Steinlin and Trampusch, 2012) have placed additional pressure on the banking secrecy.

The weakening of banking secrecy is a process that already started some time ago. Implemented for privacy, Swiss banks - among others - did not share client data with anyone. Secrecy protection means that all relevant information of the client stayed within the bank (e.g. the client's name, authorised signatories on the account, asset value, income, etc.). Marcovici (2014) perceives that the industry supported the misuse of bank secrecy to the detriment of their clients, whereby the relationship manager reached out to potential clients and offered banking secrecy as a way to avoid taxes in the home country because a Swiss bank would not exchange data with the home country, unless the client acquired the money illegally or was involved in money laundering. However, this view dramatically changed after the Inland

Revenue Service (IRS) forced UBS to reveal the names of 52,000 American customers and in 2009 the Swiss federal court, UBS and the United States government reached an agreement and provided information about approximately 9% of the requested account holders (Bondi, 2010).

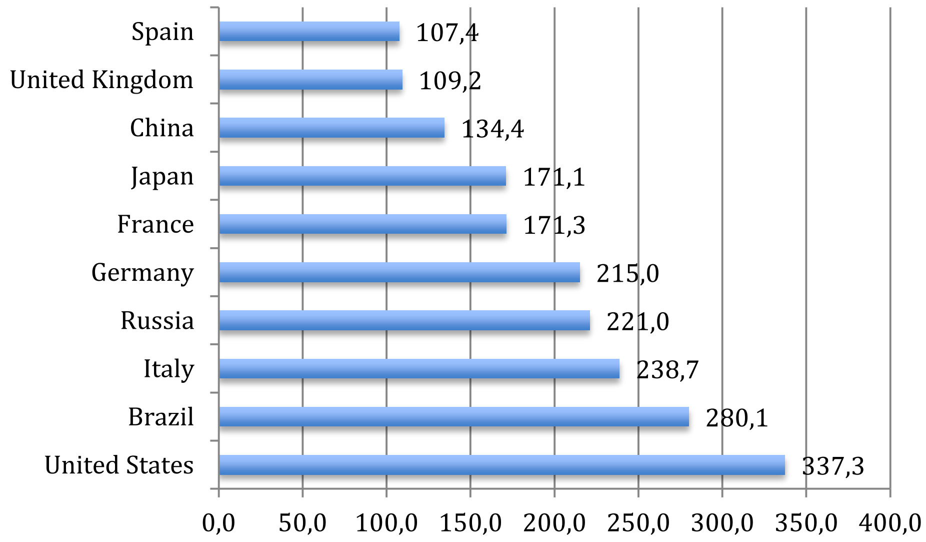
In 2003, the European Community (EU) introduced an EU-wide Automated Exchange of Information (AEOI) on offshore accounts' interest income (Hakelberg, 2015). The aim is that within the EU, each country receives the data from its residence with an account outside of the home country. This data would subsequently be used to check against the completeness of the tax declaration filed by the resident. As Switzerland is not a member of the EU, countries like Luxembourg and Austria - which also have banking secrecy - were hesitant to give up their banking secrecy and together with Switzerland they agreed on a withholding tax rather than exchanging bank data with EU partners (Hakelberg, 2015). This means that the client data remains within the bank and the bank would only deduct the withholding tax and deliver 75% of it to the government of the residence country of the client on an anonymous basis (Hakelberg, 2015). Potential tax evaders thus had sufficient time to restructure their portfolios and in many cases the relationship manager had a pro-active approach to offer such products to clients to avoid the withholding tax while banking secrecy protected them from prosecution at home (Hakelberg, 2015). It was only in 2009 when the Organization for Economic Co-operation and Development (OECD) put Switzerland on the black list for being non-compliant with OECD standards for tax co-operations and it threatened sanctions, whereby Switzerland agreed upon an exchange of information upon request (Hakelberg, 2015). With the bank secrecy weakening in Switzerland, clients decided to open up structures in so-called tax havens countries to avoid being taxed in their home country.

2.3.3 Tax evasion

Banking secrecy is often mentioned as a tool to evade taxes; hence, I would like to explore this topic in further depth.

The Internal Revenue Code or tax code states that any person who wilfully attempts to evade or defeat a tax is guilty of felony and subject to imprisonment, a fine, or both (Roberson, 2014). Not only is the person who wilfully makes and submits a return that contains false information guilty, but also any person who wilfully assists or aid other persons or corporations to evade a legally-due tax (Roberson, 2014).

Figure 2.1 - Countries with the highest amount of tax evasions (in USD billion



(Source: Tax Justice Network, 2011)

Different taxpayers have different opportunities to evade taxes, as outlined below (Bayer, 2003):

- Employed taxpayers have few possibilities to evade their working income, as it will be taxed at source and thus is already reported to the tax authorities.

- Working in the shadow economy might create such an opportunity (i.e. not reporting the income to the tax authorities).

- Self-employed taxpayers can create many such opportunities by simply not declaring all of their income or making higher deductions than were effectively the case.

- Interest from dividends or accounts can be evaded by not declaring the income, although many countries already report the income to the tax authorities or take a withholding tax, which can be claimed back if declared.

- Speculative gains from trading are taxable income in some countries, although it can also easily be hidden by not declaring it.

As it can be seen, taxpayers have different opportunities to evade taxes and the easier it is for him to evade, the lower are the evasion costs (Bayer, 2003), albeit at the risk of being found out by the tax authorities, whereby then need to pay a fine or imprisonment, or both.

Many countries are using a progressive tax system, whereby the more one is earning, the higher the potential savings of evading taxes. For example, in Germany, taxes start at 0% and move up to 45% of one's income (Bundesministerium der Finanzen, 2014).

What does this mean in real terms? For instance, take a client who has EUR 10 million in his account and generates income of 5% from his investment. The person is married and has an annual income from his executive job of 300,000 Euros. According to the German Tax Calculator 2014/2015 (Bundesministerium der Finanzen, 2014), the person pays an income tax of 115,545 Euros. Adding the 500,000 Euros from his investment income, the tax bill would increase to 346,544 Euros. Now imagine the situation when banking secrecy was still in place and a relationship manager could confirm to the client that due to banking secrecy Germany would never receive any data from Switzerland; accordingly, the client would ‘save’ almost 231,000 Euros a year from his investment.

Why does the relationship manager not care that he might be guilty of tax evasion? According to Transparency International (n.d.), Switzerland is somewhat particular as there is a distinction between tax fraud and tax evasion: tax fraud is a criminal offence as the person engages effort to reduce the amount of tax payable by means of a false declaration of income, whereas tax evasion is a violation of the law, subject to administrative sanctions. In such a case, the taxpayer simply forgot to declare part of his/her income. This is different to other countries where both tax evasion and tax avoidance are criminal offences.

As an academic practitioner, it is difficult to judge whether tax evasion is ethical. McGee (2012) and Gick (2003) hold the view that there is a no universal norm, meaning that tax evasion depends on the person and their perspectives. Song and Yarbrought (1978) confirm this through a survey involving 3,400 people concerning their willingness to pay taxes, whereby the taxpayer’s tax ethics is 60.3% (Song and Yarbrought, 1978:451). However, the survey did not state whether the other 39.7% believing that is not tax ethical belong to the higher income class or the more wealthy people. Gick (2003) mentioned that moral rules should be considered with respect to the relevant time and place. Switzerland might have realised this and thus it signed several tax information exchange treaties.

Given the difference between tax avoidance and tax evasion in Switzerland, who is actually the one responsible? For Raby (1966), it is quite clear that the responsibility lies on the client who makes the final decision and the tax practitioner should support him/her as long as it is not false or misleading. Doyle et al. (2014) come to a similar conclusion in their paper when comparing the ethics between four large companies and smaller tax practice firms. Larger tax firms have processes in place to detect unethical tax behaviour while in smaller firms it is mainly the principle and the close relation to the clients that detects unethical tax behaviour (Doyle et al., 2014). Training and education reflect means to train the ethical antennae of practitioners so that they can develop great sensitivity to this ethical issue (Doyle et al., 2014). However, the focus should not be placed upon what the tax practitioner can save the client in taxes, but rather on the greater ethical sensitivity in the practice generally (Doyle et al., 2014).

Eek et al. (1998) already mentioned that the public’s willingness to pay taxes and fees levied by the government needs to be considered by a democratic government. Cheung et al. (2006) focused on Hong Kong Chinese taxpayers between 1999 and June 2001, interviewing 4,407 people. Their findings suggest that Hong Kong Chinese have a modest willingness to pay taxes (Cheung et al., 2006), although their research also showed that willingness to pay taxes increased over time and it also depends what the taxpayer gets back from the government (Cheung et al, 2006). It can be said that taxpayers accept 'a free lunch', meaning that if a service is provided for free (not paying taxes for it) people will make use of it (Simonsen and Robbins, 2003). Essentially, if the taxpayer gets more back from the government or there are high fines for tax evasion, it is more likely that taxpayers will pay taxes (Cheung et al., 2006). This view is generally shared among all social classes and income levels (Cheung et al., 2006). On the other hand, Simonsen and Robbins (2003) also found that taxpayers are well aware of the financial situation facing the government and their willingness to pay taxes improves accordingly; indeed, "a striking 79% selected a tax increase of 3% or more" (Simonsen and Robbins, 2003:843) to improve the situation.

The Qualified Intermediary System, The Foreign Account Tax Compliance Act, the EU Savings Tax Directive and the OECD Harmful Tax Competition Project are just a few measures that countries and organisations have put in place to fight against tax evasion. A closer look into the different measures to fight against cross border tax evasion and how they work can be found in the dissertation of Schaller (2015). Tax haven

Palan et al. (2009) quoted several authors in an attempt to define a tax haven, finding that although the term is widely used there is no consensus concerning what it means. Even in 2006, Sharman (2006) mentioned that there remains a lack of clear definition of tax havens.

Johannesen and Zucman (2014) see a link between tax havens and banking secrecy. In their study, they focused on the signed tax exchange information treaties as for them this shows whether a country is a tax haven: the more treaties that are signed, the more likely it is that the country is not a tax haven. Although Switzerland is mentioned in the introduction by signing an agreement with France, the paper shows that there are many other tax havens across the world. Indeed, 18 tax havens cooperated with the EU under the Savings Directive by withholding a certain percentage from the interest payment as a tax (Johannesen and Zucman, 2014). While Switzerland is one such country, Johannesen and Zucman (2014) also mention Singapore, Hong Kong, the Bahamas and Bahrain as countries that do not cooperate with the EU. The study by Johannesen and Zucman (2014) concludes by stating that some tax havens cooperate more than others but it can only be assumed that by abandoning banking secrecy the country might have positive effects to attract other financial activities. By contrast, Blanco and Rogers (2012) concluded that countries that are becoming tax havens have a favourable growth. However, the study is inconclusive regarding whether this growth is due to the favourable taxation or due to different influences such as banking infrastructure, political stability, etc.

According to Brinker (2013), being a tax haven alone is insufficient for clients to deposit the money in such a country, as for him other factors like confidentiality, banking, currency control, treaty networks and communication are far more essential. However, Brinker (2013) also sees that privacy and confidentially once promised by a country have eroded, whereas the need for international tax planning has not diminished.

The critical point for many authors in respect of tax havens and banking secrecy is not the banks, the clients or the industry; rather, they perceive politicians and the pressure that other countries place upon tax havens as the main driver (Nicodeme, 2009; Emmenegger, 2014).

2.3.4 Exchange of Information

Accordingly, the question is whether Swiss banking secrecy has come to its end. De Mueller (2010) makes a strong argument that banking secrecy was actually never absolutely impenetrable. She concludes in her article that banking secrecy has an end and might be replaced with tax havens (De Mueller, 2010). This viewed is also shared by Campbell and Comer (2014), as they focus on the automatic information exchange and enhanced transparency. Their article does not focus on banking secrecy aspects, although it shows very well that the world is becoming increasingly transparent. Initiatives like the Tax Information Exchange Agreements, Foreign Account Tax Compliance Act, multilateral tax information exchange (an automatic exchange of a wide range of financial information of 37 countries implemented at the end of 2013) and the administrative Cooperation Directive introduced by the EU (Campbell and Comer, 2014) make it increasingly impossible to avoid paying taxes by hiding assets under Swiss banking secrecy. Campbell and Corner (2014) thus also note that companies are shifting their declared profits to locations where taxes can be minimised.

Many authors, such as Comisky and Lee (2013), Farooq (2015), Norton (2009), Bondi (2010), Vogler (2001) and Hauser (2010) share the view that all the new and existing transparency rules are putting an end to Swiss banking secrecy,

Looking across the border of Switzerland, Hoffman (2011) also considered banking secrecy in Austria, concluding that with the OECD standards and EU law Austria also needs to implement the automatic exchange of banking information and hence Austria wants to change its image towards no longer being known for its banking secrecy.

The most recent statements from Swiss private bankers also point towards the notion that the Swiss banking secrecy has come to an end. To state two prominent sources, Jacque de Saussure (chairman of Banque Pictet & Cie) mentioned during a conference that the "era of banking secrecy is over and era of transparency has begun" (Global Banking News, 2015), while the Swiss government also decided to launch talks with other nations on the automatic exchange of account details (Global Banking News, 2014), which will put an end to banking secrecy.

With so many authors writing about the end of the banking secrecy, it is interesting to note that some hold an opposing perspective. Wilson and

Edelman (2011) argue that banking secrecy is still needed, albeit not for reasons related to tax but rather for privacy reasons. They also point out that humans always have a need for privacy and hence would keep their money under the mattress rather than putting it into a bank, which means the money is removed from circulation. The privacy aspect has already been discussed in the literature quite a while ago. Indeed, more than 100 years ago, Warren and Brandeis (1890) argued that one has the right to privacy, albeit in a different context. Privacy is also the main reason that the banking secrecy might survive. Fiechter (2010) starts very negatively in his article and one could think that banking secrecy will disappear due to the exchange of tax information. Later on, however, Fiechter (2010) points out that the exchange of tax information also has some loopholes, prompting his conclusion that “the banking secrecy has good reasons to survive, to continue to offer a safe haven to citizens of states invading their private sphere” (Fiechter, 2010:53).

However, with the Exchange of Information, Qualified Intermediary Regime, Foreign Account Tax Compliance Act (FATCA) and Liechtenstein Disclosure Facility - to name a view - and tax authorities paying rewards for client information (Marcovici, 2014), clients’ banking information is more easily available and hence we talk about tax transparency. This means that even if the client does not put accurate data in the tax returns, the tax authorities will receive data from the banks. This process makes the taxpayer more transparent for the tax authorities. Indeed, this tax transparency reflects one of the major arguments of the authors deeming that Swiss banking secrecy is dead. The notion that the focus on cross-border depositing is a tax-driven phenomenon is also proven by empirical evidence from two independent studies by Alworth and Andresen (1992) and Huizinga and Nicodeme (2004). Part of their research findings are that the higher the domestic tax rates and the lower the foreign withholding tax rates, the more often that capital is deposited abroad. This might have been true for the period from 1983 to 1991, although interestingly from 1992 to 1999 the international clients who deposited money abroad were not affected by the closer tax cooperation (Huizinga and Nicodeme (2004). Some of the factors for opening a non-resident bank account are that households do not trust the stability of the financial sector or a crisis takes place in the residence country (Kleimeier et al., 2013).

The question also emerges concerning whether there could be something in between. Marcovici (2014) sees the downside of all the implemented or forthcoming rules, whereby a country like Switzerland submits the data to the clients' residence country and this country misuses the tax information by putting the taxpayer at risk in terms of kidnapping, political oppression and/or corruption. Marcovici (2014) suggests a two-way approach forward:

- For countries that deserve full tax transparency, the data can be given and even more than was the case with the Liechtenstein Disclosure facility, whereby clients who had non-declared money in Liechtenstein that a time frame to self-declare the assets and needed to pay a favourable rate to eliminate past tax duties, similar to a voluntary disclosure scheme. This helped the country with the offshore accounts to keep the assets in the offshore jurisdiction, helped the clients to eliminate past taxes and the residence country received additional taxes and the clients did not move to another jurisdiction to continue hiding the money.

- Countries not yet ready for full transparency should only receive the data once the country can ensure legal and tax systems protect privacy and the legitimate rights and interests of taxpayers. For such countries, Marcovici (2014) suggests a simple and confidential withholding tax approach (like the EU Savings Tax Directive).

However, Marcovici (2014) questions whether the wealth-management industry and the offshore centres are ready to take pro-active leadership.

As has been seen, there are different views about Swiss banking secrecy. Therefore, one of my research questions is to ascertain whether banking secrecy is still needed by the clients and accepted in a highly regulated market, including all the new laws and regulations being implemented. Even within my bank there are different views on what is going to happen in the future with the Swiss banking secrecy. It also depends on the age of the people. The older they are, the more likely they tend to keep the secrecy alive while the younger employees see an end to the banking secrecy.

2.4 Major financial indicators

Financial indicators are always in the focus when talking about the performance of private banks. Therefore, I would like to explain some of the common financial indicators - starting with an explanation of costs, income and assets for private banks - as these are essential for the calculation of the financial indicators. A special focus will be placed upon AuM, as it is the most key one compared to other financial figures (BCG, 2014; Newtone Associates and A.T. Kearney, n.d.; KPMG, 2013b, Birchler et al., 2013). The following ratios or key performance indicators for private banks explained below are mentioned by both KPMG (2013b) and Scorpio Partnership (2014).

Most of them will serve as control variables in the quantitative analysis. People working in the financial industry or are interested in the financials of a company will know already the terms and its relevance but for people outside it is important to understand as financial indicators are key in most of the companies, not only within private banks.

2.4.1 Cost

Table 2.2 - Overview of personal expenses in some Swiss private banks (2015)

Bank	Operating Expenses	Personal Expenses	Ratio of Personal Expenses/Operating Expenses
EFG International	575	382	66%
J. Safra Sarasin	546	420	77%
Julius Baer	1840	1182	64%
Lombard Odier	838	641	77%
Pictet	1,453	1,057	73%

(Source: EFG International, 2015: Bank J. Safra Sarasin, 2015; Julius Baer, 2015; Lombard Odier, 2015; Pictet, 2015)

As can be seen in the table above, personal expenses are the main cost factor in Swiss private banks, ranging from 64% to 77% of the total operating expenses. Birchler et al. (2013) noted that Swiss private banks have the highest wage level in the world and since private banking is a personnel-intensive business, these costs should be closely monitored. Almost two-thirds of the operating costs in most countries in 2012 are private banks' expenditure on personnel, although these costs are still under review (Birchler et al., 2013). The personnel costs per employee in Swiss private banks fell continuously from 2006 to 2012 (Birchler et al., 2013). Switzerland is well known for being a high-wage country as the share of salaries in personnel costs is relatively high while other European countries - particularly Austria, France and Italy - exhibit a relatively high share of non-wage personnel costs, e.g. social contributions (Birchler et al., 2013). More positively, it can be noted that Switzerland still exhibits the lowest share of administrative costs (Birchler et al., 2013).

Due to new technology, banks are able to introduce new products, respond quicker to consumer demands and IT has facilitated reliable and fast flows of information between consumers and banks, as well as between banks (Urio, 2014). For some of the Swiss banks, the costs are significantly higher as bank have tried to hot-wire ageing systems in the past to improve their performance, which has proven an uphill struggle (Heidmann, 2010). In addition, merger activities and a changing operating environment have brought complexity to the breaking point as most of the core systems were installed in the 1970s and 1980s and are ill-equipped to support the current needs of financial institutions (Heidmann, 2010). During the initial costs to implement a new standardised core set of banking applications, the benefits are also significant. Heidmann (2010) mentioned that one bank has eliminated the redundancy in the IT system that riddled its prior IT environment, which brought the cost structure back into line, whereby the bank has closed 50 per cent of the cost gap with its competitors. Building such a system in-house has proven a difficult and resource-draining task, costing the organisation from 50 million to 300 million Euros (Heidmann, 2010). An IT system off the shelf is thus an advantage as it has a larger payoff, faster delivery and smoother implementation (Heidmann, 2010).

After analysing the impact of regulatory reforms in Indian banking, Zhao et al. (2010) concluded that the implementation of such reforms does not necessarily increase the cost side. However, parts of the costs were also brought down by the technology progress as the analysis was conducted during a period from 1992 to 2004 (Zhao et al., 2010). Fries and Taci (2005) analysed 289 banks in 15 East European countries from 1994 to 2001, concluding that the cost impact is lower in early stages of banking reforms while at a more advanced stages of the reform costs increase. This view is also shared by BCG (2014), who sees profitability as being under pressure due to the rising costs of conducting business with foreign and domestic customers and the implementation of various new regulations like the AEOI. Changes in regulation are also a focus in the KPMG (2013) study, noting that smaller banks are under pressure to keep up with the new regulations, increasing pressure to go international and the new ways of interacting with the clients. All these will create new costs for smaller private banks and thus they can only survive if they have a client-centric advisory skill and can capitalise on their superior brands while keeping their costs capped (KPMG, 2013).

As a reference, it is possible to consider the cost for implementing the Sarbanes-Oxley Act (SOA). Janson and Scheiner (2007) explored the compliance costs in the second year of implementing the SOA as people expected much lower costs in the second year after the implementation. However, the results suggest that the audit fees have skyrocketed since the SOA came into force. Although the promise was a one-off fee, evidence suggests that this promise has not been fulfilled (Janson and Scheiner, 2007). An additional outcome when analysing the audit costs by Janson and Scheiner (2007) is that audits by larger firms are more expensive than regionally-engaged auditing forms and that larger bank enjoy economies of scale in respect of audit fees per dollar of market capitalisation. This would support the view of KPMG (2013) that smaller private banks are under pressure.

The problem of the high costs in Swiss private banking sector is due to the service and product oriented cost transparency - according to Wietlisbach and Dimitriadis-Rutsch (2012) - which currently does not exist. Only with this will the executives be able to check which products and services are profitable and thus hold strategic importance (Wietlisbach and Dimitradis-Rutsch, 2012). In a second step, the bank should analyse which of these products and services they should entirely or partially outsource, as well as checking whether the remaining products and services can operationally be produced more efficiently (Wietlisbach and Dimitradis-Rutsch, 2012). Wietlisbach and Dimitradis-Rutsch (2012) assume that with such measures banks can reduce the cost basis by around 20% to 35%.

2.4.2 Income

Swiss and Liechtenstein private banks were well known for their strong advantage in per employee revenues and both countries are still ranked first and second in this respect, albeit only by relatively modest margins (Birchler et al., 2013). In Switzerland, revenues per employee declined from 593,000 CHF to 439,000 CHF from 2006 to 2012, reflecting a decrease of 26% (Bichler et al., 2013). For Liechtenstein private banks, the same ratio decreased by 50% during this period (Birchler et al., 2013). One of the key income drivers for private banks is so-called fee-based advisory mandates, which represented 17% of total private banking AuM in 2012 (McKinsey Banking Practice, 2013). Advisory mandates are mandates where the client makes the final investment decision but the bank provides some information, guidance and recommendation. According to McKinsey Banking Practice (2013), the margins on advisory mandates are getting closer to discretionary mandates but remain around ten basis points less.

Discretionary mandates are accounts that allow the bank or the broker to buy and sell securities without the client's consent. The client decides at the beginning the strategy that he wants to follow, which must be in accordance with his risk profile; subsequently, the bank or broker conducts the trades without further gaining consent from the client. For this, the clients sign a discretionary disclosure with the bank as documentation of the client's consent.

Another good income stream is the commission that a private bank obtains from third party products. For instance, if a private bank refers a client to an insurance company, the client then decides to buy an insurance product and once the premium is paid, the private bank receives a commission from the insurance company as it has introduced the client. Similar are the retrocession that a bank receives from fund houses when the client or the bank buys a fund from a fund house. However, this income does not seem stable as these commissions or retrocessions have the potential of being banned in some markets (McKinsey Private Banking Practice, 2013). In 2012, the Swiss Federal Supreme Court decided that an agent is obliged at all times to account for the management of his business activity and return to the principal all the advantages of any kind related to the performance of the mandate, given that this could lead to a conflict of interest (Giroud & Nadelhofer, 2012). Accordingly, if an agent sells a product from provider A and receives a commission of CHF 1,000 and while when selling a similar product from provider B he will receive CHF 8,000 commission, there is a conflict of interest as the product from provider A might be more suitable for the client the agent would receive a higher commission with the product from provider B. For the court case, the client of the bank signed a waiver that the bank will receive some commissions but the waiver did not specify the retrocession amount that the bank is expecting (Giroud & Nadelhofer, 2012). Already in the past, the Swiss Federal Supreme Court decided that independent asset managers must properly inform the client of the foreseeable amount and the calculation parameters of the expected retrocession and that this is attributed to the client unless he waves his right and title to the asset manager (Giroud & Nadelhofer, 2012). Accordingly, in 2002, the Swiss Federal Supreme Court decided that this is also the case for a bank that manages clients' assets (Giroud & Nadelhofer, 2012). In cases where the bank did not secure such a waiver signed by the client, the court decided that retrocessions received by the bank must be returned to the client (Giroud & Nadelhofer, 2012). It is important to mention that this is also the case for retrocession that the bank receives from the same group entities (Giroud & Nadelhofer, 2012).

Therefore, some banks no longer accept retrocessions or declare retrocessions received from a third party due to the Swiss Federal Supreme Court case. This helps the client to understand what the bank earns in addition to the bank charges. On the other hand, Kishore et al (2013) points out that commission is actually the best way to increase sales, while Holt (2013) sees the financial Authority starting to ban commissions. In this case, the best way to increase sales will no longer be allowed, which could pose a significant risk to Swiss private banks.

McKinsey Banking Practice (2013) pointed out that two-thirds of the decline in revenue margins is due to the deposit margin for an average Western European private bank; indeed, this situation is not likely to change in the near term as banks will continue to search for liquidity and capital in a low-rate environment.

KPMG (2013) predicts that banks will no longer be able to take retrocessions by 2020 and that flat fees will dominate. For such a flat fee, it is important that (KPMG 2013):

- the new pricing includes factors such as behavioural data analysis and compliance risk;
- clients need to understand the new pricing model and thus a clear pricing communication needs to be developed;
- clients need to accept the new pricing model;
- it must best suit the client's profiles and needs; and
- the bank must strengthen data collection and analysis to identify the best pricing models for different client groups.

With banking secrecy, clients did not look at their cost side (income for the bank) and they were quite relaxed with charges from the bank. However, as banking secrecy is fading, clients are becoming more cost sensitive and starting to challenge charges.

All the literature indicates that Swiss private banks will no longer be able to take commissions in the future due to new legislation, one of the research questions is whether the focus on more transparency concerning commission and/or retrocession that the bank receives from other products is seen as helpful to attract more clients.

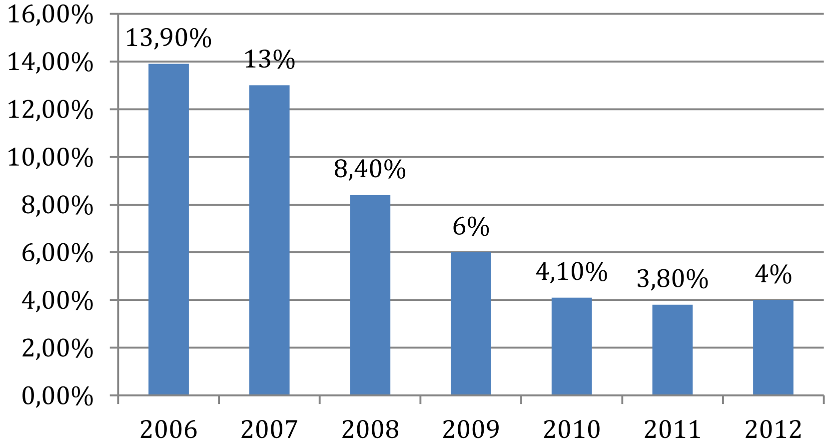
2.4.3 Assets for private banks

Birchler et al. (2013:20) already mentioned that "Assets under Management are the very basis of income generated by the wealth management industry". The process of assets for private banks starts with the so-called new money. Every time a client deposits money/shares with the bank, it counts towards new money. Asset outflow will also be recorded and the difference between income and outflow is known as net new money. To provide an example, assuming that client A will bring assets to the bank worth 20 million while client B takes out assets from his account at the same bank of 15 million, the net new money would be 5 million (20 – 15). The net new money will be monitored during the quarter, year and starts every year again from 0. The deposited money will subsequently become assets to the private bank. There are normally three types of AuM: AuM in own funds, discretionary AuM and other AuM (KPMG, 2014). AuM in own funds refers to the funds that the bank holds in its name. Discretionary AuM is the best income stream for the bank as here the bank is actually managing the assets of the client. The client chooses a strategy - e.g. income - and then the bank makes its investment without involving the client, earning money on this service in addition to the transactions. The advantage for the client is that he does not need to care about the investments as the bank does everything for him. However, KPMG (2014) mention in their report that clients are not yet convinced of this strategy and thus the bank has difficulties in growing profitability through this discretionary offering. Finally, other AuM refers to the assets that clients have in the bank. Simply speaking, the bank only earns income on the normal custody fee and when the client makes a transaction.

2.4.4 Return on equity

Return on equity (ROE) is the ratio of the net income of a business during a year to its stockholders' equity during that year, which measures the profitability of stockholders' investment. ROE is calculated by dividing the annual net income by the average stockholder's equity.

Figure 2.2 - Development of median ROE of Swiss private banks (2013)



(Source: KPMG (2013b))

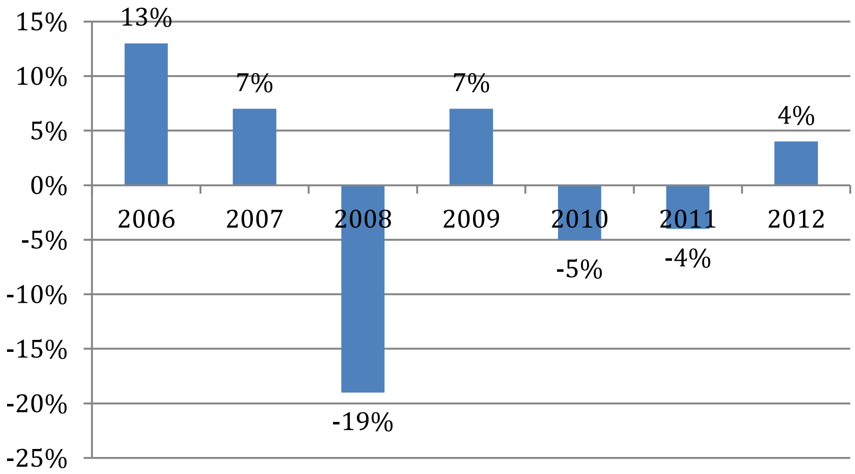
PWC (2010) points out that ROE in private banking needs to be considered with reservations as the capital is often much higher than required by the FINMA due to reputational reasons. A private bank that has more own equity seems more secure for a client to deposit his own money. As some private banks still have a partnership model, the partners invest their own money and are normally employed by the bank. Accordingly, they might not be so interested in the ROE but more in the well-being of the private bank and their salary that they receive.

KPMG (2013b) highlights that ROE has been strongly influenced by extraordinary income in the last two years due to release of provisions, capital contributions from the owners and non-recurring sales proceeds.

2.4.5 Asset under management

AuM is the figure of a client’s assets that a bank holds and manages for the client. PWC (2010) mentioned that until 2007 there was a steady increase in clients’ assets, whereas in 2008 the trend in AuM was negative, which also resulted in negative performance of the financial markets.

Figure 2.3 - Change in AuM (gross)



(Source: KPMG (2013b))

KPMG (2013b) highlights an increase in aggregated AuM for Swiss private banks over the past few years, while pointing out that every fourth bank has experienced a decline in AuM and the main driver of growing AuM was due to return on investment.

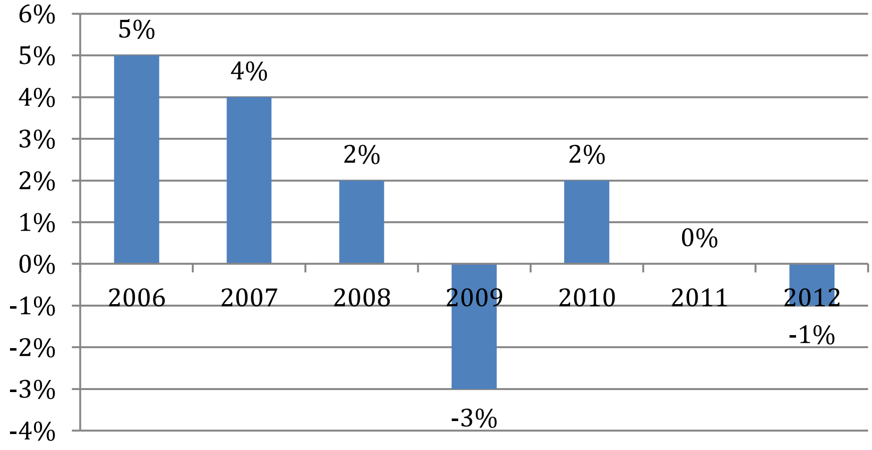
To provide an example, if a bank has 100 million AuM and during the year the performance of the portfolio was 10%, the clients’ assets raise to 110 million due to the performance. Therefore, without doing anything, the AuM has increased. Of course, it can be argued that the bank achieved great asset management, but in a market environment where stocks raise it seems too easy to also raise the AuM.

KPMG (2014) mentioned that an important factor to grow AuM is its performance. Positive performance – i.e. above the market rate - will attract other clients to invest money as they believe that the bank will also have an above-market performance in the coming year. However, the median AuM performance is at 2.2%, which is surprisingly low given the positive market environment (KPMG, 2014).

2.4.6 Net new money

Many consider net new money as a better indicator as it looks at assets that the bank can attract during a year from clients and deducts any asset outflow by clients. Net new money is sometimes seen as a sub-category of AuM as it also influences that ratio.

Figure 2.4 -Median net new money contribution to AuM



(Source: KPMG (2013b))

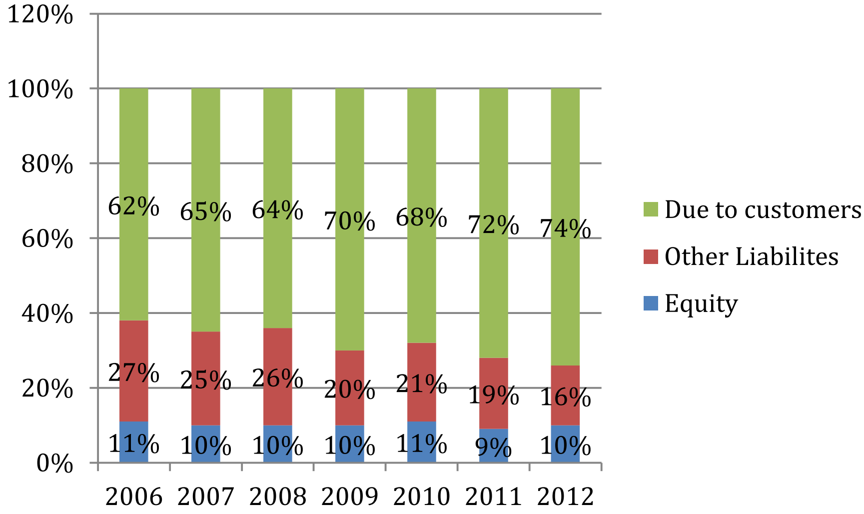
KPMG (2013b) mentions that Swiss private banks that they experienced negative net new money in 2012 for the first time since 2009. This means that the bank could not attract as much money as clients withdraw from it. Therefore, Swiss banks face a difficult situation if they want to grow organically (KPMG, 2013b). Especially smaller banks need to grow to achieve critical mass (KPMG, 2013b). Only 20% of private banks in Switzerland could show an influx of net new money greater than ten per cent in 2012 (KPMG 2013b).

The net new money and AuM influence the income of the company (and thus also the ROE) as the bank earns commissions on the managed assets, as pointed out Scorpio Partnership (2014).

2.4.7 Balance sheet development

While NNM and AuM only focus on the client assets that the bank manages, the balance sheet development looks at all the assets that the bank could attract. The positions are equity, due to customers and other liabilities (KPMG, 2013b). This figure strongly has increased due to growing client deposits (KPMG, 2013b). During 2006-2012, the figure increased on average by 8,8 per cent, with the strongest growth in 2007 (23%) and 2011 (16%) (KPMG, 2013b). The increase in the balance sheet and decrease in AuM can be explained by clients’ risk aversion (KPMG, 2013b), which has significantly increased since the financial crisis. Accordingly, clients prefer to deposit their money in their account rather than investing it in the stock market or other financial products, given that they are afraid of a crash and losing their money. It is important to note that this reluctance by private banking clients to invest their funds results in lower potential income for banks (KPMG, 2013b). Nonetheless, the balance sheet of Swiss private banks increased from 2006 to 2012 by 39% (KPMG, 2013b), as shown in the figure 2.4 below.

Figure 2.5 - Balance sheet development (2013)



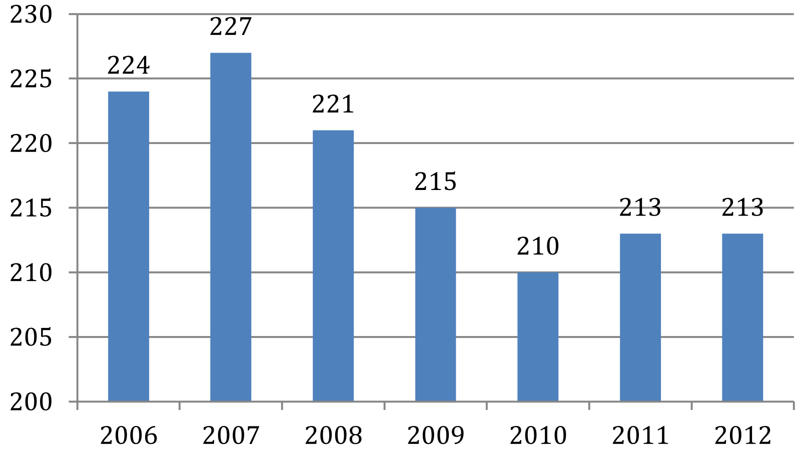
(Source: KPMG (2013b))

2.4.8 Average personnel costs by FTE

As this ratio indicates, it shows the personnel costs divided by full-time equivalent employees (FTE). Put simply, if there are more people employed by the bank and the ratio stays the same, it means that the average employee earns less money, whereas if less people are employed and the ratio increases it means that fewer people earn more than before. However, it can also be the case that social contributions need to be raised by regulations, which would thus also have a negative impact on the average personnel costs by FTE, as this ratio would increase.

KPMG (2013b) mentioned that from 2011 to 2012 the ratio remained stable, which is surprising given that the financial performance of many banks was weak. An interesting finding is that smaller banks have lower average personnel costs by FTE and that the value fell for small and medium banks while it rose for larger banks (KPMG 2013b).

Figure 2.6 - Average personnel costs by FTE (in CHF)



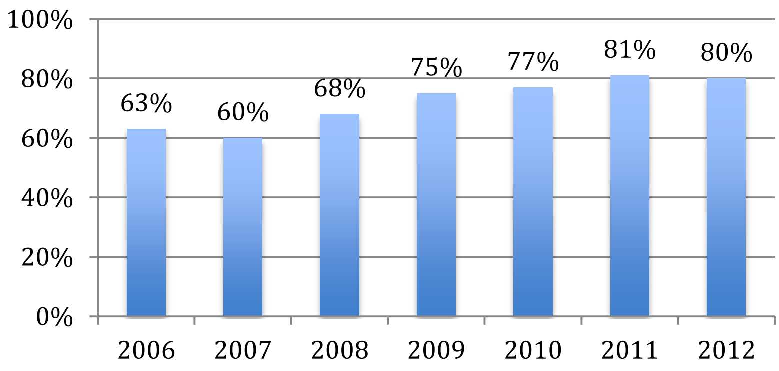
(Source: KPMG (2013b))

2.4.9 Cost/income ratio/Revenue and cost development

The study of BCG (2014) and Newtone Associates and A.T. Kearney (n.d.) highlight that the cost-income ratio of private banks has declined in recent years. Both studies (BCG, 2014; Newtone Associates and A.T. Kearney, n.d.) see the reason for this in increased compliance and regulatory overheads, greater need for price transparency, more demanding clients, competition in the industry and the higher costs associated with attracting and/or retaining talent, especially relationship managers. This phenomenon is not only true for Switzerland but also for other areas with severe high cost/income ratios in Asia forcing, some players to close business (Newtone Associates & A.T.

Kearney, n.d.). This is in line with Wietlisbach and Dimitriadis-Rutsch (2012), who foresee that the cost-income ratio will increase by 5% to 10% within the next three years due to cross-border business regulations and an additional 5% to 10% due to the white money strategy (declared assets).

Figure 2.7 - Development of Swiss private banks cost/income ratio (2013)

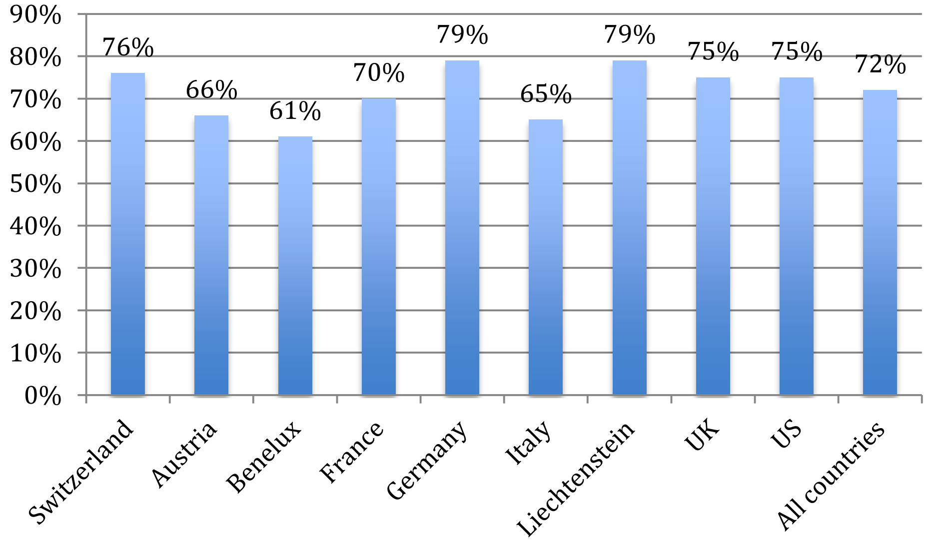


(Source: KPMG (2013b))

It can be seen in figure 2.7 that the cost-income ratio of Swiss private banks increased from 60% in 2007 to 80% in 2012. This means that for every 100 dollars earned, the costs increased from 60 dollars in 2007 to 80 dollars in 2012 or - in other terms - the profit declined from 40 dollars per 100 dollars to 20 per 100 dollars. To put the figures in relation to private banks in other locations, the following figure might be helpful.

Switzerland has one of the highest cost-income ratios (before depreciation) in the world, with 76%, as shown in figure 2.8 below; indeed, only Germany and another offshore centre Liechtenstein have higher cost-income ratios (before depreciation). In the study of Birchler et al. (2013), it is mentioned that a cost-income ratio of 80% is considered critical for long-run viability and that Swiss private banks were at this level in 2012.

Figure 2.8 - Cost/income ratio as of 2012 (before depreciation)



(Source: Birchler et al., 2013)

One of the benchmarking matrices and measures of a bank's efficiency is the cost-income ratio (Hess and Francis, 2004; Tripe, 1998) with its limitations (Welch, 2006). "The Cost Income Ratio is defined as non-interest expense divided by the sum of net interest income and non-interest income, whereby non-interest expense usually excludes bad debt and tax expense" (Hess and Francis, 2004:304) and it is also known as the 'efficiency ratio' (Hess and Francis, 2004).

It has been pointed out by many existing studies that there is a negative relationship between profitability and the cost-income ratio (Mathuva, 2009: Hess and Francis, 2004; Ghosh et al., 2003), whereby the higher the cost-income ratio, the lower the profitability.

2.5 Proposed ways of cost savings and attracting new money/clients

As seen above, Swiss private banking sector is experiencing an outflow of assets, increased or stable costs as well as declining revenues. In this section I will present an overview of factors that cause the cost and income downturn by including samples of what has already happened in the private banking or industry area. It is therefore meaningful for banks to learn from history and adapt themselves accordingly.

I will start to shed some light on the highest cost part of a private bank, the personnel costs and in particular the private bankers (relationship managers). This will follow an analysis of internal and external platforms. With a focus on the product side an explanation of private labelled products and in-house products will be given. These products will have a focus on cost and income This chapter ends with a view on private banking services.

2.5.1 The Private bankers

The private banker's ability to find customised solutions to client's very individual needs is especially important for a successful private banking business (Amenc et al., 2009), which differentiates it among the many types of banks. The difference for a private banker compared to a normal relationship manager lies in serving the client on a one-to-one basis (Driga et al., 2009).

Many relationship managers see the ‘know your customer’ and other new implemented regulations as a burden of their job (Ruce, 2011). They need to attend trainings to be up to date and they perceive compliance as preventing business. Ruce (2011) highlighted that relationship managers should see the additional information that they gain by knowing their customer and his/her circumstances better as a regulatory bonus as the relationship manager receives a higher level of customer data. With this additional data, the private banker can do a better job in terms of developing meaningful business relationships with his/her clients, better anticipating their needs and even better tailoring the customer’s experience (Ruce, 2011).

As with the different banks, relationship managers also have a different view of the bank with which they are working. During a round-table discussion, a representative from a pure private bank pointed out the advantages as focusing on private banking from top to bottom, whereby all individuals in the bank are dedicated and working for the same cause (Wozniak, 2009). By contrast, a representative from the multinational firm perceived the advantage of the global presence, a global business network and the strong balance sheet as benefitting his clients (Wozniak, 2009). One point upon which both private bankers agreed is that clients are looking for quality independent advice (Wozniak, 2009).

The extreme expertise that a relationship manager and the private bank have when engaging with their customers is the key for Singh (2014), given that systems or technology can easily be duplicated.

As a private banker for over 10 years, Spreiter (2005) finds it important that the client feels that the private banker is interested and open to the client and thus establishes a connection or relationship. This lies in the responsibility of the private banker: if this connection is not established, there is no chance for a high-end relationship with this client (Spreiter, 2005). Therefore, it is important that the relationship manager has already experienced different situations and thus can place himself in the shoes of the client and understand his/her needs.

2.5.2 Internal platform

Within the internal platform, it is also necessary to distinguish between the top-down (pro-active platform) and the bottom-up (reactive redesign) approach (Simpson et al., 2001). A typical example of a top-down approach is the Sony Walkman, where the company strategically managed and developed a family of products and was based upon a product platform and its derivatives (Sanderson & Uzumeri, 1997). Another example would be the introduction of the QuickSnap single use camera in 1987 by Fuji. To develop products faster and cheaper, Kodak introduced the product platform-base. This allowed Kodak to regain market shares and eventually overtake Fuji (Wheelwright & Clark, 1995).

The bottom-up approach is where the company redesigns and/or consolidates a group of distinct products to standardise components to improve economies of scale (Simpson, 2004). An example of a bottom-up approach would be the company Lutron, which redesigned its product line to around fifteen to twenty standards components to fit all 100 lighting control products that were previously developed together with individual customers (Pessina and Renner, 1998)

The auto industry provides some good examples of product platforms. For instance, Volkswagen brands (i.e. Volkswagen, Audi, Skoda and Seat) owned three of the six automotive platforms achieving production volumes over one million in 1999 (Bremmer, 1999). Whether top-down or bottom-up, “the prominent approach to platform-based product development is through the module-based product family, where the product family members are instantiated by adding, removing and/or substituting one or more functional modules from the platform” (Simpson, 2004).

The main point of a platform is to leverage the product platform across multiple market niches or segments (Simpson, 2004). Accordingly, the target would be to cover all the markets and segments if a bank has such a platform. An example of an internal platform in the banking environment is the UBS Equity investor, which runs on the UBS product platform (Shah, 2014). The advisor can sit together with the client to design a product, which will subsequently be priced and if the client likes the price it can be traded instantaneously (Shah, 2014). The product can be created with the simple touch of a button and the prospectus will be filed with the authorities (Shah, 2014). UBS has already started to use this platform for other products like the exchange traded note program and commodities products (Shah, 2014).

2.5.3 External platform

The external platform involves the concept of using the platform to drive external innovation (Sato, 2009). The IT industry and firms inspire this concept and companies like Microsoft and Intel are using it (Gawer and Cusumano, 2002). In this concept, collaboration is considered the key to the competitive edge for telecom operations, not only for the creation and development of new services but also for the evolution and construction of the infrastructure (Sato, 2009). For this telecom company, it means that there is a common protocol and platform in place, which makes interactions among services defined internally to the firm and in collaboration with external parties possible as the interfaces are open to a certain extent (Sato, 2009).

“A company that focuses on a single area of expertise is likely to be better at it than a company that divides its efforts among many different types of business. A stand-alone private bank is probably the best model in today’s business environment” (Collardi, 2012:23). Accordingly, the private bank should focus on its core competencies, namely focusing on its clients or - as Collardi (2012:63) puts it – “Putting Clients at the Centre”. What he means with this is that the clients are at the centre, stressing the importance of understanding the fears, wishes, challenges and opportunities confronting clients (Collardi, 2012). According to Collardi (2012), meeting clients as a private banker has many opportunities as the people one meets come from different areas, different stages in life, different industries and they have started their own business, are heiress of a new generation of wealth or have simply found the right idea at the right time and realised their dreams. A relationship manager can learn a lot from these people, although it is also important to understand clients thoroughly so that the capabilities and offerings are best suited for those who a relationship manager is serving (Collardi, 2012). This approach is also seen by Marcovici (2015) as the model that private banks should select, focusing on the client relationship and coordinating with external specialists so that the client receives the best product or service for his needs. Bank Julius Baer & Co. Ltd - of which the CEO is Boris Collardi - is already following the open platform strategy and trying to secure the right external specialists for the clients whereby the relationship manager can really put the client at the centre. Employees of this bank can focus on the core competencies and work together with other experts when the clients of Julius Baer require additional services or products that the bank itself does not provide.

2.5.4 Private labelled products

Private label products or services are typically manufactured or provided by one company for offer under another company's brand. Cuneo et al. (2015) pointed out that these private label brands have negatively affected manufacturer brands' shares in many countries. Private labelled products have evolved from a low-price/low-quality image to competing in some categories with the strongest brands in the market (Cuneo et al., 2015). Market shares across Europe have reached 23%, in the United States 24%, as well as a relatively low share in Latin America, Eastern Europe and Asia (Cuneo et al., 2015). An example of such a private label product in the banking industry in Switzerland would be the Raiffeisen and Vontobel deal, whereby Vontobel will be responsible for product and portfolio management but the products will still be sold to investors under the Raiffeisen brand (Vontobel/Raiffeisen, 2004). The downside of such private labelled products can also be seen with this example, as Raiffeisen bought a Swiss private bank shortly after signing the agreement and decided that this private bank does not need to use the service from Vontobel as agreed. Raiffeisen was even considering no longer using the service from Vontobel, although the courts in Switzerland have now decided that Raiffeisen and thus the acquired private bank need to adhere to the contract until it expires (or can be renewed) in 2017 (Gallarotti, 2015).

2.5.5 In-house products

On the other side of the private labelled products and the open platform approach are in-house products. The Oxford Advanced Learner's Dictionary (1995:613) describes in-house as "existing or happening within a company or an organization". These products are produced by the bank and normally have the bank's name and logo. The organisation thinks that producing the products within the organisation is cheaper than buying them in the market (Geyskens et al., 2006). Auge-Dickhut et al. (2014) analysed the different ways in which Swiss banks can obtain the products - starting from in-house products to cooperation to only securing the products from a third party - concluding that when there is a high regulation, the product has a high strategic relevance, high asset specificity and there is a high uncertainty, it is more likely that the product will be produced in-house. For the client, the advantage of an in-house product is that the client has already checked the bank and thus is familiar with it and trusts it, while with the new product provider he is unfamiliar and might want to conduct due diligence on the provider (Auge-Dickhut et al., 2014). Therefore, the client saves time and money, although he is also more dependent on the bank and the bank can also misuse the client's trust by offering the wrong product (Auge-Dickhut et al., 2014). If the bank misuses the trust from the client, he will move his entire asset to another provider (Auge-Dickhut et al., 2014). For banks, in-house products are attractive as the bank does not need to pay for its distribution and it can retain all revenue from the product within the bank, which might lead to miss-selling of the product as the banks push for it.

Smith (2014) points out some of the negative aspects of these in-house products; for instance, former private bankers have claimed that officials pushed them to invest their clients' money in the bank's own investment vehicles against their clients' interests. These bankers were not alone as other banks also paced internal pressure to favour in-house products or were paid more when recommending in-house products to the clients; indeed, some of them even did so without disclosing to the client that it was an in-house product (Smith, 2014). Some of the banks even seed the fund; for instance, Deutsche Bank planned to invest UDS 200 million of its own capital, making the client think of a good product while Deutsche Bank aimed to recover this 'bridge loan' by selling the fund to its customer (Smith, 2014).

2.5.6 Service

The core concept for ensuring a successful sully of service in general is the service quality (Horn and Rudolf, 2011). This is particularly true for the private banking sector, which is a pure service industry (Chase, 1981), whereby the service is entirely performed in the presence of the customer. Ang (2010) also perceives the personalised services and solutions at private banks as requiring management to adopt a highly focused strategy with respect to the segment that it wishes to target. Private banking is a highly personalised industry and clients expect solutions and services that are tailored to their needs (Ang, 2010). Accordingly, the findings from Ang (2010) - having interviewed several private bankers in Asia - are that private banks need to build their capabilities to match their clients' expectations. Ang (2010) remains silent about how to achieve such a capability but sees the management in charge of a solid game plan to attract, motivate and retain bankers, especially as there is a shortage of good private bankers in Asia.

Marcovici (2015) also regrets that Swiss private bankers have forgotten the real value of private banking. In the past, the relationship between the private banker and the client was very close and the focus was on the client and his family rather than short-term profitability (Marcovici 2015). It was also the case in the past that a relationship manager remained with the bank from their early career until retirement and shortly before retirement handed over the clients to a younger colleague (Marcovici, 2015). Nowadays, relationship managers change the bank for which they work, which is not an advantage for the clients (Marcovici, 2015). Apart from this, Marcovici (2015) sees the network of services and product as key for a good relationship with the clients. In today's world, the rich travel around the world, have assets and estates in different jurisdictions and might be domiciled in another country. Accordingly, the client needs to know the impact on his tax returns not only from the country where the assets are located but also from the country of which he is resident and domiciled (Marcovici, 2015). Therefore, the Swiss private bank - which has the network to provide the client with such a holistic and accurate advice - is best positioned for the future (Marcovici, 2015).

2.6 Summary

The review of the literature review confirms my experience as practitioner that private banks in Switzerland are declining. To put this in figure, Swiss private banks decreased by 24 % from 2005 to 2013 (Collardi, 2015:13). With my empirical study I will try to find out what can be done so that Swiss private banks survive and the decline can be stopped.

So the question is where I can start with my research. I basically identified three main sources which influence the Swiss private bank; the clients, the financials and the regulations.

Without clients there would not be any business in the private banks. Hence the behaviour of private banking clients has to be put as a priority. As I learnt from Spreiter (2005) there is no such think like a typical private banking client.

Financial indicators show the sustainability of Swiss private banks and with good financial figures the banks do have a chance to survive. Among the financial indicators AuM is the key figure compared to most other financial figures (BCG, 2014; Newtone Associates and A.T. Kearney, n.d.; KPMG, 2013b, Birchler et al., 2013). Therefore I will focus on AuM in my research. Another important financial indicator is the income of a private bank. Most of them are driven out of AuM, but there is also business, which is not based on AuM and therefore the income from commission is included in my research as well.

Commission links strongly and closely to my other topic: regulations. More and more regulations forbid certain practices which were normal in the past but no longer in the future. To close the link with the commissions, which is a good income stream for private banks, McKinsey Private Banking Practice (2013) mentioned that commissions or retrocessions have the potential of being banned in some markets. However, much more important for the Swiss private banks is the view that the era of banking secrecy has gone (KPMG, 2013).

For my empirical research I therefore want to find out first if the banking secrecy is indeed not viable. Comisky and Lee (2013), Farooq (2015), Norton (2009), Bondi (2010), Vogler (2001) and Hauser (2010) are all on the view that banking secrecy has come to an end due to the transparency rules. On the other side we have Wilson and Edelman (2011), Fiechter (2010) and Marcovici (2014) see that there is still a need for banking secrecy. I therefore want to find out with my research the view of professionals working in the financial field. Will it be towards an end of the banking secrecy or will there be a valid reason for the banking secrecy even in the future?

3 Research design and methodology

This chapter outlines the research design chosen to answer the research questions. First of all, the research question covers two main aspects, namely whether bank secrecy remains vital and how Swiss private banks can survive without banking secrecy. Both research questions are derived from my working practice. The important task of our bank and many other Swiss private banks is to find a way to attract more clients' money as the Swiss banking secrecy is disappearing.

Second, based on these research questions, four hypotheses are built. The development process of each hypothesis is discussed in details, including the reasoning for building the hypothesis and the aims to achieve with each hypothesis.

In the third section, a casual research design method is selected considering the content and characteristics of the research questions and hypotheses. Nonetheless, it specifically outlines the significance, innovation as well as the limitation of the research.

3.1 Research questions

The research question is a statement that identifies the phenomenon being studied. For my research, I knew that this was related to Swiss private banking, as this sector is facing a challenging time. At the time of Swiss banking secrecy banks and its relationship managers did not need to worry about tax issues of other countries. With UBS and the IRS things started to change and banks want to accept only compliant money. However, compliant clients also want to have a tax reporting, which they can use in their home country. Banks suddenly were faced with IT adjustments to produce compliant statements for the clients in the home country and also what the bank is actually allowed to do with the clients when they visit them in the home country or via cross border communication. The knowledge normally is not available in the bank and therefore the bank needs to spend money to acquire the knowledge and to adjust its IT systems. Some of the private banks could not afford to implement the changes, while others were taken over by other banks due to the higher fines and it lacks a clear strategy concerning what to do with foreign clients. The central research question initially emerged from my experience in professional practice and has been further articulated and refined through the literature review. The final research question is how Swiss private banks can survive in highly regulated markets.

I realised from my practice experience that private banks are experiencing difficulties in the current macro financial environment, as evidenced by the decline in net new money by 1% in 2012 (KPMG, 2013b). Furthermore, it is forecasted that Swiss banks will only grow their assets by 3% until 2018, while other locations expect to grow by 10% or more (BCG, 2014). When considering the macro environment, the entire number of private banks in Switzerland has declined from 182 in 2005 to 139 in 2013, which equals almost 24% (Collardi, 2015). As AuM is a key factor for generating income for private banks, a declining or slower growth has led to certain private banks reconsidering their position in the market.

3.2 Development of hypotheses

The research question is indicative of a gap that exists between the actual and desired ideal state (Cavana, 2001). The actual state is that Swiss private banks are unsure about how they can/shall continue in the new regulated world. On the other hand, the desired state of a Swiss private bank is to have a good asset base and earn good margins from it. It is also important to have a narrow focus with the research question, which is achieved by only focusing on private banks and with a location focus on Switzerland. This focus narrows down to 139 private banks in Switzerland. A potential impact on the research could be to inspire Swiss private banks concerning how to move forward in a strongly regulated environment with its foreign clients. Of course, the question of survival requires that the company makes on-going profits.

This process has led to the definition of four key questions, translated into hypotheses that will shape the investigation.

Hypothesis 1

Based upon my research question how private banks can survive in highly regulated markets I seek to ascertain whether banking secrecy will remain or evolve. Is it even possible to have banking secrecy with all the new laws in place? The first hypothesis tries to answer this question.

This question is put as the first hypothesis as it is crucial to answer it beforehand. Most of the researchers see the loss of banking secrecy as the main reason for the downturn of the Swiss private banking sector. If banking secrecy could survive in a highly regulated market then the Swiss private banks face less of a pressure as learnt from the literature review.

Organisations like the OECD and G20 placed pressure on the viability of banking secrecy (Steinlin and Trampusch, 2012). In 2003, the EU introduced an AEOI, although it has not yet been adopted by Switzerland, given that is not a member state of the EU (Hakelberg, 2015). With on-going pressure by the OECD putting Switzerland on a black list for non-compliant tax cooperation countries, Switzerland agreed upon an exchange of information upon request (Hakelberg, 2015). Accordingly, Switzerland will automatically send data from offshore clients to their residence country, which in fact means an end to banking secrecy. Mueller (2010) already mentioned that banking secrecy was never absolutely impenetrable. His view is also supported by Campbell and Comer (2014), especially with the automatic information exchange and the FATCA. Banking clients are becoming more transparent, whereby banks share the data with other tax authorities. By contrast, previously the bank blocked any requests and was unwilling to share any information about its clients. Comisky and Lee (2013), Farooq (2015), Norton (2009), Bondi (2010), Vogler (2001) and Hauser (2010) all conclude that banking secrecy has come to an end in Switzerland. With this it seems obsolete to continue with the research as the first questions seems to be answered. However, Wilson and Edelman (2011), Fiechter (2010) and Marcovici (2014) hold the entire opposite opinion, namely that banking secrecy still holds value. Although they agree that the client might become more transparent, they also focus on points outside the tax reason. Wilson and Edelmann (2011) as well as Marcovici (2014) see the privacy issue as key for keeping banking secrecy. Fiechter (2010) points out that the upcoming regulations have loopholes and thus banking secrecy might have a good chance to survive, especially as a safe haven for clients' private sphere.

As researchers hold different views on Swiss banking secrecy, I would like to ascertain what practitioners think about this issue. An outcome whereby banking secrecy is still needed might help Swiss private banks to keep assets with them due to this selling point. On the other hand, if the view prevails that Swiss banking secrecy should be abolished, Swiss private banks need to think about how to attract clients without this. Are these causes deterministic or probabilistic? If the causes were deterministic, it would mean that without banking secrecy there will always be lower AuM growth. However, this is not the case as other factors also have an influence, meaning that these causes are probabilistic. Can the outcome be also something in-between? Intuitively I would say no but when reading Marcovici (2014) again, it seems there is also a middle way in the sense that for countries with the same regulations as Switzerland a data exchange is fine while for countries where they have less restrictive regulations secrecy might still be a topic as otherwise the data might go to unwanted sources (e.g. organised crime).

The combination from the literature review which did not came up with a proper result as votes could be found for and against and from my private practice, assuming that the Swiss banking secrecy might vanish with the time let me make to formulate and test the Hypothesis 1 as follows:

$H0$: Banking secrecy is not viable in the current tightly regulated environment.

$H1$: Banking secrecy is still viable in the current tightly regulated environment.

Hypothesis 2

As seen from the literature review, Swiss private banks have an increased cost-income ratio, possibly due to the weakening of the banking secrecy. The research question concerning whether an open platform or in-house products are more attractive for private banking clients tries to help to increase the cost-income ratio of the bank by lowering the cost side and increasing the revenue side. Accordingly, the second hypothesis tries to answer this question.

Over the last ten years, Swiss private banks have expanded their own products and included additional services like financial planning (Foehn, 2004), thus increasing the cost base of the bank. One way of reducing costs - in addition to shortening products' time to market - is setting up a platform (Sato, 2009). The average personnel costs by FTE continuously decreased from 2006 to 2012 (Bichler et al., 2013) and remained stable during the 2011-

2012 period (KPMG, 2013B). It can be seen as a good sign as the costs do not increase but it also seems that a further decrease is not feasible due to the stagnation in the last two years. On the other hand, reducing personnel costs - which account for almost two-thirds of the operating costs (Birchler et al., 2013) - can only be achieved by doing the same work with fewer people. This is something that an open platform would support and it has been tested by the Liechtensteinische Landesbank and VP Bank by combining print and dispatch infrastructure, leading to a reduction of the cost base (VP Bank, 2010).

Internal platforms where the company does everything by itself can improve economies of scale (Simpson, 2004), external platforms to drive external innovation (Sato, 2009) or in-house products where the bank only sells its own product might be an advantage for the client as no further due diligence on the provider is needed (Auge-Dickhut et al., 2014). However, what is the best approach for the bank? The difference between an internal or external platform is not so significant. With the aim of both reducing costs and providing products, time to market can be achieved (Sato, 2009). The main difference is that for an internal platform the focus is purely within the bank while external platforms allow the bank to communicate and offer products from other companies, which should drive the innovation (Sato, 2009).

Collardi (2012) is a believer in an open platform, as he believes that a company should focus on a single area of expertise. Therefore, to offer the client the best product, it should come from a company that is an expert in that field, and hence an open platform brings benefits for the clients and the bank. Chai et al. (2012) also see the benefit of an own product platform, involving a shorter implementation of new products to the market, fewer resources needed for a platform and quicker implementation as there is a standardised process (Chai et al., 2012). Of course, the product platform comes with certain costs and specific know-how is needed, in addition to renewing the platform from time to time (Chai et al., 2012). However, Chai et al. (2012) mention that the benefits of an own product platform outweigh the negative aspects in the long run. From the literature, I have concluded that both platforms have their advantages and disadvantages and thus I wanted to compare an external platform with in-house products.

Supporters of in-house products argue that the product production is cheaper within the organisation than buying it on the market (Geyskens, 2006). Auge-Dickhut et al. (2014) assert that in a highly regulated market it is likelier that the product is produced in-house. In addition to the advantages for the bank, the client benefits from the known brand (Auge-Dickhut et al., 2014). Nonetheless, there is also the risk that the bank will misuse the client's trust (Auge-Dickhut et al., 2014) and sell the in-house product because the associated commission to the bank and as such the private banker is higher (Smith, 2014).

With my hypothesis, I try to ascertain through which way banks can better attract more client and save costs, namely through in-house products or external platforms.

From the literature review, I learnt that with an open platform costs could be capped (KPMG, 2013) or even reduced, the time to market for products could be shortened (Sato, 2009), as well as enabling networking with other providers (KPMG, 2013). With a high cost-income ratio, Swiss private banks should try to keep the costs under control or even reduce them and - in the best case - increase their revenue. Indeed, these aims can be achieved with an open platform.

While in-house products have similar advantages, the trust aspect enters into focus as it can be misused (Auge-Dickhut et al., 2014), as has already been the case (Smith, 2014). Therefore, I would like to set up the hypothesis that open platforms are more beneficial compared to in-house products. If this hypothesis will be confirmed, then Swiss private banks should implement open platforms to attract more clients and with it more AuM will be deposited within Swiss private banks. An open platform should decrease the costs of the bank as the products will be offered from third parties which mean the bank does not maintain it nor spend money for the development of such products.

From the literature I was not able to draw a conclusion what is better. It seems like a case by case approach. I therefore want to find out with my research what is best suited for Swiss private banks. Hypothesis 2 will focus on private banking and will be tested as below:

$H0$: Open platform are more beneficial compared to in-house products in private banking to attract clients without banking secrecy.

$H1$: In-house products outperform open platforms in private banking in attracting clients without banking secrecy.

<u>Hypothesis 3</u>

With banking secrecy, clients did not look at the cost side and were quite relaxed with charges from the bank. However, as banking secrecy is now fading, clients are becoming more cost sensitive and challenging charges. The third hypothesis would like to focus on the commission point, whereby I intend to answer my third research question concerning whether commissions should be waived or taken transparently.

Hypothesis 3 is formulated as below:

$H0$: Commissions received from products by the bank should be waived.

$H1$: Commissions received from the products by the bank should be taken transparently.

Commissions or retrocessions are a good income stream for private banks although they are not a stable income source as they have the potential of being banned in some markets (McKinsey Private Banking Practice, 2013; Holt, 2013). A court case in Switzerland decided that the bank can obtain the commissions if client signs a waiver to their rights and title to the bank (Giroud

& Nadelhofer, 2012). However, the law case did not cover all aspects of commissions and retrocessions and thus many new cases against banks by clients are expected to appear in the courts in the not-too-distant future (Giroud & Nadelhofer, 2012). Not taking commissions would also mean that the critique of in-house products will disappear as the relationship manager/private bank will not obtain more revenue by selling an in-house product or an external product (Smith, 2014) and thus the client will get the best available and most suitable product for him. However, ratios like ROE (PWC, 2010) and the cost-income ratio have worsened in for Swiss private banks the last few years and thus it is essential that banks can produce more revenue.

Declaring the commissions might help the clients to understand what the bank earns in addition to the bank charges. Kishore et al. (2013) point out that commission are actually the best way to increase sales. Accordingly, with transparency, the banks can secure the commissions and also increase sales. However, what has not been mentioned and tested is how the clients will react when they see how much commission the banks actually receive. Perhaps they would be unhappy with such a high figure and bargain for a cheaper price, meaning that the banks would not earn as much commission as before. It might also leave a bad taste for the client as he suddenly sees how much money the bank made before with his assets and thus is so upset that he goes to another private bank. This view is supported by Auge-Dickhut et al. (2014), who mentioned that if the bank misuses the trust from the client, he will move his entire assets to another bank. Such a hiding of commissions could be seen as a misuse of trust.

On the other hand, not taking commissions can also be seen as a good marketing tool for the bank. The client knows how much he needs to pay for a product and he also knows that the bank will not receive anything else. It could even be the case that the products become cheaper given that the provider does not need to pay commissions to the bank and thus can offer it for a lower price, which makes the product more attractive for the client.

Of course, the commission is only one aspect, whereas service quality and other factors are also important. It also raises the question of whether and how a bank with a ‘no commission’ culture can generate the same amount of revenue as before. Are there more clients coming to the bank and thus the revenues will increase to compensate the loss of the commissions or should the bank start taking fees for services that are currently for free? Such an example would be the advice that bankers give to the clients. Depending on the outcome of the hypothesis, I would also like to shed some light on this discussion.

Hypothesis 3 is concerned with the factor of commissions. While commissions have the potential of being banned in some markets (McKinsey Private Banking Practice, 2013). looking at the cost-income ratio and the income side of private banks, commissions have an important influence on income. Therefore, the bank should not give up this income stream when not needed by regulations. I have thus set up the hypothesis that commissions received from products by the bank should be taken but declared. With my research I will find out what the view from experts and clients is. The result will help Swiss private banks to gain trust with the clients and ultimately will help to bring more clients to the bank.

If it turns out during my research that commissions and retrocession are no longer allowed or should not be taken then this income stream will no longer be possible and the question comes up what Swiss private banks will need to do to increase their profits.

Hypothesis 4

The final hypothesis will focus on the location of the bank. Private banks are mainly focused on typical private banking locations - also known as offshore locations (e.g. Switzerland, Singapore, Hong Kong) - as they have had a certain advantage (e.g. banking secrecy). Under the circumstance of no banking secrecy, will the location of the bank play a more influential role? With the final hypothesis, I want to answer my research question concerning whether Switzerland remains attractive for private banking offshore business.

If the finding is that banks need to be close to the client residencies, it will pose problems for some of the private banks as it involves significant costs to set up branches, as well as regulatory-wise knowing what needs to be done to set up a branch in a different country. If Switzerland is still seen as an important financial centre, then a focus can be placed upon the above two research questions/hypotheses.

An alternative scenario could also be that the bank moves to another location. Cost-income ratios in other countries are better than in Switzerland (Birchler et al., 2013), while asset growth is high in other countries compared with Switzerland (BCG, 2014). In addition, Switzerland is well known for having high average personnel costs by FTE (Birchler et al., 2013). Therefore, even if the hypothesis proves that the financial centre banking location is more important than the closeness of the bank to the client's residence, it still leaves room for private banks to move to another location with lower costs and higher asset growth. During my result analysis, I will also try to touch upon this point.

My final hypothesis is built upon the view that the location of the bank is not important, as clients prefer to have the money close to where they live (Alamá & Tortosa-Ausina, 2012). This is especially the case when banking secrecy vanishes and the same regulations exist all over the world (Kuenzi, 2014). Therefore, I have set up the hypothesis that the location is important, whereby the closer the bank is to its clients the most likely it is that clients will bring their assets to that bank rather than leaving the country to deposit their money with a foreign bank. Accordingly, this theory will be tested with the following hypothesis:

$H0$: The closeness of the bank to the client's residence is more important than the financial centre location.

$H1$: The financial centre banking location is more important than the closeness of the bank to the client's residence

3.3 Insider role and bias

I myself work currently in a Swiss private bank in the Wealth and Tax department and I am confronted on a daily base with tax compliance and what the bank can do to attract more clients and more specifically more AuM. I therefore consider myself as an insider researcher given that I am working in a private bank and involved in the current discussions about banking secrecy. This has already been seen up to now in the text as I often quote what is done in my practice and what is the view from the private bank professionals I am working with. Also the strong focus on Switzerland is of course because I am working for a Swiss private bank and being located in Switzerland. Is this an advantage or disadvantage? Brannick and Coghlan (2007) mention the benefits of insider research, including the access to institutions and people to exploit practical knowledge. However, one downside for an insider role could be that it is impossible and undesirable to be objective as an insider. Evered and Louis (1981) suggest that there are different findings for the insider and outsider mode.

I further recognise due to that my role as an insider and being seen as a representative of my bank – despite clearly stating that this is not the case -

respondents might not only be influenced by their willingness to participate but also the way in which they answer the questionnaire. Therefore, while preparing the questionnaire, I made myself aware of the following points:

- Insider research (Brannick and Coghlan, 2007)
- Critique of bias (Le Baron, 2010)

Given that the sample group works in the financial service area or is related to it, this may influence their responses to questions. Some might see the situation better than it actually is as they are directly involved with the decisions in a daily life, whereas others might perceive the future over-negatively as they were used to a different working style in the past. Accordingly, there could already be some biases in the answers of the sample group. Due to the multiple choice questions, I expect the sample group to respond quickly without thinking too much, thus stating their real view on the questions. Nevertheless, I expect that answers from the law firm and tax consultants might be more towards a strongly regulated environment in the future, as they will make money through advising the bank. On the other hand, I expect people working in the private banking field to be more reluctant and perceive the upcoming changes as not so strict; indeed, they might even think that some of the implementation will be postponed as already happened in the past with proposed regulations that are not yet implemented.

3.4 Limitations of the research design

The main concern in conducting this survey research is the sampling size, due to the limitation to participants in or related to the financial industry. It is only through the researcher's personal and working relationships with the senior managers that the participation and completion of this survey can be ensured. Most of them are financial professionals and executives of banks and consulting firms who have extremely hectic schedules. The sample size may not accurately represent all sophisticated senior managers in Singapore, Hong Kong and Switzerland, although all of the respondents have in-depth knowledge of the subject to provide accurate reflections.

Another limitation is time. As the study is conducted over a certain interval of time, it reflects a snapshot of the conditions occurring during that time. We are currently in an environment in which increasingly more new regulations and legislations are being introduced, which might have influenced the sample group in their responses.

To narrow the research area by focusing only on Swiss private banking can also be seen as a limitation. Other private banks in typical offshore jurisdiction might have the same or similar issues, although dealing with the problem can also be different as other locations might not have legacy business or even start into the private banking area just now. However, the focus is clearly stated in the research question and views from other locations have been taken into consideration.

Items that were not considered during the research and might impose certain limitation on the outcomes include the following:

- Gender issues are not examined
- The roles of personal belief systems such as religion or socio-political orientation are also not considered

3.5 Research methodology

This section focuses on the research methodology employed in this study. First of all, I review the major academic research approaches, namely the ‘qualitative approach’, ‘quantitative approach’ and the ‘mixed method of qualitative and quantitative’. The strengths and weakness of the three approaches are discussed and the mixed method is subsequently chosen as most suitable for my academic research topic.

The second and third sections focus on the sampling strategy and the designing of questionnaires. A sample question from the questionnaire is presented to illustrate how I coded the measurement of participants’ attitude and opinions as well as how the questionnaire relates to the hypothesis.

The final section of the chapter provides details on how data collection is conducted for the data analysis in chapter 4. The data that I collected includes both first- and second-hand data.

3.5.1 Quantitative or qualitative

Before discussing the research methodology, it is necessary to decide which method is best suitable for my research. For academic research, there are mainly three research methods, namely qualitative research, quantitative research and the mixed method approach.

Several scholars studying research design - such as Yin (2009), Johnson and Onwuegbuzie (2004), Creswell (2007) and Javalgi et al. (2011) - mention that the strength of qualitative approach is that an unstructured method yields in-depth data. The weakness of this method is that it is difficult to remain objective and obtain general and reliable data, in addition to being time-consuming. Qualitative data can be collected through case studies, in-depth interviews and observation (Easterby Smith et al., 2008).

The disadvantages of the qualitative approach mainly mirror the advantages of the quantitative approach. A quantitative research method "ensures objectivity, generalizability and reliability and results are expected to be replicable no matter who conducts the research" (Javalgi et al., 2011:159). Quantitative analysis avoids personal bias as well as allowing greater objectivity and accuracy of the result. It also provides a summary of data supporting generalisations about the phenomenon under study. Quantitative research usually involves few variables.

The third research method is the mixed method. Johnson and Onwuebguzie (2004) mention that both quantitative and qualitative research is important and useful. The mixed method does not aim to replace one or the other but rather draw upon the strengths of both and reduce their weaknesses in a single research study. Shah and Corley (2006) agree with this notion and perceive the importance of combining qualitative and quantitative methods.

The disadvantage of a mixed research is that both quantitative and qualitative research needs to be applied and thus it is more expensive and time-consuming.

At the beginning I planed only to do a quantitative analysis but found out that this will not be sufficient for my research as I only have a general view from certain number of participations but do actually not know what is happening in the field. It is one thing to cross some statements in a questionnaire and another to really act in a client case. The questionnaire might be what people think should be the case but might not reflect the reality what people are actually doing. I therefore expanded the focus of my research and decided to use the mixed research method as I think it is most suited for my research.

With the quantitative analysis I am able to gather the raw data and generate a database. I therefore need to find out how to analysis the data efficiently and which method I am going to use. Literature reviews bring me the following models into consideration: discriminant analysis, logistic regression, neutral networks and the ordinary least squares as statistical techniques. I have evaluated the advantages and disadvantages of each method. Here is introduction over each analysis model.

Linear Discriminant analysis

"An important statistical technique in applied research is discriminant analysis, in which the researcher seeks to build a function of explanatory variables for predicting a response variable" (Yoon et al., 1993:51). Linear Discriminant analysis expresses one dependent variable as a linear combination of other measurement or features and is closely related to regression analysis and analysis of variance. Therefore it can severely affect the accuracy of classification (Yoon et al., 1993). In addition, "it provides an optimal assignment rule in the sense of minimizing the probability of misclassification, but only if assumptions of multivariate normality of the explanatory variables with equal covariance matrices in the two populations hold true" (Yoon et al., 1993:52). This is also seen as the biggest disadvantage as "In applied research, data are seldom compatible with the underlying assumptions needed to perform statistical inferences" (Yoon et al., 1993:52).

Logistic regression

“Logistic Regression technique is a multivariable analysis that concentrates on all the available predictive factors in a problem at the same time” (Mansouri et al., 2016:83).

“Logistic regression remains the clear choice when the primary goal of model development is to look for possible causal relationships between independent and dependent variables, and a modeller wishes to easily understand the effect of predictor variables on the outcome” (Tu, 1996:1231).

Neutral networks

A neural network is an information processing paradigm that is inspired by the way biological nervous systems, such as the brain, process information (Tu, 1996). Artificial neural networks are seen as a new alternative to logistic regression (Tu, 1996). The goal is the same as in logistic regression to predict an outcome based on the values of some predictor variables (Tu, 1996). Tu (1996:1229) analysed the advantages and disadvantages of neural networks and summarised it in the table 3.1.

Table 3.1 - Advantages and Disadvantages of neutral networks

Advantages	**Disadvantages**
Neural network models require less formal statistical training to develop	Neural networks are a “black box” and have limited ability to explicitly identify possible causal relationships
Neural network models can implicitly detect complex nonlinear relationships between independent and dependent variables	Neural networks models may be more difficult to use in the field

Neural network models have the ability to detect all possible interactions between predictor variables	Neural network modelling requires greater computational resources
Neural networks can be developed using multiple different training algorithms	Neural network models are prone to over fitting
	Neural network model development is empirical, and many methodological issues remain to be resolved

Source: Tu (1996:1229)

Tu (1996:1231) concludes that “Neural networks may be particularly useful when the primary goal is outcome prediction and important interactions or complex nonlinearities exist in a data set, although these preferences are less clear if a regression modeller can model them using appropriate regression spines and interaction terms.”

Model used for my research

In my research I am interested in the relationship between the dependent variable and other independent variables by estimating probabilities. I therefore think that the logistic regression is the best suited by using a cumulative logistic distribution to estimate probabilities. This is also what Tu (1996) suggested to use logistic regression when the primary goal is to look for a causal relationship between dependent and independent variables. I am therefore going to use for the quantitative analysis the $Probit\ regression$ and $ordinary\ least\ squares$. Calculation of the relevant database is through software EViews.

$Probit\ regression$ - also known as a probit model - is used to model dichotomous or binary outcome variables. In my questionnaire, I have questions that will be answered yes or no and thus the probit regression is used for this data analysis. For a probit regression, the assumption is that “the distribution of critical value is normal” (Gibbons Natrella, 2014:10-8).

$Ordinary\ least\ squares$ or linear least squares is a method to estimate the unknown parameters in a linear regression model. “The aim is to minimise the differences between the observed responses in some arbitrary dataset and the predicted responses by the linear approximation of the data” (Bilginol et al., 2015:67). With this method, I will minimise the errors “due to the parameter modelling of the selection model” (Bilginol et al., 2015:67). The ordinary least squares will be used for testing the hypotheses when the outcome is not a binary one. This method will help me as the values of the squared differences between the estimated and actual output are minimised by a decent gradient (Bilginol et al., 2015).

For the qualitative analysis, I first need to ascertain which approach is the best. According to Creswell (2007), there are a total of five approaches to qualitative research analysis:

The *narrative research* focuses on the way an individual person has the view of a problem. Data will be collected only from one or more individuals

To understand the essence of a lived phenomenon the *phenomenology* method will be used. Here the phenomena of the problem will be described and how it is being perceived.

To get a theory based on a problem the *grounded theory* method will be used. Here a number of people are involved and their views are being analysed.
If the view of a culture-shared group of the problem is of importance, we use the *ethnography* method. This will show shared patterns of a group or culture.
Last but not least we have the *case study* method which analysis the problem as a specific case. This will lead to an in-depth understanding of a case.

For my research topic, I want to explore how private banks prepare for the future with the potential loss of banking secrecy. According to Creswell (2007:74), a "case study is a good approach when the inquirer has clearly identifiable cases with boundaries and seeks to provide an in-depth understanding of the cases or a comparison of several cases".

Yin (2003, p. 13) defines case study research as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". Case studies are a popular research methodology for exploring the workings and impacts of organisations as little information exists outside the organisation (Barkley, n.d.).

Therefore, I conclude that a case study is the best tool for my qualitative analysis. I will conclude the case study with an interview-based approach to “retain the holistic and meaningful characteristics of real-life events” (Yin, 2003:2).

Research question

The central research question is how Swiss private banks can attract more AuM without the viability of banking secrecy. Together with the literature review and the quantitative analysis, I wanted to investigate the two following key research questions:

- What have private banks already implemented in this regulated environment?
- What are the suggestions from relationship managers to gather more assets for private banks?

3.6 Sampling strategy

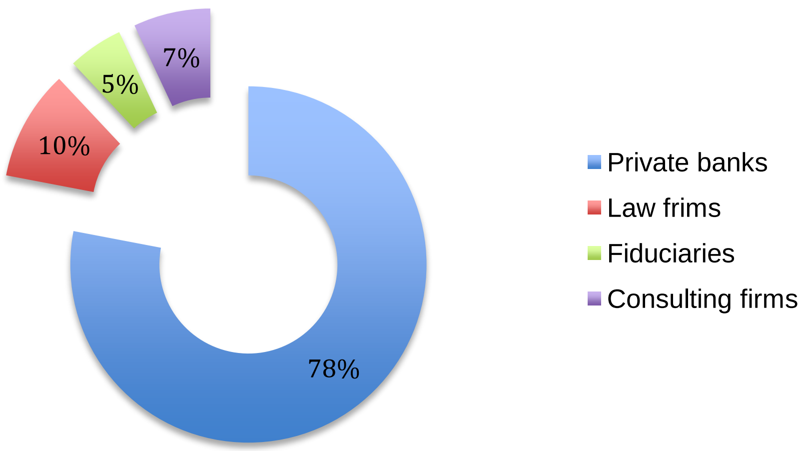
Generally speaking, sampling methods can be categorised as random, snowball and opportunity sampling (Henry, 1990) or as probability samplings or non-probability sampling (Easterby-Smith, et al., 2008). No technique can guarantee a representative sample – not even random sampling - although the probability is higher for random sampling than for any other technique

(Henry, 1990). For my study, I decided to follow the systematic random sampling strategy, a sub-category of the probability sampling design.

Systematic random sampling strategy relies on a generation of a credible sample list (Easterby-Smith, et al., 2008). It accounts for one of difficulties of my research, namely generating a reliable and credible sample list in the private banking sectors because no such database exists to which I can refer. Creditable samples should combine precision and representativeness (Easterby-Smith, et al., 2008). Therefore, I decide to use my personal connections that I have accumulated in my working practice. The sample size is planned at 250. In order to avoid homogeneity in the final data generation and due to the characteristics of my research topic, I conclude that the targeted samples should fulfil the following criteria:

First of all, the participant should practice in the private banking sector or related financial service area. The focus on my research is on the Swiss private banking sector and thus a first choice would be to listen to the voices of private banking clients, because they bring along their assets to the private banks and their opinions should be most valued. However, it is difficult to obtain an appropriate sample size of private banking clients due to confidentiality and privacy. Therefore, I shift the focus on people working in the private banking industry. 78% of the participants are from the private banking industry, as shown in figure 3.1. Fearing that my sample will be too homogenous and that the participants would answer all the questions similarly, I decided to widen the sample group to other services related to private banking. Accordingly, the sample group now includes people working in consulting firms (7%), law firms (10%), tax and fiduciary companies (5%). Fiduciary companies are interesting as they normally set up trusts and stand-alone companies in tax haven jurisdictions and are also affected by some of the upcoming legislation and regulatory changes. With this sample, I secured a diverse group of experts in the private banking field.

Figure 3.1 - Sample profiles of the questionnaires



Moreover, participants should have sufficient knowledge and expertise in respect of private banking and the upcoming regulations and legislations, given that details like banking secrecy, open platforms, etc. will not be explained in the questionnaire. Therefore, it is important that participants should be sensitive and familiar with the Swiss private banking business terms and Swiss banking secrecy.

Furthermore, Asian potential participants will be included to avoid the single Swiss nationality biases. One of the research questions concerns the relationship between the 'location of private banks' and 'financial centres'. Given that is based upon a broader view (e.g. location for a private bank), I should also include other well-known private banking jurisdictions like Singapore and Hong Kong to obtain a better research result and views from different locations.

Finally, the targeted participants should hold a senior position in private banks. The aim of the study is to ascertain the future of Swiss private banking without banking secrecy, reflecting a strategic/managerial level topic. Normal staff would not confront this issue directly; thus, this criterion ensures the credibility of the data.

With the above points in mind, I locate the senior executives/managers of private banks, tax firms and fiduciary companies from Singapore, Hong Kong and Switzerland as the targeted participants. Singapore and Hong Kong are chosen because they represent financial private banking in Asia and because I worked for two years in Singapore. This gave me the opportunity to know certain executives who will be my final survey participants. The sample list is organised randomly, with their organisation positions as well as email contacts. The list is not alphabetically sorted to avoid bias in the sampling process (Easterby-Smith, et al., 2008).

I started my sample, which included all existing private banks in Switzerland. I subsequently looked for similarities in AuM, branches abroad, number of employees, cost-income ratio and similar developments (e.g. acquired other banks, growth).

I also needed to consider accessibility to the bank as I needed to gain access to the relationship manager, documents and observe a client's meeting.

I used the collective case study (Creswell, 2007) and selected two private banks that present different perspectives on the issue considered. For privacy reasons, the names of the private banks are kept anonymous and I simply refer to them as bank A and bank B. Both of them have their headquarters in Switzerland and are around the same size. Bank A achieved slightly better revenue in 2014 and has more staffs than bank B. Both of the banks have recently acquired other private banks and integrated them into the organisations.

3.7 Designing and formulating the questionnaire

I designed the questionnaire according to Easterby-Smith et al.'s (2008:227) five principles on how to design a good survey. The questions should be coherent with and serve to the hypotheses testing. I tried to keep the questionnaire relatively short while ensuring that it covers most of the relevant aspects, given that participants may not even look at the questionnaires when it is up to several pages long. Eventually, I came up with sixteen questions on a total of four pages. The process of generating the questions took rather long as I wanted to keep the questionnaire short but also wanted to ensure I get all my questions in so that I can form a good and relevant quantitative analysis with the data.

A cover letter is attached to the survey explaining the purpose of this research and its relevance, as well as seeking the participant's agreement. In case a respondent has any questions, the contact information of the researcher will be provided.

The questions in the questionnaires are structured into three categories, namely closed questions, semi-open questions and open questions. There is only one open question, which helps to generate the first-hand data for the qualitative approach, as there is little historical data regarding my research topic. Open questions help to find some trend or oddities for a possible way forward for Swiss private banks and what other views participants have about the private banking area, including possible areas for improvement, which was not covered by the pre-defined questions.

Closed questions measure the respondents' opinions or attitudes towards a statement. The survey includes fourteen multiple-choice questions, where the participants are requested to select one of the choices. The first question focuses on banking secrecy and whether it is still needed in the long run, followed by two questions in respect of the location of private banks. Six questions relate to commissions and a new pricing in case commissions are no longer allowed, while four questions focus on open platforms and in-house products and the remaining questions focus on service quality, market competition and views of what should be improved in the private banking business. An example of one multiple-choice question in the questionnaire is presented below.

"What is your view on open platform approach? Clients would like to have labelled products to recognise the bank's involvement."

☐ Strongly Disagree

☐ Disagree

☐ Neither disagree nor agree

☐ Agree

☐ Strongly Agree

In order to measure the "opinions" or "preference for certain statements" quantitatively, I code each of the choices with a Likert scale (Easterby-Smith et al., 2008). Each level on the scale is subsequently assigned a numeric coding to simplify the data analysis process. As there is no true zero point in my thesis, the scales start at 1 and increment by one for each level, with 1 being strongly disagree and 5 strongly agree.

After the final draft of the questionnaire, the questionnaire was sent to my professor for minor adjustment. Nonetheless, I consulted a native English speaker to check it from the grammatical perspective to avoid any misleading or misunderstanding. It offers further security concerning the final credibility of the data.

Finally, two semi-open questions are designed to leverage the drawback of closed questions. One of the downsides of closed questions is that within a multiple-choice questionnaire participants are limited to choose from the given options. One of my research questions focuses on the location of the private bank as an important factor for the AuM and a decision-maker for clients where to bring their money. Accordingly, if I simply stated some locations to choose from, I might leave out a prominent location simply because I was not thinking or not aware of it. Therefore, I decided to include semi-open questions for this topic, whereby participants could either chose between the given options or add a location that they consider more important than the given choices.

I engaged the same approach for question 15, with the focus on the two top considerations when choosing private banking service. Again, participants were given a choice of options plus a text box to state other options that I did not consider. Accordingly, I consider my questionnaire better equipped to gather more relevant data and avoid omitting potential obvious choices.

3.8 Actual survey sending and results

As there are different locations involved and given the busy time schedule of executives, questionnaires were sent by email, thus enabling them to complete them at their own convenience. The email addresses of each selected participant are stored randomly, neither alphabetically nor numerically.

Grandcolas et al. (2003) mentioned that a good quality email list with significant rewards ensures a good response rate. Moreover, a good response can also be achieved by a good survey, as this is half the success (Easterby-Smith et al., 2008:214). Although there is no reward for completing the survey, I expected a good response rate given that I know most of the people contacted. Please see the table below for a summary of the survey.

Respond Rate

A total 250 questionnaires were sent out to participants by email. One of the major advantages of using questionnaires sent by email is that it is very economical. Using the email system promotes efficiency and offers respondents the opportunity to answer the survey at their convenience and pace. The downside includes a potential bias based upon the researcher’s judgement for sample selection and less spontaneous responses.

The feedback of the questionnaires was collected from the period between 26th January 2015 and May 2015. A first reminder was sent after 20 days of the first email, followed by a second reminder with the gap of another 20 days. Some of the people returned the questionnaire immediately while others did not respond even after the second reminder. To obtain a high respond rate, it was ensured that writing was reduced to a minimum and that most of the questions were multiple choices. The questionnaire was only sent to people understanding English, as well as being designed as simply and clearly as possible.

My projected response rate is 60%, as I knew the majority of the sample group personally. However, in order to improve the response rate, a gentle reminder email was sent if no response had been received after one week. The final responded email rate was 182 out of 250. After careful control of each reply, only 163 were deemed qualified to enter the statistical data analysis phase. The discarded nineteen replies are due to missing data. Some of the open questions were left open, while some of the closed questions are unanswered. In order to avoid influencing the final result, I decided to discard these responses.

Table 3.2 - Summary of the actual response rate

Summary	**Numbers**	**%**
Sample Group	250	100%
Actual Responses	182	72,8%
Qualified Responses	163	65,2%

3.9 Data clean and store

The data was recorded and updated simultaneously as responses were received by constructing a database in Microsoft Excel. Before starting the data processing and entering data, I followed the advice by Bourque and Clark (1992) in terms of deciding how the data should be organised. There are two kinds of data generated from the questionnaires: category data from the open question and Likert scale data from the closed questions.

Data from the closed questions was stored and cleaned as below. The data was entered into an Excel spread sheet once the questionnaires had been returned. The horizontal line represents the data record and the vertical fields represent the question of the questionnaire. The data records are numbers only, with certain exceptions, such as I left some open text boxes for comments. One of them is location, so the locations mentioned in the questionnaire were put onto the horizontal top line as it showed that participants used the same location as an alternative to the given choices. The use of a spread sheet is also suggested by Bourque and Clark (1992) for small data files as no special setup is required, while it is also efficient.

Table 3.3 - Data entry example in Excel

Questions No.	**1**	**2**	**3**	**4**	**5**
4	0	Switzerland	1	3	1
5	1	Singapore	0	4	5
6	1	Switzerland	0	3	3
…					
14	0	USA	1	5	4

$(where: 1 = Strongly\ Disagree;\ 2 = Disagree;\ 3 = Neither\ Disagree\ nor\ Disagree;\ 4 = Agree; 5 = Stronlgy\ Agree)$

The tabular format above shows a final view of the data entry where the rows represent Likert scale coding numbers from 1 to 5 and columns represent questions. Rather than typing each question from the questionnaire into the spread sheet, only the numbering from the questions has been taken into account, making up the first column of the spread sheet. The first row represents each person returning a questionnaire with consecutive numbering. Columns have been added to capture views - which have been added - and observe whether other participants gave the same answer. Finally, a filter has been set to check that no erroneous results have been inputted (e.g. value 6 or higher).

Data from the open question in the questionnaire is stored as follow. This open question focuses on alternative suggestions to improve within the private banking section. First of all, I input all the responses into the Excel table. I realised that the response rate for the open question was rather low: despite 163 qualified questionnaires, only 37 provided some comments on the open question, reflecting a rate of 22.7%. After the input of the 37 replies, I tried to categorise them into eight general themes. Details regarding the eight themes are presented in table 3.4 below. I subsequently assigned each theme an individual code; for instance, the theme "service" with code "S" and "I" for "Innovation", etc. as shown in the last column of the table below. Finally, each of 37 responses were categorised to the associated themes, as shown in column 3. Details of the statistical analysis will be discussed in the next chapter.

Table 3.4 - Open question data store and coding

No.	Responses	Code	Themes	Code

1	Better service	B	Tailor-Made Solutions	S
2	Tailor-made Solutions	S	Innovation	I
3	24 Opening hours	H	Opening Hours	H
4	Client Focus	B	Transparent fees	T
...	...	...	Regulations improvement	R
35	Tailor made solutions for the needs of clients	S	Better Service	B
36	Service quality	S	Qualification of the private bankers	Q
37	Fee Transparency	T	Alignment	A

Regarding the location issues, I designed it in the questionnaire as a semi-open question, requiring the participants to either choose from a given list or add another location(s) that came to mind. The data is also subsequently keyed in the Excel file. The way of coding involves the combination of the open and closed questions.

Second-hand data will be used to enhance the spread sheet with financial figures like AuM, cost-income ratios, costs per FTE, and balance sheets from the banking industry. Data is obtained from the Swiss National Bank (2015). The financial figures will differ according to the industry of the person completing the questionnaire: people coming from non-banking fields (e.g. tax firm) will have a zero value in the respective Excel sheet under the financial figures.

After having entered all the data, it must be cleaned (Bourque and Clark, 1992). I checked the data for potential values that are out of range and errors showing inconsistencies between variables. One of the checks is to ensure that I obtained the same number of answers as the number of questionnaire received; for instance, if I have 95 questionnaires received, the total in row one should come up with the same result. If the result is higher or lower, it is necessary to investigate why this is the case and I will only continue if the figures end up with the expected outcome (95).

There will also be a visual scan of a printout from the file to see if errors occurred during data entry as this check is suggested for small data files (Bourque and Clark, 1992). It is essential that the data cleaning is conducted prior to any analysis.

Variables

Based on the hypotheses, four dependent variables are defined. Drawn from the questionnaires, $market\ comptiveness,$ as an extra variable, is taken into account in the regression test as well, because it is highly relevant to the result.

The major financial indicators $AuM, balance\ sheet$ $cost\ per\ FTE, cost\ income\ ratio,$ are control variables. The dependent variable varies in each hypothesis depending on the formation of the hypothesis. Here I would take Hypothesis one for example, introduce the dependent, independent, and control variables, and the relevant required regression line. For the other three hypotheses, the dependent variables will be switched to Location, Products offered and Commissions respectively. The rest of the variables, except control variables, will become the independent variables. Control variables will remain the same across the four hypotheses. For instance, in order to test hypothesis 2, $if\ open\ platforms\ are\ more\ beneficial\ than\ inhouse\ products,$ open platforms will be set as the dependent variable, while independent variables will be $viability\ of\ banking\ secrecy, location\ and\ commision$. The four control variables will be taken into account or not, is based on the correlation test between the dependent variable and control variables. This will be explained in detail on each of the hypothesis testing.

Hypothesis 1 variables introduction:

Dependent Variable: Viability of banking secrecy

Viability of banking secrecy is a $yes\ or\ no$ research question; therefore $Probit\ regression$ is adopted to test how the other three variables combined with control variables influence the dependent variable. In order to find out which independent variable(s) relate closely to the viability of banking secrecy, a $probit\ regression$ is carried out to test the relations of the variables.

Independent variable: Location

The first independent variable is the location. There are different views about the location of a private bank. Some researchers believe that a private bank must be close to the place where its clients live (Alamá & Tortosa-Ausina, 2012; Kuenzi, 2014). The explanation is that it is more convenient for the client and thus he prefers to deposit his money (meaning more AuM for the bank) with this bank rather than bringing his money out of the country or to a place further away within the same country. On the other hand, Marcovici (2015), Wilson and Edelman (2011) as well as Brinker (2013) see other aspects like privacy, confidentiality, and political and financial stable countries as a key dominant for clients to deposit their money with private banks in this country. Therefore, the location factor has an important influence on AuM.

Independent variable: Products offered - Open platform and In-House products

Without the presence of banking secrecy, clients look in detail into the products offered, which links directly to AuM because private banks with up-to-date products and wide products ranges tend to attract more assets. Therefore, it is incorporated as one of the variables to influence AuM. Products provided by private banks are mainly categorised into two kinds: open platform and in-house products. Given that each has its own disadvantages and advantages, It is necessary to provide an overview of the two.

An open platform is seen more as a tool to reduce costs and shorten the time to market for products (Sato, 2009), although it also links to AuM. Private banks have similar products so to attract clients a private bank should be able to offer the best product available (Collardi, 2012) and drive the external innovation (Sato, 2009) of the products. This would speak for an open platform as the client can subsequently pick the best available product together with the relationship manager.

In-house products have the advantage that clients do not need to undertake an additional due diligence on the provider as it is already known (Auge-Dickhut et al., 2014). Another advantage is that the bank does not need to pay for distribution and can keep all revenue from the product within the bank or it might lower the price of the product as the income remains high. The downside of in-house products is that there might be a certain push towards selling the bank's own product, meaning that the best product will not necessarily be sold to the client or - even worse - the wrong product will be sold as the bank receives higher commissions from in-house products (Smith, 2014).

From the literature review, it seems that in-house products outperform open platforms in attracting clients. Thus, our study hypothesis is that "in-house products outperform open platforms in private banking in terms of attracting clients without banking secrecy". We do not test how each influences AuM but rather analyse the correlations of open platform and in-house products.

Independent variable: Commissions

The final independent variable in hypothesis one focuses on commissions. I grouped the commissions into taking commissions without notifying to the customer to the bank not taking commissions. Each of these variables is a Likert scale, whereby participants can state their view.

Private banks earn commission on the management of assets (Scorpio Partnership, 2014; McKinsey Banking Practice, 2013). Therefore, the more AuM those banks have, the more commission they can take. However, from the literature review, it seems that commission or retrocession might not be taken in the future (KPMG, 2013). Nonetheless, with current regulations, it seems that commissions can still be taken if declared to the client and the client waives his title and right to the bank (Giroud and Nadelhofer, 2012). There also seems to be a relation between in-house products and external products as the commissions are higher from the former and thus there might be a product push (Smith, 2014). From the literature review, it seems unclear whether there is a correlation between these two variables. Therefore, I will leave this topic for further research and look at the transparency on commissions as an independent variable influencing the AuM. By taking commissions, the client might not receive the best available product, given that there could be a conflict of interest (Giroud and Nadelhofer, 2012).

Galasso (1999) found in his research that trust and commitment are the highest criteria for a client to choose a private bank. Foehn (2004) mentioned the price sensitivity and service quality as a factor for Swiss private banking client. Taking commissions could thus be seen as hidden costs, whereby the trust of the clients might be jeopardised. With this in mind, it can be seen that the bank misuses clients' trust, risking that they will move on with their entire asset to another provider (Auge-Dickhut et al., 2014) offering a no commission culture.

When looking what private banks in Switzerland can improve, the focus is on revenue. Although over 64% of the banks' costs are based upon personnel expenses, Bircher et al. (2013) noted that the personnel costs per employee continuously declined from 2006 to 2012. KPMG (2013b) noted that the personnel costs divided by FTE remained stable from 2011 to 2012. Therefore, it can be assumed that the cost situation is under control and no further investigation is currently needed.

When focusing on the income side, it was shown in the major of financial indicators (chapter 2.4) that the AuM is the underlying factor for most calculations concerning financial indicators, even for the income of the banks (McKinsey Banking Practice, 2013; Birchler et al., 2013). Balance sheet development net new money is directly involved in the AuM calculation while ROE, income and cost-income ratios are indirectly calculated based upon the underlying AuM affecting the income and thus the mentioned ratios. Therefore, the key to investigate is the AuM and how private banks can increase it.

Control Variable: Asset under Management (AuM), Balance Sheet, Cost per FTE, Cost-income ratio

Four further control variables are included across the hypotheses: 1) the sum of the balance sheet; 2) cost per FTE; 3) AuM; and 4) the cost-income ratio. All these control variables are based upon the sub-category of the banking industry in which participants are employed: 78% of the samples are from banks, which are sub-categorised into cantonal banks (24%), large banks

(50%), regional banks and saving banks (9%), as well as private bankers (17%). For law firms and fiduciary participants, the value has been inputted as zero as the industry is not relevant for my research.

The first control factor for my study is AuM, which is a key financial indicator for a private bank as most of the other indicators like ROE, cost-income ratio and balance sheet development depend fully or to a certain extent on the AuM management figure. This variable has thus been chosen as it is key for the survival of the private banks and will shed some light on how private banks in Switzerland can survive.

Generating income is key for any company to survive. Therefore, if Swiss private banks want to survive, they must generate sufficient profit. Accordingly, the focus is placed upon major financial indicators. ROE is a factor based upon annual net income, although it is not as reliable as capital, which is the dividing factor of the annual income and thus is often higher than actually required for reputational reasons (PWC, 2010). The cost income ratio thus seems to provide a better view as the focus is on profit by looking at how much income remains after taking the costs into consideration. Birchler et al. (2013) pointed out that the cost/income ratio for Swiss private banks is one of the highest in the world. Therefore, should this be the key ratio upon which to focus? Looking into the details, we can see that the majority of the costs are based upon personnel costs, accounting for 64% to 77% of the total operating expenses (EFG International, 2015: Bank J. Safra Sarasin, 2015; Julius Baer, 2015; Lombard Odier, 2015; Pictet, 2015). For personnel costs, another ratio is average personnel costs by FTE, which remained stable in Switzerland during the period from 2011 to 2012 (KPMG, 2013b). During the same period, the cost/income ratio decreased from 81% to 80% (KPMG, 2013b), so it seems that that the bottom has been reached on the majority of the costs and a better cost income ratio can only be achieved by higher income or the bank being more efficient by undertaking the same work with fewer people.

Balance sheet development focuses on the client assets that the bank manages, as well as all the other assets that the bank can attract. Attracting more clients will lead to an increase of this figure (KPMG, 2013b), although this does not necessarily lead to a higher income as it depends on what the client does with the money (KPMG, 2013b). If clients simply leave the money in their bank account, the bank will not generate as much income as if they invest in the stock market or other financial products. Accordingly, AuM seems to be a better factor as it considers the assets that the bank holds and manages for the client. AuM also includes net new money, as it will contribute to AuM.

Therefore, when considering which major financial indicator to focus on, I decided to proceed with the AuM, given that the focus should be on the income side as the cost side seems to have stabilised and the banks need to generate more income. AuM is a key factor for generating income (McKinsey Banking Practice, 2013). If a bank has no clients' AuM, it cannot generate any revenue as AuM is the core of private banking.

AuM is influenced by many factors and thus it is suitable as the control variable for my research. There are several reasons behind why AuM is selected as the control variable. First of all, AuM is considered as a key financial factor for private banks (BCG, 2014; PWC, 2010). Clients may quickly move to another bank if they are not satisfied with their bank's services and/or products based upon the performance of AuM (Auge-Dickhut et al., 2014). Moreover, AuM is the basis for private banks to generate income (Birchler et al., 2013) and thus it influences ROE (Scorpio Partnership, 2014) as well as the cost-income ratio. It indicates the potential of a private bank in generating values. For a private bank, it is vital to have sound financial figures to attract more clients. Therefore, AuM is chosen as the key measurable factor for the survival of private banks.

There are various factors that influence the value of AuM, including banking secrecy, as discussed in chapter 2. More researchers predict the end of the banking secrecy (Comisky and Lee, 2013; Farooq, 2015; Norton, 2009; Bondi, 2010; Vogler, 2001 and Hauser, 2010) compared with those believing that banking secrecy can remain (Wilson and Edelman, 2011; Fiechter, 2010; Marcovici, 2014). BCG (2013) mentioned banking secrecy as a key factor of AuM growth. Banking secrecy is seen as the starting point for Swiss private banks and the main reason why they could increase AuM (Guex, 2000 and Fiechter 2010) to become the leading offshore wealth centre (BCG, 2013). Therefore, it seems evident that banking secrecy can increase AuM, while countries without banking secrecy attracted fewer assets. Therefore, banking secrecy plays an important role for AuM.

All variables across the hypotheses are summarised in table 3.5.

Table 3.5 - Definition and measurement of variables in hypothesis one

	Variable	Explanation and Measurement
Dependent	Viability of banking secrecy (v1)	Binary variable indicating if the banking secrecy still viable in the newly regulated private banking sector. 1 stands for "yes", 0 for "no"
Market Competitiveness	V3	"How competitive do participants see the market for the private banking customers". Likert scale data 1 (=not all competitive) to 5 (=extremely competitive)
Commissions	Take commissions without notify(v4)	Participants points of views towards "take commissions without declaring to the clients" Likert scale data 1 (=strongly disagree) to 5 (=strongly agree)
	Take commissions with exact amount(v5)	Qualitative variable, describing relationship managers taking commissions with declaring to clients of the exact amount or percentage. Likert scale data 1 (=strongly disagree) to 5 (=strongly agree)
	No-Commissions(v6)	Private banks should not take any commissions.
Locations	Onshore(v2)	Dummy variable, indicating "The future of private banking is in the country where the client lives" Value of "0" is assigned for "onshore"
	Offshore	Dummy variable, indicating "The future of the private banking outside the country where the client lives". Value of '1" is assigned for "offshore"
Ways Forward	Labelled-products (v7)	Private banks needs labelled products to recognise the banks involvement and attract clients in the newly regulated market
	Open platform(v8)	Open platform itself is sufficient for clients to get the best available products in the newly regulated market
	Combination(v9)	The combination of the labelled-

		products and open platform is the best mix for private banking sector with the fading the banking secrecy
Control variables*	Balance sheet	Sum of balance sheet of related banks
	Cost per FTE	Cost per FTE of related banks
	AuM	AuM of related banks
	Cost/income ratio	Cost/income ratio of related banks

*Control variables are second-hand consecutive data from the Swiss National Bank from 201o to 2014. For the significance of the adjusted-R square, the natural log value – rather than the actual indicators value - is adopted in the final quantitative OLS and Probit analysis.

Yin (2009) recommends collecting six types of information, out of which I chose documents, interviews and direct observations. Data was collected principally in two phases of interviews for information gathering and verification, while documentary analysis also played an important role, especially when looking at the difference between the two banks.

Documentary analysis

The vast majority of the information was in the public domain in the form of brochures, reports, websites and awards that the private bank had won. During the observation with the potential client, I was able to see the account opening forms, which were considered sensitive data and thus I was not allowed to bring them with me. However, I did observe sufficient information and was able to take notes.

3.10 Action research

As already mentioned, I am working in a Swiss private bank and therefore see myself as an inside action researcher. The aim of my research is to questioning and to find the answers which one may previously not considered (Pedler, 2008). The question how Swiss private banks can survive in highly regulated markets stands in the room and researchers have different proposals However, none of them are connected. Most of them focus on one topic and see either that the Swiss private banking will survive or lose its top position. I aim to find ways that Swiss private banks can survive in highly regulated markets and hopefully also remain at the top.

During my thesis I also went through the dynamics of action research cycles, learning cycles and reflection cycles as presented by Coghlan and Brannick (2010:31). At the beginning I just wanted to focus on the banking secrecy but then realised that this is not the only issue Swiss bank face in a regulated environment with common reporting standard and automated exchange of information. I therefore expanded the scope of my thesis. With my spirit of action researcher (Bushe and Kassam, 2005) I saw the old issue with a new lens, while the old issue is the declared money and the new lens would be to focus on the positive points by accepting declared money. Like this more client advisors might follow and by applying the 4-D cycle (Cooperrider and Srivastava, 1987, cited by Bushe and Kassam, 2005) I might bring everybody on board of the new ship. By applying the double-loop learning (Argyris et al., 1985:35) I found the targets (more revenues and assets) of the client advisors as the underlying cause of how relationship manager and senior manager react. This goes in line with the literature research whereas the revenues and AuM are also seen as the most critical financial factors for private banks. The aim is to define the future state according to the four steps framework from Beckhard (1987, cited by Coghlan and Brannick, 2010:65).

Action research and critical action research were performed during the whole study and research phase. Asking additional questions during the case study, talking with people about the topic and see their reactions as well as trying to implement early findings of this research in the bank I work. Interestingly when applying the research findings I realised that there are more interlinks then estimated. One such link is that if a bank has an open platform, providers from this platform also bring new money to the bank as they are happy the way the bank work together with the provider and as such gives clients to the bank which were not yet clients. These additional findings have also been added in this research.

4 Data and Quantitative analysis

4.1 Introduction

Chapter 3 discussed the research methodologies, sampling strategy, questionnaire design, data collection and store. This chapter will apply the selected casual research methodology and gathered data to test the hypotheses built in chapter 3.

First of all, the definition of descriptive statistics is presented, before control variables and independent variable are illustrated in the second section. According to Chandler & Munday (2011), an “independent variable is a phenomenon that is seen as influencing the behaviour of some other (dependent) factor. A dependent variable is an outcome factor on which an independent variable is hypothesized and observed to have a particular measurable effect” (Chandler & Munday, 2011).

Sections three and four focus on the hypotheses testing process with $Probit\ regression$ and $ordinary\ least\ squares$.

4.2 Inferential statistics

Statistics are used to “understand relationships between observations in their disciplines” (Klugh, 1986:23) in various areas of science. The distribution can be presented by graphs as well as numerical measures (Klugh, 1986). Our study adopts both approaches in the final result presentation.

Generally, statistics can be categorised into “inferential statistics and descriptive statistics. Inferential statistics aim to observe a phenomenon from a sample of a population” (Mason, Lind and Marchal, 1999). My research seeks to achieve this by summarising the primary data from the samples to generate a pattern that is representative for the Swiss private banking sector. Therefore, ordinary least squares is selected as the main approach. However, due to the data characteristics of hypothesis 1 being binary - namely either “yes” or “no” - a $Probit\ Regression\ test$ is chosen (Klugh, 1986).

4.3 Variables

Before conducting the hypotheses testing, it is essential to review the variables and the relationship between the control variables and independent variables. Across different hypotheses five variables and four control variables are identified. In each hypothesis, the dependent variable is selected from one of the five variables, based on the formation of the hypothesis. The rest of the five will be automatically defined as independent variables. For instance, in the Hypothesis 1, as shown in the below table 4.1, dependent variable is the $viability\ of\ banking\ secrecy$, while $market\ competiveness, location, products\ offered, and\ commision$ are defined as independent variables. Control variables, namely, AuM

$, balance\ sheet, cost\ per\ FTE, cost\ income\ ratio$, main financial indicators as explained in the previous literature review. Weather control variables are not taken into account by each hypothesis is depending on the correlation test. It would be explained afterwards in details.

Taking hypothesis one for example, to provide a general view of the variables across all the hypotheses. Table 4.1 below provides a general view of variables for hypothesis 1. In order to simplify the testing process, each of the variables is assigned a code, with dependent variable of each hypothesis as V1, the rest is therefore defined as V2 to V9.

Table 4.1 - Overview of the variables in Hypothesis one

Dependent Variable	Viability of banking secrecy (V1)	$yes\ or\ no$
Independent Variables	Location (V2)	$onshore/offshore$
	Market Competitiveness (V3)	
	Commission	$Taking\ commision\ without\ notify\ (V4)$
		$Taking\ commision\ with\ notify (V5)$
		$No\ commision (V6)$
	Products offered	$Inhouse\ products\ (V7)$
		$Open\ platform\ (V8)$
		$Combination\ (V9)$
Control Variables	Asset under Management (AuM)	
	Balance sheet	
	Cost per FTE	
	Cost income ratio	

Dependent Variable: Viability of banking secrecy

Viability of banking secrecy is a $yes\ or\ no$ research question; therefore $Probit\ regression$ is adopted to test how the other three variables combined with control variables influence the dependent variable. In order to find out which independent variable(s) relate closely to the viability of banking secrecy, a $probit\ regression$ is carried out to test the relations of the variables.

For the other three hypotheses, the dependent variables will be switched to Location, Products offered and Commissions respectively. The rest of the variables, except control variables, will become the independent variables. Control variables will remain the same across the four hypotheses. For instance, in order to test hypothesis 2, $if\ open\ platforms\ are\ more\ beneficial\ than\ inhouse\ products,$ open platforms will be set as the dependent variable, while independent variables will be $viability\ of\ banking\ secrecy, location\ and\ commision$. The four control variables will be taken into account or not, is based on the correlation test between the dependent variable and control variables. This will be explained in detail on each of the hypothesis testing.

Independent variable: Location

The first independent variable is the location. There are different views about the location of a private bank. Some researchers believe that a private bank must be close to the place where its clients live (Alamá & Tortosa-Ausina, 2012; Kuenzi, 2014). The explanation is that it is more convenient for the client and thus he prefers to deposit his money (meaning more AuM for the bank) with this bank rather than bringing his money out of the country or to a place further away within the same country. On the other hand, Marcovici (2015), Wilson and Edelman (2011) as well as Brinker (2013) see other aspects like privacy, confidentiality, and political and financial stable countries as a key dominant for clients to deposit their money with private banks in this country. Therefore, the location factor has an important influence on AuM.

Independent variable: Products offered - Open platform and In-House products

Without the presence of banking secrecy, clients look in detail into the products offered, which links directly to AuM because private banks with up-to-date products and wide products ranges tend to attract more assets. Therefore, it is incorporated as one of the variables to influence AuM. Products provided by private banks are mainly categorised into two kinds: open platform and in-house products. Given that each has its own disadvantages and advantages, It is necessary to provide an overview of the two.

An open platform is seen more as a tool to reduce costs and shorten the time to market for products (Sato, 2009), although it also links to AuM. Private banks have similar products so to attract clients a private bank should be able to offer the best product available (Collardi, 2012) and drive the external innovation (Sato, 2009) of the products. This would speak for an open platform as the client can subsequently pick the best available product together with the relationship manager.

In-house products have the advantage that clients do not need to undertake an additional due diligence on the provider as it is already known (Auge-

Dickhut et al., 2014). Another advantage is that the bank does not need to pay for distribution and can keep all revenue from the product within the bank or it might lower the price of the product as the income remains high. The downside of in-house products is that there might be a certain push towards selling the bank's own product, meaning that the best product will not necessarily be sold to the client or - even worse - the wrong product will be sold as the bank receives higher commissions from in-house products (Smith, 2014).

From the literature review, it seems that in-house products outperform open platforms in attracting clients. Thus, our study hypothesis is that "in-house products outperform open platforms in private banking in terms of attracting clients without banking secrecy". We do not test how each influences AuM but rather analyse the correlations of open platform and in-house products.

Independent variable: Commissions

The final variable focuses on commissions. Private banks earn commission on the management of assets (Scorpio Partnership, 2014; McKinsey Banking Practice, 2013). Therefore, the more AuM those banks have, the more commission they can take. However, from the literature review, it seems that commission or retrocession might not be taken in the future (KPMG, 2013). Nonetheless, with current regulations, it seems that commissions can still be taken if declared to the client and the client waives his title and right to the bank (Giroud and Nadelhofer, 2012). There also seems to be a relation between in-house products and external products as the commissions are higher from the former and thus there might be a product push (Smith, 2014). From the literature review, it seems unclear whether there is a correlation between these two variables. Therefore, I will leave this topic for further research and look at the transparency on commissions as an independent variable influencing the AuM. By taking commissions, the client might not receive the best available product, given that there could be a conflict of interest (Giroud and Nadelhofer, 2012).

Galasso (1999) found in his research that trust and commitment are the highest criteria for a client to choose a private bank. Foehn (2004) mentioned the price sensitivity and service quality as a factor for Swiss private banking client. Taking commissions could thus be seen as hidden costs, whereby the trust of the clients might be jeopardised. With this in mind, it can be seen that the bank misuses clients' trust, risking that they will move on with their entire asset to another provider (Auge-Dickhut et al., 2014) offering a no commission culture.

When looking what private banks in Switzerland can improve, the focus is on revenue. Although over 64% of the banks' costs are based upon personnel expenses, Bircher et al. (2013) noted that the personnel costs per employee continuously declined from 2006 to 2012. KPMG (2013b) noted that the personnel costs divided by FTE remained stable from 2011 to 2012. Therefore, it can be assumed that the cost situation is under control and no further investigation is currently needed.

When focusing on the income side, it was shown in the major of financial indicators (chapter 2.4) that the AuM is the underlying factor for most calculations concerning financial indicators, even for the income of the banks (McKinsey Banking Practice, 2013; Birchler et al., 2013). Balance sheet development net new money is directly involved in the AuM calculation while ROE, income and cost/income ratios are indirectly calculated based upon the underlying AuM affecting the income and thus the mentioned ratios. Therefore, the key to investigate is the AuM and how private banks can increase it.

Control Variable: Asset under Management (AuM), Balance Sheet, Cost per FTE, Cost income ratio

The first control factor for my study is AuM, which is a key financial indicator for a private bank as most of the other indicators like ROE, cost/income ratio and balance sheet development depend fully or to a certain extent on the AuM management figure. This variable has thus been chosen as it is key for the survival of the private banks and will shed some light on how private banks in Switzerland can survive.

Generating income is key for any company to survive. Therefore, if Swiss private banks want to survive, they must generate sufficient profit. Accordingly, the focus is placed upon major financial indicators. ROE is a factor based upon annual net income, although it is not as reliable as capital, which is the dividing factor of the annual income and thus is often higher than actually required for reputational reasons (PWC, 2010). The cost income ratio thus seems to provide a better view as the focus is on profit by looking at how much income remains after taking the costs into consideration. Birchler et al. (2013) pointed out that the cost/income ratio for Swiss private banks is one of the highest in the world. Therefore, should this be the key ratio upon which to focus? Looking into the details, we can see that the majority of the costs are based upon personnel costs, accounting for 64% to 77% of the total operating expenses (EFG International, 2015: Bank J. Safra Sarasin, 2015; Julius Baer, 2015; Lombard Odier, 2015; Pictet, 2015). For personnel costs, another ratio is average personnel costs by FTE, which remained stable in Switzerland during the period from 2011 to 2012 (KPMG, 2013b). During the same period, the cost/income ratio decreased from 81% to 80% (KPMG, 2013b), so it seems that that the bottom has been reached on the majority of the costs and a better cost income ratio can only be achieved by higher income or the bank being more efficient by undertaking the same work with fewer people.

Balance sheet development focuses on the client assets that the bank manages, as well as all the other assets that the bank can attract. Attracting more clients will lead to an increase of this figure (KPMG, 2013b), although this does not necessarily lead to a higher income as it depends on what the client does with the money (KPMG, 2013b). If clients simply leave the money in their bank account, the bank will not generate as much income as if they invest in the stock market or other financial products. Accordingly, AuM seems to be a better factor as it considers the assets that the bank holds and manages for the client. AuM also includes net new money, as it will contribute to AuM.

Therefore, when considering which major financial indicator to focus on, I decided to proceed with the AuM, given that the focus should be on the income side as the cost side seems to have stabilised and the banks need to generate more income. AuM is a key factor for generating income (McKinsey Banking Practice, 2013). If a bank has no clients' AuM, it cannot generate any revenue as AuM is the core of private banking.

AuM is influenced by many factors and thus it is suitable as the control variable for my research. There are several reasons behind why AuM is selected as the control variable. First of all, AuM is considered as a key financial factor for private banks (BCG, 2014; PWC, 2010). Clients may quickly move to another bank if they are not satisfied with their bank's services and/or products based upon the performance of AuM (Auge-Dickhut et al., 2014). Moreover, AuM is the basis for private banks to generate income (Birchler et al., 2013) and thus it influences ROE (Scorpio Partnership, 2014) as well as the cost-income ratio. It indicates the potential of a private bank in generating values. For a private bank, it is vital to have sound financial figures to attract more clients. Therefore, AuM is chosen as the key measurable factor for the survival of private banks.

There are various factors that influence the value of AuM, including banking secrecy, as discussed in chapter 2. More researchers predict the end of the banking secrecy (Comisky and Lee, 2013; Farooq, 2015; Norton, 2009; Bondi, 2010; Vogler, 2001 and Hauser, 2010) compared with those believing that banking secrecy can remain (Wilson and Edelman, 2011; Fiechter, 2010; Marcovici, 2014). BCG (2013) mentioned banking secrecy as a key factor of AuM growth. Banking secrecy is seen as the starting point for Swiss private banks and the main reason why they could increase AuM (Guex, 2000 and Fiechter 2010) to become the leading offshore wealth centre (BCG, 2013). Therefore, it seems evident that banking secrecy can increase AuM, while countries without banking secrecy attracted fewer assets. Therefore, banking secrecy plays an important role for AuM.

Correlations of the variables

In order to avoid the correlations among the variables, a correlation test with Excel is conducted as the table 4.2 shown below. Here shows only the independent and dependent variables correlations. The control variables correlations are analysed separately in each hypothesis, while each hypothesis corresponds to a dependent variable. Variables are shown in abbreviations; please refer to the explanations under the table. As seen no strong correlations between two variables exist. Therefore it is worth to analyse how the variables relate to each other with probit regression and least square analysis.

Table 4.2 - Correlations of the variables across the hypotheses testing

	VBS	Location	MC	TCNO	TCD	CM	NC	In-House P.	Combination	OP
VBS	1	0.22157926	0.15815136	0.05162012	0.11715674	0.24844858	-0.1740623	-0.0721984	0.0017652	0.19805442
Location	0.22157926	1	-0.1023774	0.05230112	0.13231119	0.10208533	-0.06138	0.03256356	0.0017652	0.01979029
MC	0.15815136	-0.1023774	1	0.06370108	0.06411069	-0.0297507	-0.1653336	0.0694743	-0.0636423	-0.023042
TCNO	0.05162012	0.05230112	0.06370108	1	0.66734495	-0.0804371	-0.5169606	0.03653679	-0.2569486	0.19560246
TCD	0.11715674	0.13231119	0.06411069	0.66734495	1	0.1281775	-0.5926013	0.0725092	-0.1684967	0.18225473
CM	0.24844858	0.10208533	-0.0297507	-0.0804371	0.1281775	1	-0.0881709	0.04968374	-0.1265496	0.1616851
NC	-0.1740623	-0.06138	-0.1653336	-0.5169606	-0.5926013	-0.0881709	1	-0.0348726	0.14814901	-0.1314892
In-House P.	-0.0721984	0.03256356	0.0694743	0.03653679	0.0725092	0.04968374	-0.0348726	1	-0.103139	-0.0166236
Combination	0.0017652	0.05121634	-0.0636423	-0.2569486	-0.1684967	-0.1265496	0.14814901	-0.103139	1	-0.490188
OP	0.01979029	0.01979029	-0.023042	0.19560246	0.1616851	0.1616851	-0.1314892	-0.0166236	-0.490188	1

Abbreviations: VBS=viability of banking secrecy, Location=location, MC=market competitiveness; TCND=taking commission with no declare; TCD= taking commission with declare; CM=commission; NC=commission waived; In-House P. = in house products; OP=open platform.

4.4 Hypotheses testing

4.4.1 Context of Hypothesis testing

Banking business becomes more and more turbulent after the tax affair with USA. The speculation of lifting the banking secrecy, which dominant in Switzerland for many years, is highly discussed. None can exactly anticipate or identify the ways forward. In order to shine some lights in this topic, four hypotheses are built to try to find some answers regards the future of the Swiss banking sector with/without banking secrecy. Hypothesis one and four handle with binary variables, therefore probit regression is adopted in these two hypotheses. While hypothesis two and three are applied to the least square test. The context of these four hypotheses is explained as below.

Hypothesis one is a general survey regards participants' anticipation towards viability of banking secrecy. It is a binary question, either yes or no. It does not gather the percentage. But try to find out which dependent variable(s) influence decisions. In detail, for instance, how relevantly independent variables location, market competitiveness, commissions, and products offered influence the result and how significant is the result. Probit regression was conducted. It aims to achieve a relative high adjusted R-square, in order to show that the model is fitted to the regression line.

Afterwards, three more hypotheses are built as well, to provide a way forward for the Swiss banking sector, with/without banking secrecy. Will the open platform outperform in house products without banking secrecy? How strongly the independent variable 'location' influence the future products offered: open platform or in house products? With these two questions in mind, hypothesis two is formed.

Commission plays as an income generator an important role for private banks. Without banking secrecy, how do the banks handle with commission? Should it be waived or taken transparently? How the other variables influence ways forward with commission? Therefore, hypothesis three aims to find out, how variables and control variables influence commission.

Last but least, location. Onshore or offshore? With/without banking secrecy, how variables commissions, products offered, market competitiveness influence the location of future bankings. And which variable(s) play a significant role in shifting the location of future banking sector? The forth hypothesis assumes that the closeness of the banking to the clients is more important than the financial centres. If this assumption is being supported, a probit regression similar to hypothesis one is conducted. In each hypothesis, a correlation test between the control variables and dependent variable is conducted to decide if they are applied in the final regression test. Therefore Control variables across the four hypotheses are not always present in the regression model.

4.4.2 Hypotheses Testing

Before starting the hypothesis testing, I would like to find out how close the distribution of the each hypothesis is to a normal distribution. A descriptive statistics is conducted to verify the assumption (see table 4.3). I used skewness and kurtosis rough indicators to reflect the shape of the distribution and test the degree of normality of the distribution. The kurtosis of a normal distribution is 3. A negative kurtosis value is where a kurtosis value of a sample < 3 is platykurtic (flatter than a normal distribution with a wider peak), while a positive kurtosis value of a sample >3 follows Leptokurtic distribution (sharper than a normal distribution with values concentrated around the mean and heavier tails) (DeCarlo L. T. 1997:294).

Table 4.3 - Descriptive Statistics for Regression Variables

Variables		Std. Dev.	Skewness	Kurtosis
Viability of Banking Secrecy:		0.492	-0.387	1.150
Location:	On-offshore	0.355	-1.991	4.964
Market Competitiveness		0.624	-0.339	3.505
Commissions:	Take commissions without notify	1.021	0.656	2.157
	Take commissions with exact amount	0.958	-0.970	2.532
	No-Commissions	1.140	0.360	1.570
Ways Forward:	Labelled-products	0.870	-0.939	2.521
	Open platform	0.948	0.689	2.054
	Combination	0.784	-1.195	3.761
Control variables*:	Balance sheet	5.602	-1.151	2.538
	Cost per FTE	2.176	-1.325	2.788
	AuM	5.012	-0.917	2.238
	Cost-income ratio	0.226	0.705	2.350
Total Obs.	163			

Note: * Control Variables: natural log. Data as of year 2014; Source: Swiss National Bank (2015).

It is logic and understandable that the variables location and viability of banking secrecy have extreme kurtosis values, as they are constructed by binary data. Although the variable location has an extreme kurtosis value of 4.964, the standard deviation is rather moderate at 0.355. For the other variables, they are rather close to normal distribution. Especially the control variables almost follow a normal distribution. This also verifies that the research result is robust, as kurtosis is relevant to the robustness of the research (DeCarlo L. T. 1997).

Hypothesis 1:

Hypothesis 1 aims to gather participants' perspectives concerning the viability of Swiss banking secrecy. It describes as below

$H0$: Banking secrecy is not viable in the current tightly regulated environment.

$H1$: Banking secrecy is still viable in the current tightly regulated environment.

Before looking at the outcome, it is worth mentioning that a majority of the participants crossing viability for banking secrecy also made a remark that it will no longer be able for tax avoidance. This is in line with the literature research, as most researchers perceive Swiss banking secrecy as vanishing due to the regulations that are being implemented at present or in the near future (Comisky and Lee, 2013; Farooq, 2015; Norton, 2009; Bondi, 2010; Vogler, 2001 and Hauser, 2010). However, none of these researchers took into account the notion that private banking secrecy might survive for privacy reasons rather than tax avoidance. Therefore, concerning the viability of banking secrecy in the next five years, it should be interpreted that it will no longer be viable for tax evasion but rather for other reasons like secrecy, privacy, etc. Indeed, this is in line with the view of Wilson and Edelman (2011).

I conducted a *binary probit regression* to measure the participants' anticipation regarding the future of Swiss banking secrecy, whereby the results are reported in Table 4.4. Control variables are excluded in this regression test because there is probably a multi-correlating problem owing to tight correlation between the control variables. For instance, AuM correlates to the viability of banking secrecy at 0.842 (See table 4.4) Hence, control variables are not taken into consideration in this hypothesis test.

Table 4.4 - Correlation of the control variables with viability of banking secrecy

*	AuM	BS	Cost/FTE	CIR	Viability
AuM	1	0.989	0.933	-0.806	0.842
BS	0.989	1	0.968	-0.872	0.787
Cost/FTE	0.933	0.968	1	-0.882	0.658
CIR	-0.806	-0.872	-0.882	1	-0.608
Viability	0.842	0.787	0.658	-0.608	1

* AuM, BS=Balance sheet, Cost/FTE=cost per FTE, CIR=cost-income-ratio, Viability=Viability of banking secrecy, original data as of year 2014. Data Source: Swiss National Bank database.

Binary probit regression was conducted to test hypothesis one. Descriptively, the mean of the dependent variable is 0.595, meaning that 97 out of the 163 participants answered with yes to this question. Table 4.5 shows the result of the binary probit test. Mc-Fadden R-squared is at 0.161. R-squared is a statistical measure to test how fit is the data to the regression line. It varies from 0% to 100%, with 100% as perfect fitted to the defined regression line. The higher the adjusted R-square, the fitter it is. As the data collected are relatively scattered, an adjusted R-square is relatively poor compared to a perfectly fitted regression line.

When analysing in the results, we can see that independent variable $location$ with the coefficient of 0.837 positively and significantly influences the viability of banking secrecy, with the test-statistic indicating significance at the $\mathrm{P} < 0.01$ level. Z-statistics value of 2.67, corresponds to a $P - Value$ of 0.35%. It is a rather significant at the significance level of 1%. This result was already expected following the literature review, whereby many researchers (Kuenzi, 2014: Marcovici, 2015: Kleimeier et al., 2013: Fiechter, 2010) verified a strong relation between the location and banking secrecy.

Table 4.5 - Viability of the banking secrecy

Dependent Variable: viability of the banking secrecy
Binary Probit (z-statistics in parentheses)

Variable		Coefficient	z-Statistics
Location:	On-offshore v2	0.837	(2.699)***
Market Competitiveness	V3	0.471	(2.566)***
Commissions:	Take commissions without notify (v4)	-0.039	(-0.303)
	Take commissions with exact amount (v5)	0.316	(2.733)***
	No-Commissions (v6)	-0.165	(-1.453)
Ways Forward:	Labelled-products (v7)	-0.150	(-1.159)
	Open platform (v8)	0.378	(2.678)***
	Combination (v9)	0.303	(1.854)**
Constant	-4.356		

McFadden R-squared	0.161		
Log likelihood	-92.220		
Mean dependent variable	0.595		
Obs with dep=0	66	Total obs	163
Obs with dep=1	97		

Note: *, **, ***: Significance at 10%, 5% and 1% level, respectively

On the other hand, independent variable $Market\ competitiveness$, with the coefficient value of 0.47 is not highly correlated to viability of banking secrecy. However interestingly, the $z - statistics$ value of 2.57, corresponding to a $P - Value$ of 0.51% is rather significant at the level of 1%. So do the independent variable of $taking\ comission\ with\ exact\ amount$ and $open\ platform$. This means that the more competitive the market is, the likelier that banking secrecy is needed. From my perspective, it makes more sense to actually turn this around and say that if there is banking secrecy it is more likely that the market is more competitive. As shown in the result of BCG (2014), Switzerland had the most assets invested cross-border in 2013, leading more than double that of the second placed location. As usual, when there is a large pie others also want to profit from it and thus new banks are entering this country, which creates more competiveness. Banking secrecy might be just one of the reasons why the money came to Switzerland. Nonetheless, it has been seen as a competitive advantage towards other locations and the existing large amount of assets attracted other banks. Accordingly, the competitiveness might simply be due to being an attractive location and not really related to banking secrecy. Given that the participants for my research came from places where there is banking secrecy and a competitive market environment, I think that this relation needs to consider from this angle.

The independent variable $taking\ commission\ with\ an\ exact\ amount$ with a $z - value\ of\ 2.733$, which corresponds to a $P - value\ of\ 0.32\%$, is rather significant at the level of 1%. It indicates that to keep the viability of banking secrecy, a tailored to clients commission, with an exact amount should be adopted. Instead of the current individual high marginal commission. It is interesting to find that both variables taking *commission without notifying clients* and *no commissions* negatively influence the viability of banking secrecy, albeit not significantly. Not taking commissions is consistent with the literature stating that no commissions should be taken in highly regulated markets (McKinsey Private Banking Practice, 2013). Switzerland was long seen as non-cooperative country by the OECD (Hakelberg, 2015) for tax co-operations. However, this has subsequently changed and the commission view might also change in the future due to the Swiss high court decision (Giroud & Nadelhofer, 2012).

I also see this court decision as a reason why taking commissions without notifying clients negatively relates to banking secrecy. It seems that there is already a shift in private bankers away from taking commissions without declaring. This would also explain why participants who hold that bank secrecy will remain viable in the next five years are more inclined to support the private banking sector to take commissions by declaring exact amounts to the private clients. This positive correlation is significant at the 1% level. One possible reason for this finding is that commissions are an important income stream for banks (McKinsey Banking Practice, 2013).

The independent variable $open\,platform$ with a $z - value$ of 2.68, corresponding to a $P - Value$ of 0.37%, is only significant at the level of 1%. It correlates positively as well to the viability of banking secrecy. Here, I assume that when there is banking secrecy in place, private banks need to satisfy their clients with legal and tax opinions in respect of the location where the banking secrecy is, as well as the residence country of the client. Furthermore, the clients might want to have products that are offered in their home country. As the banks normally cannot cover everything, an open platform would help the bank to get the right people together; indeed, this view is also supported by Collardi (2012), Marcovici (2015) and KPMG (2013).

<u>Hypothesis 2</u>

This hypothesis aims to ascertain what performs better in attracting clients without banking secrecy, namely an open platform approach or in-house labelled products, as formulated as below:

$H0$: Open platform are more beneficial compared to in-house products in private banking to attract clients without banking secrecy.

$H1$: In-house products outperform open platforms in private banking in attracting clients without banking secrecy.

Descriptively, the mean of the dependent variable is 2.712. I conducted an *ordinary least square analysis* to measure the participants' anticipation. It is assumed that the open platform is more beneficial than house labelled products to attract clients. Therefore, open platform is set as the dependent variable in hypothesis 2. The rest of the variables become automatically independent variables. Control variables are all taken into consideration. The *ordinary least square analysis* results are reported in table 4.6, whereby the control variables are the four financial indicators.

Table 4.6 - Open platforms are more beneficial compared to house labelled products

Dependent Variable: Open Platform
Ordinary Least Squares (t-statistics in parentheses)

Variable		Coefficient	t-Statistics
Banking Secrecy	Viability of banking secrecy (v1)	-0.699	(-1.255)*
Location	On-offshore v2	0.189	(0.834)
Market Competitiveness	V3	0.221	(2.275)**
Commissions	Take commissions without notify (v4)	0.324	(4.445)
	Take commissions with exact amount (v5)	0.248	(3.460)***
	No-Commissions (v6)	0.199	(2.712)***
Ways Forward	Labelled-products (v7)	0.084	(1.060)
	Combination (v9)	-0.277	(-3.399)***
Control variables	Balance sheet	-0.351	(-0.657)
	Cost per FTE	-0.297	(-1.278)
	AuM	0.512	(1.051)
	Cost-income ratio	-2.222	(-1.019)
Adjusted R-squared	0.112		
Log likelihood	-206.634		
Mean dependent variable	2.712		
		Total obs	163

Note: *, **, ***: Significance at 10%, 5% and 1% level, respectively

In hypothesis 2 $Open\,Platform$ is set as dependent variables. Although I wanted to explore what will be better in terms of attracting clients after banking secrecy, I retained banking secrecy as a variable. As expected, it negatively influences the result, although it is not significant. Looking at table above, $adjust\ R-square$ is 11.2%. $Viability\ of\ banking\ secrecy$ works negatively towards the dependent variable, with a coefficient of -0.699. T-statistics comes with an unexpected negative value at -1.255. I decided to take the absolute value of it, with the degree of freedom at 162, found the corresponding P-value of 10%, It means without banking secrecy, variable $open\,platform$ would be more preferred. However, this result is only supported at a significance level of 10%.

The combination of labelled products and an open platform has a negative impact with a statistic significance of 1%, given that the combination itself works negatively of the open platform alone and only in combination with the labelled products. Labelled products itself has a positive – albeit not significant - influence.

When looking at commissions, both taking no commissions and taking commissions with declaring towards the client have a significance level at 0.5%. This means that with an open platform it is either easier for the private bank to explain the commissions that they will receive from a third party or by not taking commissions seeing the service of an open platform as an additional service to the client to ensure that he will stay with the bank. This is in line with Colardi's (2012) view that the bank should focus on a single area of expertise. Accordingly, the private banks focus on the client relationship and asset management, while other experts offer their services to the clients through the open platform. The relationship manager can subsequently pick from the open platform to offer the client the best solution for him. Even taking commissions without notifying to the client has a positive relation, although it is not significant.

From the control variables, only the AuM has a positive relation to the open platform while all the others have a negative relation. However, none of them are significant. The positive relation of the AuM supports the view that the bank can attract more clients with an open platform.

Hypothesis 3

Hypothesis 3 explores commissions and specifically they question of whether they should be taken transparently or waived, as tested with the following hypothesis:

$H0$: Commissions received from products by the bank should be waived.

$H1$: Commissions received from the products by the bank should be taken transparently.

I conducted a least squares analysis to measure the participants' anticipation with respect to commissions and whether private banks should waive them. Table 4.7 below shows the results. $Adjusted\ R-squared$ at 27.8% is acceptable. Independent variable Location with a T-value of 2.690, with a P-value of 0.5%, is rather significant at the level of 1%. This result was also expected as highly regulated countries forbid taking commissions, so location is important for the view concerning whether commissions can be taken (McKinsey Private Banking Practice, 2013).

Interestingly, independent variable banking secrecy relates positively to dependent variable not taking commissions, with a coefficient of 0.293, although not significant. Therefore, even in highly regulated markets where commissions are no longer being taken, banking secrecy can remain. It seems that clients prefer to know what they pay for and are willing to pay for the service, whereas they do not like the bank taking something without the knowledge of the clients.

Independent variable open platform with a t-value of 2.712, corresponds to a P-value of 0.37%. It is significant at the statistic significance of 1%. That means, null hypothesis 3 should be rejected; with open platform banks should take commissions. This is easily explained in the practice. Open platforms determines the commissions as the private banks will look more at solutions to keep the clients, even if third parties offer them. Such solutions can also be simple tax or legal advice that the bank does not provide. As law and tax firms normally do not pay commissions to the bank, it is fine for the bank to not take commissions, as they will not receive something regardless.

Market competiveness also positively influences commissions, albeit with a significance level at $p < 0.05$. The reason for this might be that clients shop around for solutions and take the bank with the cheapest offer. When no commissions are taken, the product can be offered at a cheaper price.

The cost/income ratio also positively influences commissions with a significance level at $\mathrm{p} < 0.05$. This is in line with the literature review as commissions are the best way to increase revenues (Kishore, 2013) and they account for a significant part of private banks' revenue (McKinsey Banking Practice, 2013). Therefore, the costs remain stable and revenues decline, leading to a higher cost-income ratio, which is not good as it means that the bank needs to spend more for every $ received.

Table 4.7 - Commissions received from products by the bank should be waived

Dependent Variable: No-Commissions
Least Squares (t-statistics in parentheses)

Variable		Coefficient	t-Statistics
Banking Secrecy	Viability of banking secrecy (v1)	0.293	(0.482)
Location	On-offshore v2	0.651	(2.690)***
Market Competitiveness	V3	0.241	(2.291)**
Commissions:	Take commissions without notify (v4)	-0.342	(-4.309)
	Take commissions with exact amount (v5)	0.116	(1.448)
Ways Forward:	Labelled-products (v7)	0.157	(1.854)*
	Open platform (v8)	0.234	(2.712)***
	Combination (v9)	0.425	(5.000)
Control variables:	Balance sheet (v10)	0.255	(0.440)
	Cost per FTE (v11)	0.057	(0.224)
	AuM (v12)	-0.225	(-0.424)
	Cost-income ratio (v13)	4.880	(2.085)**
Adjusted R-squared	0.278		
Log likelihood	-219.962		
Mean dependent variable	2.957		
		Total obs	163

Note: *, **, ***: Significance at 10%, 5% and 1% level, respectively

<u>Hypothesis 4</u>

The final hypothesis again has a binomial distribution as it gathers dichotomous data, namely either ‘onshore’ or ‘offshore’ (Klugh, 1986).

$H0$: The closeness of the bank to the client’s residence is more important than the financial centre location.

$H1$: The financial centre banking location is more important than the closeness of the bank to the client’s residence.

Descriptively, the mean of the dependent variable is *0.853*, reflecting that 139 out of the 163 participants answered $offshore$ to this question. I conducted a binary probit analysis to measure the participants' anticipation regarding the location of private banks, whereby the results are reported in table 4.8. $Adjusted\ R-square$ is with a value of 24.5%. Only one control variable AuM is selected as the others are highly correlated.

As expected, banking secrecy negatively and significantly influences the location, with a coefficient of -1.694, absolute $z-value$ of 2.02, corresponds to a $P-value$ of 2.17%. It is significant at the level of 5%. This goes in line with the notion that most of the assets are outside the country and not in the client's country of residence. Researchers (Guex, 2000 and Fiechter 2010) also mention that banking secrecy is the key to attracting clients' money. This means that banking secrecy is more attractive to bring the assets to a place where banking secrecy is intact rather than simply the closest bank. This might be more convenient for the client, although the secrecy aspect is more relevant for the clients to bring the money offshore.

Table 4.8 - Closeness of the bank to the client's residence is more important than the financial centre location

Dependent Variable: Location
Binary Probit (z-statistics in parentheses)

Variable		Coefficient	z-Statistics
Banking Secrecy	Viability of banking secrecy (v1)	-1.694	(-2.016)**
Market Competitiveness	V3	-0.562	(-2.191)**
Commissions:	Take commissions	-0.005	(-0.029)

	without notify (v4)		
	Take commissions with exact amount (v5)	-0.032	(-0.209)
	No-Commissions (v6)	0.059	(0.378)
Ways Forward:	Labelled-products (v7)	0.086	(0.544)
	Open platform (v8)	-0.033	(-0.185)
	Combination (v9)	0.192	(0.885)
Control variables:	Balance sheet (v10)		
	Cost per FTE (v11)		
	AuM (v12)	0.264	(3.534)***
	Cost-income ratio (v13)		
Constant	1.264		
McFadden R-squared	0.245		
Log likelihood	-51.420		
Mean dependent variable	0.853		
Obs with dep=0	24	Total obs	163
Obs with dep=1	139		

Note: *, **, ***: Significance at 10%, 5% and 1% level, respectively

Independent variable market competiveness, with an absolute $z-value$ of 2.2, which corresponds to a $P-value$ of 2.17%, is significant at the level of 5%. The negative coefficient of -0.562 means the more competitive the market is, the less likely the bank will be close to the client's residence. This result is also as expected, given that there is one location as the financial centre in most countries; for example, Frankfurt is well known as being the financial centre of Germany. Accordingly, most banks want to have a presence in Frankfurt and thus the competition is high to secure the best available people. While in a smaller village the bank is not so interested in setting up a branch due to the clients in that village, which explains the negative correlation. However, this is only true for private banks as local banks like Sparkasse or Raiffeisen Bank have found this niche market attractive, although there is no market competitiveness as in a small village there is only one small bank and not many like in the financial centres.

In terms of commissions, none of them is significant but both taking commissions without declaring to the clients and taking commissions with the exact amount declaring to the clients have a negative correlation. Only not taking commissions supports the closeness of the bank to the client's residence. Interestingly, we had a similar outcome from the commission hypothesis, meaning that clients prefer banks not to take commissions independent of the location and regardless of whether there is banking secrecy.

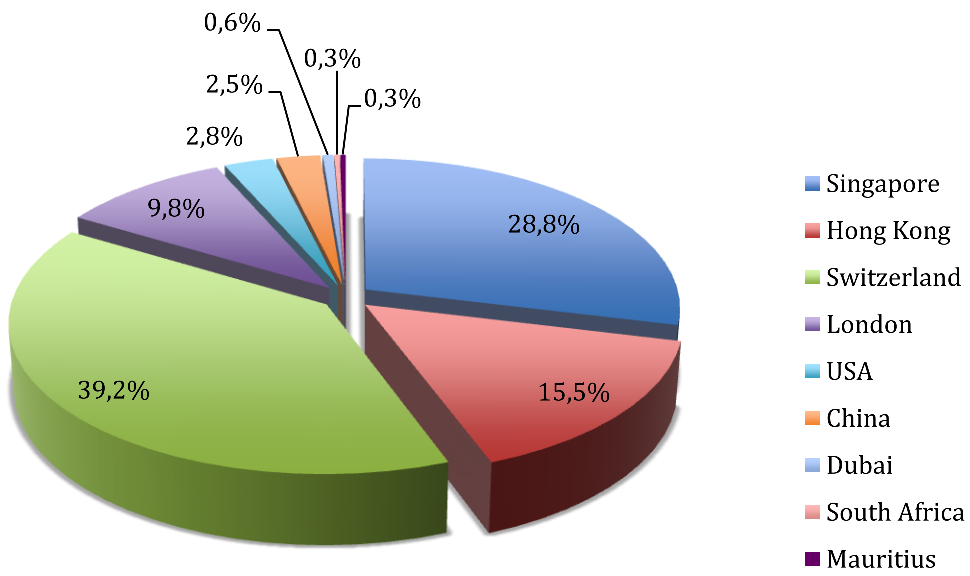
Interesting enough, the variables *labelled products* and *the combination of labelled products* and *open platform* have a positive relation while *open platform* has a negative relation to the *closeness* aspect, with none of them being significant. The reason for this might be that when the bank is close by, clients trust them more as they are almost neighbours and hence want to buy the products from that bank. Moreover, with a local bank, the knowledge is available within the bank and an outside specialist might not be as frequently needed as with a bank having international clients.

I was initially surprised to find that AuM has a positive relation to the closeness of the bank to the client's residence and the t-statistic indicating significance at the 1% level. In my mind, this contradicts the AuM figures in the offshore centres, although these figures only looked at the assets invested cross-border. Accordingly, when interpreting the results and only looking at the aspect of closeness of the bank and AuM, I agree with the result. If my bank were around the corner rather than several kilometres away, I would also prefer to bring my money there.

Additional Data

As an academic practitioner, I do hope my thesis not only for a theoretical research, but also serves as guidance for the way forward. Therefore beside the quantitative analysis, some other useful data is also generated through the open questions in the questionnaire. When looking at the location aspect, I was also keen to ascertain where participants would see the future of private banking places in the coming five years. Indeed, this question was asked in the questionnaire with the following result:

Figure 4.1 - Favourite private banking locations in 5 years' time

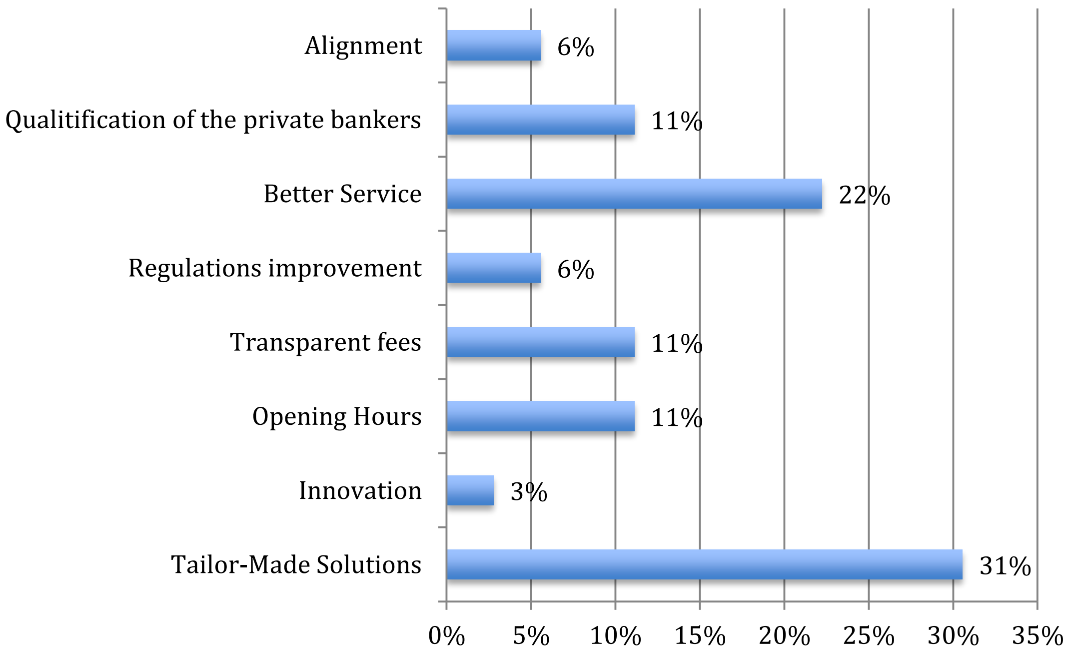


(Source: Questionnaire for DBA, out of 163 samples)

It is interesting to note that the current offshore private banking centres are expected to be favoured in five years' time according to the view of the participants. Switzerland is seen by 39.2% as the favourite place for private banks, followed by Singapore with 28.8% and Hong Kong in third place with 15.5%.

The other open question was to ascertain which aspects participants think can be improved at Swiss private banks. As it was an open question, people were required to write their views. As it turned out, only 37 people were willing to answer this question. I first entered all the different responses and then grouped them.

Figure 4.2 - Themes for improvement

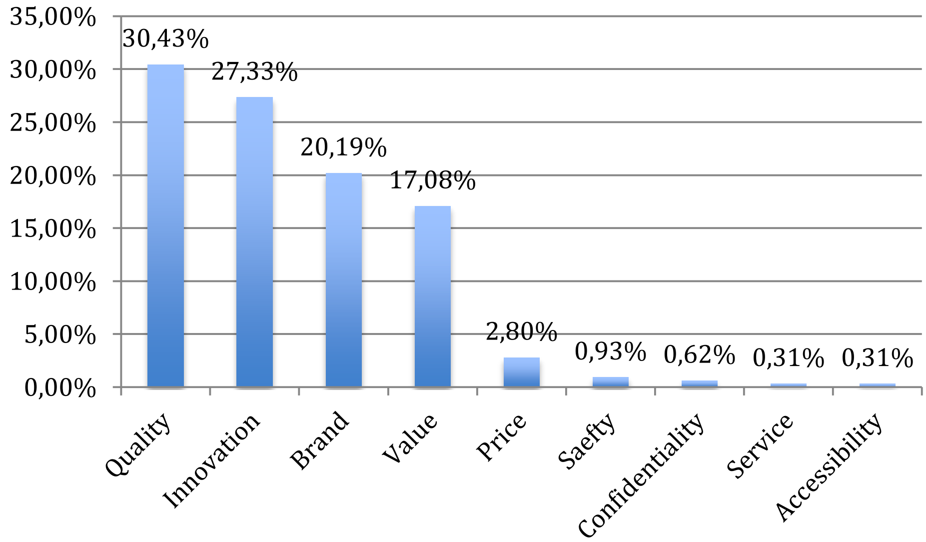


(Source: Questionnaire for DBA, out of 37 samples)

The main suggestion for improving the private banking area is the request for tailor-made solutions with 31%, followed by a better service among 22% of the participants. It is interesting to note is that 14% requested for transparent fees, although this was a separate question on the questionnaire.

A semi-open question focused on what people consider when choosing a private banking service. The outcome can be used to observe what clients consider as important and thus what private banks should do to attract more clients. It effectively reflects a wish list of what clients would like to have from their private bank.

Figure 4.3 - Private Banking considerations by clients



(Source: Questionnaire for DBA, out of 163 samples)

From the data, it emerges that quality, innovation and brand are the three most commonly mentioned points by the participants, accounting for over three-quarter of the total survey population.

4.5 Validity

Owing to the nature of hypothesis testing, there are always two types of errors involved, namely type I error and type II error (Klugh, 1986). In this study, both $Chi\ square\ test\ and\ Fisher\ test$ were conducted for the hypothesis testing 2 and 3. A type I error is committed when a true null hypothesis is rejected due to an improbable sample, while a type II error means the acceptance of a false null hypothesis (Klugh, 1986). I tried to avoid a type II error as it would mean incorrectly interpreting my study result. Therefore, I set the Alpha value at 5% according to Klugh (1986).

A second aspect to consider is how representative the sample is in the inferential statistics (Klugh, 1986). The sample size of my study was 163 participants from various practice backgrounds in financial or finance-related areas. I aim to conclude some meaningful findings that apply to the entire "population" in the Swiss banking area through the hypotheses testing. Therefore, the representativeness of the samples poses another challenge to the validity of my research.

Besides the two points mentioned above, Onwuegbuzie (2000) mentioned five points to justify the validity of a quantitative research:

- Population validity
- Researcher bias
- Specificity of variables

- Matching bias
- Mis-specification error

Population validity: looking at the total sample that could be used, we might arrive in the sphere of several thousand given that so many people are working in the financial field or related areas. Hence, my sample size is rather small and thus does not speak for the whole population. Nonetheless, I still believe that it provides a good overview, while leaving space for further research with more people involved.

Researcher bias: As the questionnaire was completely independently by the participants, who were not influenced by the researcher when giving an answer, I consider this point to be remote.

Specificity of variables: Onwuegbuzie (2000:44) suggests to "utilize variables in ways that are transferable (e.g. using standardized norms)". These standardised norms were used in my research as much as possible. Given that most participants are working in the financial field, these standards were known.

Matching bias: No matching was undertaking for this research.

Mis-specification error: no data was omitted during this research.

4.6 Ethical issues

My research involves senior managers in the main private banking jurisdiction. To secure a high response rate, I decided to use only anonymous responses (El Emam and Moher, 2013:40).

Bell & Bryman (2007) also mentioned the relationship between the researcher and society as a factor of ethical wrongdoing in management research. As my research is not sponsored by any party nor is it related to my employer, I do not perceive such a risk for my research. The outcome will be based upon the responses from the participants.

All the involved people receiving the questionnaire agreeing to take part in the study were informed about the Data Protection Act, that their participation is voluntary, that questions could be asked and that the responses would be kept strictly confidential according to the participant consent form from the University of Liverpool.

There are no risks involved by participating in this survey and people had the opportunity to mention if they wanted to receive feedback on the result.

During the data collection and analysis, negative findings were reported, the hypotheses of the paper were not changed and all controls that were omitted are pointed out.

5 Case Study: A qualitative approach and detailed qualitative analysis on two private banks

5.1 Introduction

After the literature review and the quantitative analysis, the qualitative analysis with a case study was conducted. The phenomenon that I would like to investigate is how relationship managers actually deal with the banking secrecy aspect in real life. For this purpose, I chose the natural setting where this phenomenon appears (Creswell, 2007). Accordingly, I had the opportunity to have a face-to-face interaction (Creswell, 2007) with the relationship managers. Multiple sources of data available (Creswell, 2007) were available to me. First, I will collect the data via interviews and observation of the reactions of the relationship managers. Secondly, second-hand data is collected from the documents the bank and the relationship managers provided. In the final step, I observed a real-life case where the relationship managers meet a client who would like to open an account in that bank. With this multiple source of data, I am able to have a holistic account and the data provides me an in-depth picture.

After having deducted the quantitative analysis, I realised that certain points have not yet been answered in detail and further questions remain, including in relation to the control variables. As there are multi correlations, I wanted to investigate the actual impact in the private banking environment. Another point is banking secrecy, given that in the questionnaire, participants mentioned that banking secrecy will remain not for tax purpose but for rather privacy reasons. Accordingly, how does a client advisor deal with such a situation when facing a client? While finding answers to these open questions from the quantitative analysis, I also wanted to confirm whether the findings from the quantitative analysis are confirmed by the case study.

5.2 The context of the case study

The case study was carried out through interview with two senior relationship managers from two different banks. The two chosen banks are similar in size and enjoy good reputation in Switzerland as well internationally. I would name them Bank A and Bank B as the reason of privacy. They can be seen as the representative symbol for Swiss banking sector. They are growing up and evolving with the Swiss banking secrecy and at the same time facing the challenges from lifting the Swiss banking secrecy. Therefore, to conduct an interview with the staffs from those banks are highly relevant to my study and provide a new perspective for my entire thesis.

The interviewing was targeted at senior relationship managers for the following reasons:

First of all, relationship managers deal directly with clients, and work as a bridge between clients and banking internals. They know exactly what clients need. They understand the importance of the banking secrecy, and can better anticipate without banking secrecy potential results. The interview with them provides not only qualitative supporting arguments for the hypothesis one in the quantitative analysis, as well contributes new thoughts for the thesis. It would verify the quantitative result. Plus, it is aimed to find out what could be the other factors influence the viability of banking secrecy, besides the independent variables listed above.

Second, relationship managers know in heart the products offered within the banks. Due to the bank internal privacy, I may not know the detailed products offered within each banks. However, the interview with them shines some lights on the answer to hypothesis two. Without banking secrecy, does open platform really work better than in house products in attracting more AuM to the banks? Does relationship managers' practical experience stand in line with the quantitative findings in the hypothesis two? It is crucial and essential to get the practitioners' point of views.

Third, relationship managers know the potential reactions of clients regards on the changes on commissions. Will commission still be charged when banking secrecy is no long viable? How would clients react to a commission with an exact amount instead the current floating rate? It is highly interested to contrast the qualitative findings to the quantitative ones in hypothesis three regards the commissions. The details are presented in the following sectors.

Least but last, regards the locations in the hypothesis 4. Relationship managers may not influence the location of the future-banking sector. They do provide insider views, which I could not generate from the literature reviews or quantitative analysis. Although two banks might not be seen as an exhaustive list of samples, I found it sufficient for a case study given the difficulties to investigate confidential processes and seeing confidential data. However, the qualitative case study closes some gaps, which could not be covered in the quantitative analysis.

5.3 The interview process

The interviews with the relationship manager were carried out in their office due to the convenience and privacy at different days. Each interview was divided into two sections. In the first section, each of them was informed about my thesis study and what I would like to achieve through the interview with them. During this phase, they showed me the documents that the bank requires the relationship manager to explain to the client and which the clients need to sign. In the second section, in order to know what happened in the real business field, I was invited to be present when they had a client meeting and was allowed to follow the client meeting as an observer (I was not allowed to pose any questions during that meeting nor recording the entire process). Right after the client's meeting, I was debriefed by the relationship manager and was allowed to ask any questions that I still had in respect of the meeting or any other outstanding questions from my previous interview.

I interviewed two senior relationship managers in respect of their daily work and what has changed since they started to work compared to today and how they see the future. When looking for senior relationship managers, I realised that the youngest ones are in their early-40s. This might be the case because relationship managers must have experienced different situations and thus can connect to their clients' issues and problems (Spreiter, 2005).

Both of them highlighted that in the early days clients were accepted without any major checks as long as they were not blacklisted or were a so-called PEP (political exposed person). By contrast, in today's world, the client must prove that he is not a criminal and that he has declared all his income and wealth in the countries where he needs to do so. This goes in line with the comments from Hakelberg (2015) that information will be shared upon request with the home country of the client and thus the bank needs to ensure that the client's assets are declared. Both complained that this is rather a difficult process and even some of the tax experts are unsure how to prove this and how to conclude that one has fulfilled all his tax liability, especially in today's world where wealthy clients have estates and assets all over the world. Both of them agreed that the bank nowadays is ruled by the compliance department and no longer by the managers. This goes in line with Ruce (2011), who mentioned that compliance is seen as a business preventer.

The relationship manager from Bank A also made a relevant remark: while previously the compliance and legal department was too lean, it is now too strict. There is also a kind of fear within that department to accept new clients as there could be something wrong with them, whereby they prefer to reject than accept clients. His wish for the future is that the relationship manager together with the legal and compliance department will work together to see whether the client can be accepted. Maybe the client needs to bring some form of written confirmation from another authority to be accepted or simply further documents. This view is also supported by Ruce (2011) who mentioned that compliance is seen as a business preventer and relationship managers see their compliance role as a burden.

Both of the relationship managers also agreed that it is difficult to keep clients after they have declared all of their assets; indeed, most of them bring the money back to their home country. This view is supported by Brinker (2013), Blanco and Rogers (2012), who mentioned that either tax heavens or onshore banking will gain more assets. This is further supported by KPMG (2013b) and PWC (2010), which both realised that the asset base within Switzerland has decreased, due to either poor performance of the assets or clients brining back their money from Switzerland to their home country. While the relationship manager from Bank B accepts this, his counterpart from Bank A made a further comment that in case the bank has a branch in the home country it also requires a huge effort to convince the client to stay with the bank. For him as a relationship manager in Switzerland, he will lose the client to a relationship manager in that country and thus he questions whether it is worth the effort. From a bank's view, it might be worthwhile but not for him personally as he will not get any benefits but needs to invest a lot of time.

The relationship manager from Bank B made a comment that he acquired clients' long time ago and kept them with the bank and now due to some internal decisions or policy changes he needs to let the clients leave the bank. This is difficult for him and for the clients, who have no understanding for this. In addition, once he cleaned up his book and only has tax-compliant clients, he is also under pressure to increase his book. In both banks, relationship managers were fired due to their lower books after the clean-up exercise.

My summary from the interview phase is that Swiss banks have arrived in a tax compliant environment although the relationship managers would prefer to have greater support from the management and the legal and compliance department to on-board clients. I also sense a certain fear among the relationship managers as they feel the entire duty of responsibility in case they bring a client to the bank who has non-declared asset. Therefore, a relationship manager might turn down a client as he sees the effort for this client too high to bring him to the bank.

5.4 Documentation

From the documentation part, there is not much difference between the banks. The forms might be different from the setup, although both banks require the client to sign off that he is tax compliant, he is the ultimate beneficial owner of the account and that the bank will receive commissions.

There were only two differences that I noted from the documents. The first is that when a structure is used, Bank A requires an additional form stating the ultimate beneficial owner of that structure. For example, when the life insurance company has an account with the bank and it is a one-to-one relation (the insurance account relates to one policy, which belongs to one client), then the bank wants to know the ultimate beneficial owner, which is normally the person who paid for the life insurance premium.

The second difference is that Bank A states for certain structures how much they are going to receive if the client decides to set up (purchase) the structure.

Therefore, the documents are similar and both banks fulfil the current standard, while Bank A seems to be a little ahead of Bank B and anticipates that more rules are to come.

Observation

The preparation process for both banks is similar. They first consider whether the potential new client's story is consistent and makes sense. First, a few checks are conducted on KYC (Know your customer), as well as an internet search about the client.

Both banks have external experts on hand in case the client has further questions that are not in the expertise of the bank. Bank A can even provide a choice of providers offering the service or product that the client wants to have and a person from the financial planning team can also assist the client and be the bridge person between the client and the third-party provider. The fact that the banks have external experts on hand supports the notion that clients are looking for quality, independent advice (Wozniak, 2009), which these experts can provide.

Both banks have an advisory process in place, as a guideline how to approach the client and ensure that all aspects are covered.

With the focus on banking secrecy, I realised that clients are still asking for it and thus I wanted to explore what it means with the current changes and what is the view of the relationship managers. Both of the bankers gave a good overview of the current status and future developments. The relationship manager from Bank B even made a comment that the client should already think as if banking secrecy no longer exists.

When talking about structure, the relationship manager from Bank A made reference to the commissions that the bank receives.

Both relationship managers made the client aware of the fact that when he is signing the form there is a paragraph where he declares that all his assets are declared/tax compliant. Moreover, the relationship manager from Bank B made the additional comment that if he does not do so the client would not be able to open the bank account and the bank might report him to the authorities.

5.5 Discussions and conclusion of the case study

Here are the discussions and thoughts generating from the case study:

First of all, banking secrecy is still viable in the mind of senior relationship managers; however, they are fully aware that banking secrecy might vanish in the near future. This is in line with the quantitative analysis in hypothesis one. Viability of banking secrecy does not account for the key factor to increase the AuM in the banking sector. The relation between senior relationship managers and clients plays a crucial role. This conclusion is supported from several aspects in the case study:

- in the documentation phase, minor difference is identified between the two banks. Relationship manager is the key differentiator of a successful private bank. In the last section of the interview, I asked relationship managers what is the difference between the private banks, namely why should a client go to Bank A and not to Bank B, C, D, etc. The relationship manager from Bank B stated the view that it does not matter; rather, it is mainly as case of whether the client likes the bank and the relationship manager. This view is supported by Amenc et al. (2009), who mentioned that the relationship manager is the key differentiator of a successful private bank. This is further supported by Singh (2014) as systems or technology can easily be duplicated and thus the differentiator is the relationship manager. The relationship manager from Bank A sees the only difference in the core business of the private banks, namely asset management: the better the performance of the portfolio, the more likely that more clients will come to that bank. The performance of the assets is also seen by KPMG (2014), PWC (2010) and Scorpio Partnership (2014) as a key driver for both attracting new clients and the income stream of the bank, given that most fees are based upon AuM. However, given the currently volatile market and the recent crash at the stock market, most private banks were caught on the wrong foot.

- Loyalty degree of the senior relationship managers changes with the time and viability of Swiss banking secrecy. This point was not covered in the quantitative analysis. In the past relationship managers were more loyal to the private bank they were working for. Nowadays relationship managers tend to easily move between banks if a new employer offers a higher income. The relationship manager from Bank A elaborated that in the past relationship managers were proud to be at the bank and had a certain standing. Changing private banks was not common; rather, the relationship manager typically stayed with the bank until they retired. By contrast, at present, as soon as another bank offers a better compensation, the relationship managers change their job. There is no longer any loyalty to the bank, so why should the customers be loyal?

This could pose a problem for private banks as clients like a stable environment. From the literature review I learnt that Swiss private banking clients are becoming more sensitive to service quality (Foehn, 2004) and that trust and commitment are the highest rated criteria from a clients point of view. A relationship manager changing the job often might fulfil the service quality but trust and commitment will not be seen from a client's perspective as the client often changes employer.

Therefore I come to the first conclusion, that relationship managers and clients are the core of the Swiss private banking business. The bank therefore should try to keep the relationship managers in the bank to create such a stable environment. Financial incentives might not be the only way to keep the relationship managers. A good environment, flexible working hours and fringe benefits might keep the relationship manager also at the bank. I also realised that the move is not always easy for a relationship managers. They face new working colleagues, new systems and processes and are worried that their clients will not follow to the new employer. It might therefore be in the best interest of all, clients, relationship managers and private banks, if the relationship managers stay longer within the private bank.

Second, open platforms works better in attracting clients than in house products to increase the AuM. Both the senior managers confirm it verbally.

Both banks use open platform approaches, which go in line with the hypothesis 2 that open platforms are better in attracting more AuM than labelled products; however, the way in which they are implemented is different. One bank simply makes the referral to a third party provider while the other bank has their own internal staff, who handhold the clients if desired. This internal staff from the wealth-planning department will also explain structures that might be of interest to the client before the client is referred to a third-party provider. This wealth-planning advisor will also help the client with the necessary legal opinion of the structure together with the third party provider if the client wishes their involvement. This goes in line with my findings of the quantitative analysis with the hypothesis 2.

Third, Location of the future-banking sector; senior relationship managers hold entire opposite point of view. While in the quantitative analysis the outcome of the location was that clients will keep the money in the offshore centres, the outcome from the interview was different: here, the relationship managers discussed the huge effort to keep a declared client with the bank and that most of the clients moved their assets back to their home country when the bank talked about declaring the assets in their home country. One of the reasons could be that both relationship managers had Germany as their key client market, whereas the quantitative analysis involved relationship managers covering different markets, which might explain the difference in the result. On the other hand I am questioning if it is also a relationship managers problem. In the past they did not need to know about a German client and his tax situation. Can the relationship manager actually get the needs of his client? What is the client after with declared money? I here also see some training needs for the relationship managers on how to talk with declared clients and what the bank actually can do to attract such clients. In addition the bank might also need to have a better service and product for such clients. I think Swiss private banks did the first step to ensure clients are declared but did not do the next step on what they can offer such clients to ensure the money stays within the bank.

Fourth, commission should be taken but with more transparency, preferably with a certain fixed amount, especially when viability of banking secrecy disappears. Both of the senior relationship managers hold the similar view.

Fifth, AuM is the major influential financial indicator among all the four control variables analysed. When asking them about my control variables balance sheet, Cost per FTE, AuM and the cost-income ratio, both relationship managers provided the same answer, stating that AuM is a key target and that many of their targets are based upon AuM. This goes in line with the findings of McKinsey Banking Practice (2013) and Birchler et al. (2013) as AuM is the underlying factor for most financial indicators, even for the bank's income. Relationship manager A mentioned that a relationship manager must have at least 150 million AuM to remain within the bank; otherwise, he will be forced to leave the bank if he does not acquire the relevant AuM within three years. The other control variables are more from a banking perspective and analysts are focusing on these figures. However, as relationship manager B pointed out, AuM contributes to a higher balance sheet: normally the more

AuM the relationship manager has, the more revenue he generates. Return on AuM is another key figure for relationship managers. While for the outside world return on AuM is the profit that one makes on an investment, for the bank the return on AuM is the money that they earn from the AuM that the clients have deposited with them. Hence, the revenue figure has an impact on the cost/income ratio. KPMG (2014) mentioned that discretionary AuM is the best income stream for the bank.

Cost per FTE is not really something that a relationship manager can control as the whole back office creates many costs that a relationship manager cannot control, as expressed by relationship manager B.

Last but least, continuous training should be provided to relationship managers, to maintain the high-end service level and keep up-to-dated. Main financial indicators mentioned in the previous chapter, especially AuM, influence significantly the career behaviour of senior relationship managers and therefore the future of Swiss private banking sector. Both of the banks confirmed that AuM and net income are very important for them and that they are tracked on this on at least a monthly basis. These are also the key components for a relationship manager. Continuous training of the relationship manager should not be neglected as well. In my quantitative analysis, I did not focus on the compliance and legal department, whereas during the case study I found out that this has a huge impact on the client's acceptance process and that this significantly changed in recent years. This poses a problem for some of the relationship managers who used to on-board clients with less compliance problems. I think it is therefore important to train the relationship managers and keep them up to date with the developments in the legal and compliance word. It might sound boring but will be essential for the relationship managers to know what they are allowed to do and what information and documents they need from their clients to be compliant.

During the interview phase, I realised that the relationship managers are under a certain stress and unhappiness to gain more AuM for the bank. Not on purpose but more subtle. This has a negative impact of the service quality, which is highly rated by the clients. A happy relationship manager will also give a happy and better service to a client. The client in return will also have a better mood when talking to the relationship manager.

In combination with the relationship managers changing employers frequently and the stress to reach the targets made me think if a more flexible remuneration model is needed. A relationship manager with lower AuM and net income might correspond to a lower income. The bank would also be satisfied with this solution, as the net income to the bank is greater. The relationship manager with less stress means more motivation and loyalty to the employer. Due to the time and effort limit, I will not go deeper into this and leave it open for further research to look into this option.

6 Conclusion

This chapter summarizes the findings from the literature review, the quantitative analyses as well as the case study, and presents some recommendations and actionable plans on the ways forward for the private banking sector. It provides tentative answers for the following two research questions 1) factors influence the viability of the banking secrecy and 2) potential ways forward for private banking sector without banking secrecy. At the end, the limitations of the study and open areas to be researched are listed out.

6.1 Findings of the study

First of all, banking secrecy is still viable in the near future, not for the purpose of tax evasion, but purely for personal privacy. Market competiveness, locations (onshore/offshore), open platform and commission policy strongly influence the viability of banking secrecy statistically. The more competitive the banking sector is, the more demand for a viable banking secrecy from the clients. Both the results from the quantitative analysis and the interviews with the two senior relationship managers confirm this point of view.

However, the current literature (Campbell and Corner, 2014; Comisky and Lee, 2013; Farooq, 2015é Norton, 2009; Bondi, 2010; Vogler, 2001 and Hauser, 2010) sees the end of the banking secrecy due to the legislation imposed in the past. Therefore it is vital for Swiss private banks to view the viability of banking secrecy with a subtle eye. They should be aware what they are allowed to sell a client from a foreign country and what the tax implications are.

Second, without banking secrecy, open platforms attract more AuM than in-house labelled products. Open platform negatively but strongly correlates to the viability of banking secrecy with a coefficient of -0.699, at a statistic significance of 1%. Vice versa, the viability of banking secrecy directly determines the strategic importance of open platform. It is noted as well from the interviews with the senior managers that private banking sector should lay strategic focus on open platform instead of in house labelled product to differentiate from competitors and survive without the viability of banking secrecy. Private banks should bear in mind and react as if the era of banking secrecy terminates. This would shift their mind-set in strategic planning and remind them to consider the potential solutions without banking secrecy.

With an open platform clients are more willing to pay for commission with an exact amount. The positive coefficient between these two variables with a t-value of 3.46, at a statistical significance at 1%, verifies this conclusion. Though the existing literature review of researchers found benefits for open platform approaches (Sato, 2009; VP Bank, 2010) as well as for in-house products (Simpson et al., 2001; Wheelwright & Clark, 1995; Bremmer, 1999 and Shah, 2014). A significant finding from the study is that with an open platform clients are more open with the commission the bank receives from the third party product providers. Plus private banks with an open platform attract more AuM.

Third, private banks should charge commissions from clients only with exact transparent amount from clients if banking secrecy vanishes. Reflecting on the literature, McKinsey Banking Practice (2013), KPMG (2013) and Holt (2013) are among the researchers who see that taking commissions will be banned in the near future or is already banned in certain jurisdiction. In Switzerland a court case (Giroud & Nadelhofer, 2012) regards commissions went up to the Swiss Federal Supreme Court. It was decided in the end that retrocession must be declared to the clients. This was however in respect of an independent asset manager and not in relation to private banks.

Some problems regards the commission taking do exist in the private banking sector. From the documentation process as well as out of my own practice, I realised that commission policy is written, but hidden in the general terms and conditions in small prints. Clients are not fully informed regards the commissions for certain products. This problem does not only exist in the two interviewed banks, but in my own working place as well.

Fourth, relationship managers are the new core competence for private banking sectors without the banking secrecy. However, the interviews with the two candidates revealed the following two problems: difficulties as well as barriers in retaining clients and the decreasing loyalty level of the senior relationship managers in the new banking era. Both senior relationship managers mentioned that communications barriers and administration complications with the compliance and legal departments make it more difficult to gain new clients and maintain them within the bank, no matter onshore or offshore. How to lean the communicate process to keep the clients within banks and increase AuM turn out to be an urgent issue. Beside, not only their loyalty but also their professional competence should be kept up to dated. Ruce (2011) already mentioned that the relationship managers need to increase their “know your customer” profile and also deal with implementing more regulations.

Fifth, whether private banking sector will be based onshore or offshore is not only associated with the viability of banking secrecy; market competitiveness significantly influences the location of the private banks (z-value: 2.19, a statistics significance at 5%). As an academic practitioner, this result is expected. Offshore clients tend to look for private banks with open-platform product offers. Commission policy has minor impact on the clients’ decision of onshore or offshore banks. This can be easily seen from the z-statistics value in table 4.6. Also both the relationship managers mentioned that offshore-clients do not pay special attention to the amount of commissions that banks take.

Working in Switzerland for a Swiss private bank I have a particular interest in this topic. Especially as some famous private banks already closed in Switzerland, great worries raised up that Switzerland might no longer be the place for private banking. Hampton and Christensen (2012) and Alamá &

Tortosa-Ausina (2012) see an end of the offshore centres as they foresee the bank needs to be close to its clients to do business. However, from the findings it can be concluded that Switzerland, as an offshore private banking centre, equipped with open platform offers, will remain the status as a financial centre. Besides, the result from the questionnaires shows that Switzerland with 39.2% of the supporting rate as the top candidate for an offshore client, followed by Singapore (28.8%) and Hong Kong (15.5%).

In summary, viability of banking secrecy has still its value but is expected to disappear in the near future. Market competitiveness, location of the private banks, products offered, as well as commission policy play as the key determinants on the viability of banking secrecy. Private banks should shift their strategic core competence from in house labelled products to open platform. Commission should be transparent and being taken at an exact amount. The role and the continuous training of senior relationship managers should be emphasised and strengthened.

In order to put the findings into practice, the following actionable plans based on findings are recommended and they provide as a tentative guidance for the future private banking sector.

6.2 Recommendations and Actionable knowledge plans

6.2.1 Concentration on the open-platform development

Private banks should develop or strengthen an open platform so that clients can choose from the best offering in the market. This open platform involves third parties. Although a third party performs the service, the bank still bears a certain responsibility, to whom it is referring its clients. I therefore suggest that the bank does a due diligence on the provider to find out if e.g. they have a similar approach as the bank, has the expertise, the provider is sticking to the rules and regulations, is independent and does not have negative press.

The bank should produce a regular review on the provider to see if something significant has changed which would harm the corporation. In addition both sides can talk about the current relationship and if there were any issues or points for improvement. An agreement should be signed between the bank and the provider to ensure what each party does. The provider shall produce a regular report to verify the clients, which have been submitted by the bank to the provider. Regular meeting between the provider and the bank should happen so that both parties are kept aware of the developments of new products, service etc. on both side.

With the above points the bank ensures that it has the best providers in the market and that the reputation of the bank is not at risk when referring to a third party provider. The client has the advantage that he can choose from a variety of specialists who know the market and the products in the country he lives in plus has the advantage that the bank already preselected the providers for him. The bank might charge for this service, can help the client in the communication with the third party provider and might attract more AuM as the third party provider might also refer some clients to the bank as he likes the concept and service of the bank.

6.2.2 Actionable plans for relationship managers

Referring to the problems from the interviews, I would suggest the establishment of a relationship manager certification system. It verifies and confirms the capability of relationship manager, which he/she is able to deal with clients from the markets they are working with. Under this system is the continuous education of the relationship managers to keep updated. In the survey, 31% of the survey takers ‘tailor made solutions’ should be strengthen, 22% think service level should be bettered. Therefore it is meaningful to invest on the knowledge and service level of relationship managers. An actionable plan could be: every two years the relationship managers need to go to a brush up training to gain an understanding of recent changes and customer needs.

The clients proof process among the compliance/legal departments and relationship managers should be simplified and improved. The bank itself needs to know what relationship managers and financial planners are allowed to do with clients from a different country. The bank needs to update its IT systems to ensure that the rights products will be sold the people from different domiciles. Compliance/risk mitigation should come in the first place and no longer the profit.

6.2.3 Actionable plans on the commissions

Commissions can be and should be taken, as it is a good income stream for the bank. Commissions should be properly stated towards the client so that he is aware of what the bank is going to receive. This should prominently be placed so that the client can immediately see it and not be hidden somewhere. Relationship manager should be able to explain to a client why commissions are taken. Clients feel the honesty and comfort from the private banks and would in potential bring more money. It should work in a positive cycle.

6.3 Limitation and open areas to be researched

There are three key limitations to my study. First, there is limited historical data regarding my research topic, as it is an emerging issue; accordingly, the majority of the conclusions and research are based upon first-hand raw data. Therefore, while it is up-to-date at present, it might lose historical evidence over time. Second, the number of participants is a limit to the study as the total of 163 participants is not significant and most of them are from Switzerland, Singapore and Hong Kong, while other markets and their views have been omitted. Third, the participants all come from the financial area and although some of them are private banking clients, it would be interesting to ascertain the view of pure private banking clients, which would either reinforce my findings or to come up with new solutions. I am looking forward to observing and researching further on this topic as an academic practitioner.

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Appendix I

UNIVERSITY OF LIVERPOOL

Questionnaire

1. Do you think the banking secrecy will be relevant in 5 years 'time? (Please choose one)
   - ☐ Yes
   - ☐ No

2. Which of the following locations do you think will have the best private banking service in 5 years' time? (Please choose max. two)
   - ☐ Singapore
   - ☐ Hong Kong
   - ☐ Switzerland
   - ☐ London
   - ☐ others (please specify)____

3. In your view where do you think Private Banks have a better future? (Please choose one)
   - ☐ Onshore (in the country the client lives)
   - ☐ Offshore (outside the country the client lives)

4. How competitive do you see the market for Private Banking Customers? (Please choose one)
   - ☐ Extremely competitive
   - ☐ Very competitive
   - ☐ Moderately competitive
   - ☐ Slightly competitive
   - ☐ Not at all competitive

5. What is your view on the bank taking commissions (e.g. from Insurance brokers, Fund products etc.) without declaring to the client? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

6. What is your view on the bank taking commissions (e.g. from Insurance brokers, Fund products etc.) with declaration to the client but without an amount or % of the commissions? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

7. What is your view on the bank taking commissions (e.g. from Insurance brokers, Fund products etc.) with declaration to the client mentioning an approximate amount of the commissions being received? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

8. Do you think that banks should not take commissions at all? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

9. Do you think Private Banking clients are willing to pay for advice from the bank? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

10. Do you think clients prefer to have an all in fee? (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

11. What is your view on an open platform approach? Clients would like to have labelled products to recognize the banks involvement. (Please choose one)
   - ☐ Strongly agree
   - ☐ Agree
   - ☐ Neither agree nor disagree
   - ☐ Disagree
   - ☐ Strongly disagree

12. What is your view on an open platform approach? Open platform combined with own products is the best mix. (Please choose one)
    - ☐ Strongly agree
    - ☐ Agree
    - ☐ Neither agree nor disagree
    - ☐ Disagree
    - ☐ Strongly disagree

13. When you think about Private Banking do you think of it as something people might need or as something people might want? (Please choose one)
    - ☐ Need
    - ☐ Want
    - ☐ Both equally
    - ☐ Not needed
    - ☐ Strongly disagree

14. What is your view on an open platform approach? Open platform alone is sufficient as like this the client can get the best available product for him. (Please choose one)
    - ☐ Strongly agree
    - ☐ Agree
    - ☐ Neither agree nor disagree
    - ☐ Disagree
    - ☐ Strongly disagree

15. When you are considering Private Banking service in your area, what are the top two things you generally consider? (Please choose max. two)
    - ☐ Price
    - ☐ Brand
    - ☐ Innovation
    - ☐ Quality
    - ☐ Value
    - ☐ Other (specify)

16. In your own words, what are the things that you would most like to improve within the Private Banking area?
