"Clariden Leu was not obsolescent"

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Interview: Claude Baumann

Ray Soudah is the founder of Zug-based consultancy firm Millenium Associates and a leading expert on Swiss private banks. He expects margins in the sector to continue to fall, with dramatic consequences.

Clariden Leu is being integrated into Credit Suisse (CS), and Sarasin is being swallowed up by the Safra Group. Is consolidation in the Swiss private banking industry in full swing? Ray Soudah: Yes, absolutely. The entire sector is basically up for sale, if the price is right and the right structure is made available. There is certainly a lot of pressure to consolidate, but this also stirs up all sorts of emotions.

How do you mean? Soudah: It remains unclear for many banks how they should proceed with untaxed client assets. They must be worried about being prosecuted for this. That is why some banks have apparently blocked part of their clients' undeclared assets in order to pay fines or taxes. Under certain circumstances some financial institutions could lose up to 30% of their deposits. So many institutions are open to the idea of co-operation.

What do you make of the Clariden Leu integration? Soudah: It is a terrible shame that such a good brand is being abandoned. The stock markets think so too: even if the right process is now in place, the integration has so far failed to make any positive impression on Credit Suisse’s share price.

What went wrong? Soudah: Credit Suisse ought to have examined other options earlier, perhaps even a flotation. Clariden Leu ought to have been able to play an active role in the consolidation process and with Credit Suisse's help acquire Sarasin or another bank. Instead, Bank Sarasin is now going to a Brazilian financial group.

But Clariden Leu was already obsolescent, wasn’t it? Soudah: No. Clariden Leu could very well have been marketed to Asia, where Swiss brands with a century-long tradition are highly valued. I am confident that the bank could have broken through in Asia, even though there is no reason why people would not also want to be with CS. Nevertheless, in Clariden Leu we have lost a brand of immeasurable value.

Does the Swiss financial industry risk falling behind? Soudah: Switzerland remains a good, stable brand for high net worth clients from other countries. The Swiss financial centre is still a hub for wealth management, although satellite countries are gaining in importance. There is a lot of action in Asia and the Arab world. I expect that client advisors in Singapore or Hong Kong will soon be earning twice as much as those in Switzerland, where margins will in future be much lower.

Are we on the verge of a major realignment process in the Swiss financial industry? Soudah: Yes, I believe so, because in the past the banks simply did not have to compete; money just flowed to them. Many client advisors have never been truly challenged.

Will Swiss financial institutions manage to achieve the necessary change in mentality? Soudah: I am pessimistic with regard to smaller institutions that manage off-shore assets of CHF 1-3 billion. They will not be able to withstand the rising costs. Larger players with assets under management of CHF 10-20 billion will survive if the crisis does not drag on too long. But if they record losses next year, then things will get tight for them too.

And what about the big banks? Soudah: They have the advantage of economies of scale and their networks. If they get everything right, then they can follow their clients in the growth markets. They will determine whether Swiss private banking can survive at global level.

Ray Soudah, founder of Millenium Associates