



• Swiss Banking

The impact of geopolitical risks on Swiss Banking

An assessment based on predictive analytics and
expert interviews

This study was prepared by **zeb consulting** on behalf of and in cooperation with the **Swiss Bankers Association (SBA)**.

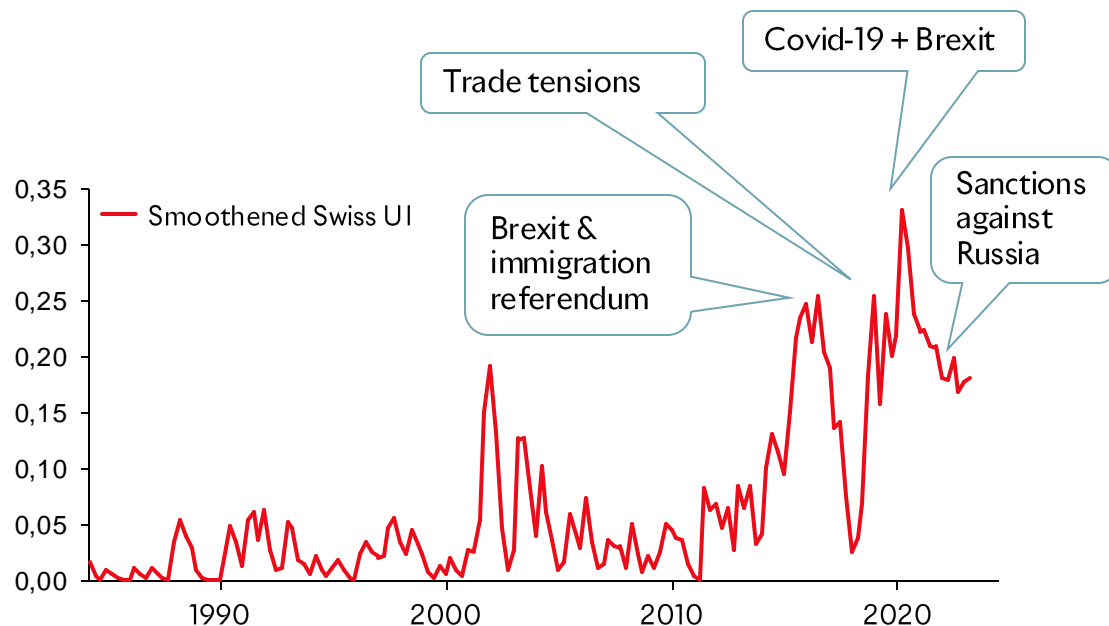
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Introduction and motivation

In an increasingly uncertain world, what's next for Swiss banks?

Historical World Uncertainty Index¹⁾ (WUI) for Switzerland



1) The WUI restricted to events and threats reported for Switzerland between 1984 and 2024. The WUI denotes the number of times "uncertain" (or a variant thereof) is mentioned in EIU country reports per thousand words. A higher number means higher uncertainty, and vice versa. The uncertainty index has risen fivefold, from an average of 0.07 in the 1950s to values >0.30 since Brexit and the COVID pandemic. <https://worlduncertaintyindex.com>

Motivation for this study

The current geopolitical situation is becoming increasingly uncertain. Geopolitical threats and actions are influencing financial markets, particularly affecting Swiss banks.

- **What** are the geopolitical risks, and which of their impacts and opportunities are most relevant for Swiss banks and the financial community in general?
- Specifically, how do these risks affect different **Swiss banking segments**, from retail and wealth management to asset management and corporate banking?
- **How** can these geopolitical factors and impacts be identified and **measured**?
- How can **Swiss banks** adapt and react to these impacts?

The Swiss Bankers Association (SBA) and zeb Consulting (one of the leading European management consulting firms with an exclusive focus on financial services) have joined forces to answer the above questions using a new, unique, highly analytical, and fact-driven approach, combining AI, cluster analysis, and expert interviews.



Norman J. Karrer
Managing Partner
zeb Schweiz



Dr. August Benz
Deputy CEO
Swiss Bankers Association SBA

Content



Findings and
recommendations



Key findings in detail



The way forward



Findings and recommendations

Rationale

Why Swiss banks need a comprehensive and fact-based study on geopolitical risks

Urgency

Beim Kriegsrisiko ist den Finanzmärkten nicht zu trauen

Die Märkte zeigen sich von den zahlreichen geopolitischen Krisen erstaunlich unbeeindruckt. Doch die Geschichte zeigt, wie trügerisch die Ruhe sein kann.

Handelsblatt, February 2024

Nur weil man dem Tod zweimal ein Schnippchen schlug, ist man nicht unsterblich: die gefährliche Selbstzufriedenheit der Banken

Die Schweizer Finanzbranche hat die CS-Krise unversehrt überstanden. Dennoch droht den Banken ein schleichender Bedeutungsverlust: Die Schweiz liegt auf dem falschen Kontinent.

NZZ, June 2024

Dimon Warns of 'Most Dangerous Time' as Banks Report Big Profits

JPMorgan Chase, Wells Fargo and Citigroup said that consumers continued to borrow and spend, but their chiefs warned that geopolitical risks were intensifying.

- New York Times, October 2023

EZB fürchtet neue Bankenrisiken

Die Bankenaufseher der Europäischen Zentralbank fordern Großbanken auf, sich besser gegen globale Gefahren zu wappnen. „Cyber-Risiken, Klima- und Umweltrisiken oder geopolitische Risiken haben an Intensität zugenommen“, sagte [EZE](#)-Bankenaufsichtschefin Claudia Buch zur Eröffnung einer Notenbankkonferenz.

Süddeutsche Zeitung, February 2024

Federal Reserve warns of growing geopolitical risks to global financial system

US central bank says Middle East conflict and war in Ukraine threaten 'spillovers' to markets

- Financial Times, October 2023

Die Finanzmärkte reagieren mit einem Schulterzucken auf die Eskalation im Nahen Osten, ein Experte sagt warnend: «Die Märkte unterschätzen die Risiken massiv»

NZZ, October 2023

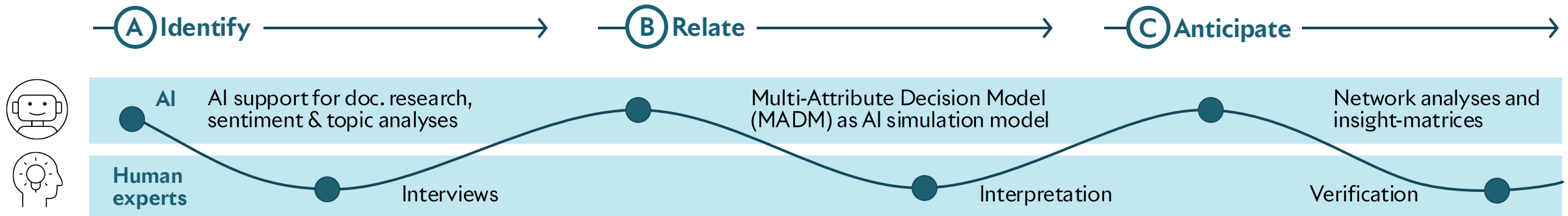
Need for clarity and academic rigor

- The term **geopolitical and macro risk** describes those risks that originate from global developments, such as (but not restricted to) risks to banks' business models from armed conflicts.
- What is important when assessing the impact of such risks:
 - There are hundreds of geopolitically significant acts and threats every day. Which are relevant?
 - Risk factors are not isolated but highly interrelated. An analysis of clusters, rather than isolated factors, is needed.
 - The impact of risk clusters on business models must be examined in short-, mid-, and long-term perspectives.
- Neither a simple Value-at-Risk model nor any of the current standard approaches to capture this risk will suffice – **a new approach** is called for.
- We have therefore **combined document analyses, AI models, and senior bankers' expertise** in this study to draw conclusions about what is important for Swiss banks to address geopolitical and macro risks.

Fact-based approach

Three-phased data-driven in-depth analysis, with about 1'980'000 data points assessed

Deep-dive



Identify relevant macro risk key aspects

- **More than 130 relevant publications** analyzed by AI and human experts
- **22 interviews** conducted with senior bankers, researchers, and other experts
- **Fundamental difference** between information found in documents and feedback from senior bankers; both perspectives needed, since the bankers' view is not represented well in scientific publications.

Relate among each other and with business model

- **38 expert evaluations** of interrelations between relevant macro risks and their **impact on bank's business models** as well as rating of their strength
- **10,400 interrelations** between risk factors (combination of expert ratings) calculated and integrated into an AI-based network / cluster model

Anticipate business impacts from relationship model

- Calculation of **impact matrices** for 6 business models in 3 time frames based on a **dynamic simulation model** (i.e., 34 risk factors with 40 loops and 150 interrelations)
- Discussion of results with small group of selected senior bankers to **re-evaluate the findings**

Main findings

34 risk factors identified and grouped by impact on Swiss banks into relevant key clusters

[See chapter 2 for details](#)



34 geopolitical risk factors identified and analysed from a Swiss perspective

The risk factors are categorized into four equally important clusters:

- 1 • Two geopolitical clusters: international conflicts and realignment of current world (trading) order.
- Two contextual clusters: impact on customers and banking employees and specific implications on Swiss banks.

2

Swiss Banking: high-risk network needs 'safe haven'

Swiss banks face volatile conditions due to current geopolitical threats forming a network of high interdependencies and reinforcing effects. Therefore, the stability of banks increasingly relies on Switzerland's position as a 'safe haven'.

3

Sanctions are central and need clarification

The analysis shows that positioning towards sanctions is the single most important factor. This underscores the need for Switzerland and Swiss-based banks to establish a clear role in a multipolar, power-oriented world order. A clear definition of neutrality is also required.

4

Risks and opportunities for Swiss Banking business models

Predictive analytics suggests that Large Corporate Banking is likely to be the most severely impacted, followed by Corporate/SME Banking and Asset Management. Wealth Management and Asset Management may partly benefit.

5

Challenging but comparably and relatively safe in the long-run

Simulation of impact factors indicates that geopolitical threats will diminish in importance for Swiss banks over time indicating a comparably high adaptability. Customer trust and public debt remain consistently important issues, while new competitors may challenge the position of Swiss banks in the future.

Interpretation of results

Sanctions and Neutrality: Key to Swiss banks' competitiveness going forward



- Out of the 34 identified risk factors, several are particularly pertinent for Swiss Banking, with „increasing need to position towards sanctions“ emerging as the most significant. However, since most other factors related to major geopolitical shifts and international conflicts are interconnected, **it is crucial to consider the entire risk landscape** to draw appropriate conclusions for Swiss Banking.
- The broader discussion extends beyond geopolitical developments and Switzerland's stance on sanctions. It is about **the overall competitiveness of Swiss banks** in an international context.
- This explains why other current threats were less emphasized by experts, while factors like “stamp duty reduces competitiveness”, “increasing tariffs and trade barriers”, “AI developments” or “increasing regulatory pressure” were identified in the analysis as **highly significant risk factors sensitive to changes across all business sectors**.
- While most experts rated digitalization, particularly AI, as having a positive impact on the revenue of business models, it is also clear that Swiss Banking and its sectors need to maintain their relatively high competitiveness compared to other financial centres and international competitors. This includes **digital innovation, especially (generative) AI**, which may lower entry barriers for new market entrants and increase margin and price pressures. To stay competitive, the established players must invest heavily in innovation. The focus should be on **maintaining and enhancing the relative competitiveness** of Swiss banks and banking models.
- **The good news:** Our simulation clearly shows that despite the significant relevance of these risk factors for the entire system and particular banking sectors and the strong negative impact some factors can have in the short to medium term, the Swiss Banking system has the capacity to adapt and recover. Overall, the **Swiss banking system appears rather resilient** to geopolitical risks **in the long run**.
- **The communication challenge:** The analysis also shows that there is a stark divergence between geopolitical and macro risks covered by public documents and those deemed critical by senior banking experts. Relevant knowledge remains largely confined to expert circles and is insufficiently represented in public discourse.

Recommendations

Active role in dealing with sanctions, policy shaping, and tech adoption is crucial

Switzerland needs a proactive approach to manage sanctions going forward, and banks need to play an active role in shaping these policies

Switzerland and the Swiss banks need to proactively address the issue of sanctions moving forward. The geopolitical “turmoil” and global bloc-building are likely to persist, and so sanctions imposed by the West on other countries are expected to remain in place. Given Switzerland’s position within the Western bloc, regardless of its neutrality status or definition, Swiss policymakers need to devise a strategic approach to manage sanctions effectively, ensuring the country’s continued reliability as a ‘safe (banking) haven’. Banks also have a crucial role to play in influencing and shaping the sanctions policy.

Banks, including national players, should develop a geopolitical risk framework and scenario analysis

The comprehensive analysis in chapter 2 shows how the different banking sectors are affected differently by the various risk factors. For instance, national wealth management experiences overall positive effects, while corporate banking faces in total negative impacts. Since the “devil is in the detail”, it is essential for each bank to understand how these factors impact their revenues, costs and risks. The recommendation is that banks build their own “Geopolitical risk framework and scenario analysis” to navigate these complexities. Although national corporate banking players, which include many cantonal banks, are much less affected overall, they cannot ignore geopolitical risks due to their significant indirect effects on business operations.

Focus on competitiveness in a global market also by embracing technology and ensuring appropriate regulation

The risk factor analysis highlights that technology and digitalization, particularly Artificial Intelligence, will have a significant long-term impact on banks. It is a clear threat for the competitiveness of those (Swiss) banks not embracing it. However, it is also an opportunity for banks to test and adapt new technologies in order to stay competitive in the global market, especially against technology-driven newcomers. Furthermore, appropriate Swiss regulation is crucial in maintaining the relative competitiveness of Swiss Banking and banking models.



Key findings in detail

Content

Deep dive into the identified key clusters and main insights¹⁾

1 34 geopolitical risk factors identified and analysed from a Swiss perspective page 13-14

2 Swiss Banking: High-risk network needs 'safe haven' page 15

3 Sanctions are a focal point and need clarification page 16

4 Risks and opportunities for Swiss Banking business models page 17-21

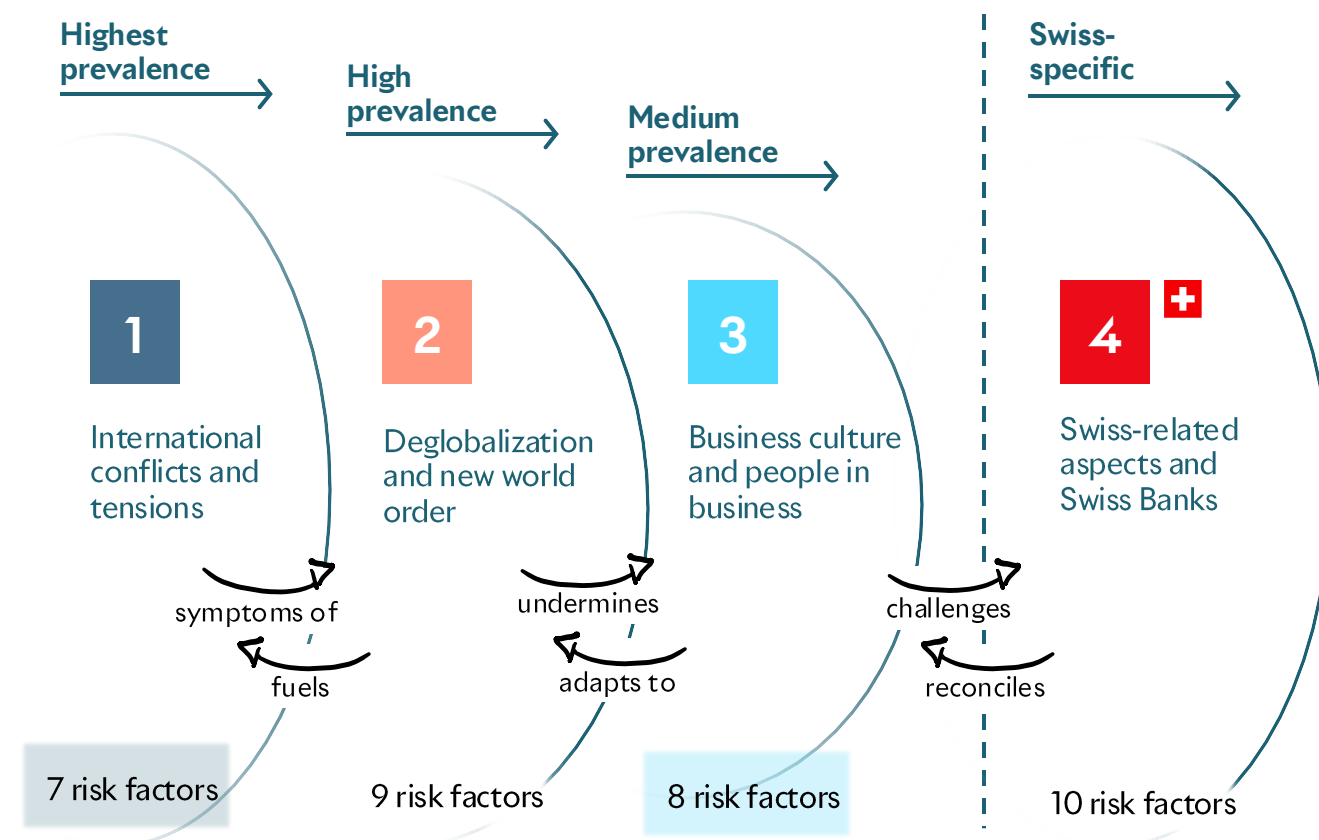
5 Challenging but comparably and relatively safe in the long run page 22-24

¹⁾ Further details and data available upon request

Risk categories

Four distinct categories, each comprising several interlinked risk factors, identified

Categorized topics sorted by prevalence



Lessons learned

Geopolitical risks extend beyond conflicts

- Current conflicts are the most frequently cited factors.
- But numerous other factors also affect business and specific aspects of Swiss banks.

Geopolitical risks as a symptom of bigger changes

- Conflicts reflect a return to power politics and the emergence of a multipolar world.
- These changes impact the business climate and the behavior of customers and employees.

Competitiveness is key

- According to experts, it is not the individual conflicts (7 factors) and their responses (9 factors) that are crucial, but rather ...
- ... the ability of Swiss banks to maintain a competitive business setup (8 factors) as well as a well-functioning political environment (10 factors).

Risk factors

The current state of thinking on geopolitical risks is represented by 34 risk factors

Deep-dive

International conflicts

1

- 1 | Conflict between **Russia and Ukraine**
- 2 | Intensifying tensions between **Russia and the US**
- 3 | Tensions between the **European continent, Russia, and China**
- 4 | Rising tensions between **China and Taiwan** and its implications for the US
- 5 | Increasing tensions in the **Middle East**
- 6 | Shift from rule-based **bipolar to multipolar** power politics
- 7 | Growing political **influence of China**

Deglobalization and new world order

2

- 8 | **Decreasing US geopolitical support**
- 9 | Looming **US debt crisis**
- 10 | National responses and alliances to global and regional risks fall apart: **end of multilateralism?**
- 11 | **Asian countries** are seen as safe or **tax havens**
- 12 | Increasing level of **competition re. banking products** from overseas, particularly in light of decreasing Swiss USP
- 13 | Increasing **competition in subsidies**, especially in industry subsidies (e.g., Inflation Reduction Act in the USA)
- 14 | **Decline of international institutions** (e.g., WTO) and shift from multilateralism to power politics
- 15 | Increasing need to **position towards sanctions**
- 16 | Higher **volatility in commodity prices**

Business culture and people in business

3

- 17 | Growing influence of **geopolitical conflicts on customers**
- 18 | Increasing **impact of AI** usage on banks' business models
- 19 | Customer values tend to gravitate **towards trust and security** in times of crisis
- 20 | Increasing **lack of skilled employees** for banks in Switzerland
- 21 | **Slow flexibility** / speed of change regarding **business process adjustments**
- 22 | Digital innovation within educational systems **decreases future generations' ability in analytical thinking**
- 23 | AI development will be **controlled by few**
- 24 | **Populistic political shifts**

Swiss-related aspects and Swiss Banks

4

- 25 | **Increasing reg. pressure** in non-level playing field world (e.g. EU ESG taxonomy, etc.)
- 26 | Higher need to address the **question of neutrality**
- 27 | **Stamp duty reduces competitiveness** vs. competitors
- 28 | **Reputational risks increase**
- 29 | Swiss government exhibits a **lack of political assertiveness**
- 30 | Potential loss of the USD predominance increases **pressure on USD-related business models**
- 31 | Adverse **effects of CBDCs** on payments operations and profitability
- 32 | Increased **adherence to sanctions** policies
- 33 | **Friendshoring in capital markets** as a result of weaponization of finance
- 34 | **Increasing tariffs and trade barriers** due to protectionism

Comments

- The identified risks in categories 1 and 2 are directly attributed to expected geopolitical risk, such as the conflict between Russia and Ukraine or the increasing competition in industry subsidies.
- Although less geopolitical in nature, multiple risks were identified around “business culture and people in business”, including omnipresent topics such as the skilled labour shortage in Switzerland.
- Knowing risk factors is interesting, but which ones are most relevant, and how should / can we mitigate them?

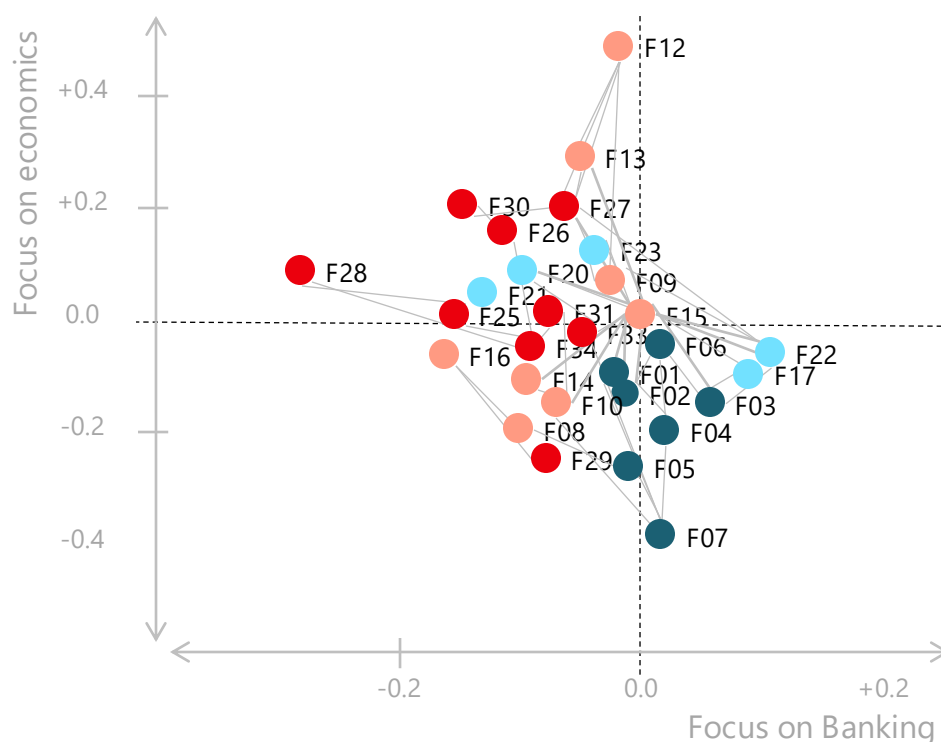
Typology of Swiss banks' situation

The structure of geopolitical risk factors for Swiss Banking is that of a high-risk network

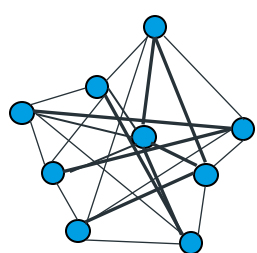
34 risk factors ...

International conflicts	Digitalization and new world order	Business culture and people in business	Swiss-related aspects and Swiss Banks
<ol style="list-style-type: none"> 1. Conflict between Russia and Ukraine 2. Escalating tensions between Europe, Russia, China and the US 3. Escalating tensions between China and Taiwan and its implications for the world 4. Escalating tensions in the Middle East 5. Escalating tensions in the South China Sea 6. Escalating tensions in the Korean Peninsula 7. Escalating tensions in the South China Sea 8. Escalating tensions in the South China Sea 	<ol style="list-style-type: none"> 1. Increasing US geopolitical influence 2. Increasing US geopolitical influence 3. Increasing US geopolitical influence 4. Increasing US geopolitical influence 5. Increasing US geopolitical influence 6. Increasing US geopolitical influence 7. Increasing US geopolitical influence 8. Increasing US geopolitical influence 9. Increasing US geopolitical influence 10. Increasing US geopolitical influence 11. Increasing US geopolitical influence 12. Increasing US geopolitical influence 13. Increasing US geopolitical influence 14. Increasing US geopolitical influence 15. Increasing US geopolitical influence 16. Increasing US geopolitical influence 17. Increasing US geopolitical influence 18. Increasing US geopolitical influence 19. Increasing US geopolitical influence 20. Increasing US geopolitical influence 21. Increasing US geopolitical influence 22. Increasing US geopolitical influence 23. Increasing US geopolitical influence 24. Increasing US geopolitical influence 25. Increasing US geopolitical influence 26. Increasing US geopolitical influence 27. Increasing US geopolitical influence 28. Increasing US geopolitical influence 29. Increasing US geopolitical influence 30. Increasing US geopolitical influence 31. Increasing US geopolitical influence 32. Increasing US geopolitical influence 33. Increasing US geopolitical influence 34. Increasing US geopolitical influence 	<ol style="list-style-type: none"> 1. Increasing US geopolitical influence 2. Increasing US geopolitical influence 3. Increasing US geopolitical influence 4. Increasing US geopolitical influence 5. Increasing US geopolitical influence 6. Increasing US geopolitical influence 7. Increasing US geopolitical influence 8. Increasing US geopolitical influence 9. Increasing US geopolitical influence 10. Increasing US geopolitical influence 11. Increasing US geopolitical influence 12. Increasing US geopolitical influence 13. Increasing US geopolitical influence 14. Increasing US geopolitical influence 15. Increasing US geopolitical influence 16. Increasing US geopolitical influence 17. Increasing US geopolitical influence 18. Increasing US geopolitical influence 19. Increasing US geopolitical influence 20. Increasing US geopolitical influence 21. Increasing US geopolitical influence 22. Increasing US geopolitical influence 23. Increasing US geopolitical influence 24. Increasing US geopolitical influence 25. Increasing US geopolitical influence 26. Increasing US geopolitical influence 27. Increasing US geopolitical influence 28. Increasing US geopolitical influence 29. Increasing US geopolitical influence 30. Increasing US geopolitical influence 31. Increasing US geopolitical influence 32. Increasing US geopolitical influence 33. Increasing US geopolitical influence 34. Increasing US geopolitical influence 	<ol style="list-style-type: none"> 1. Increasing US geopolitical influence 2. Increasing US geopolitical influence 3. Increasing US geopolitical influence 4. Increasing US geopolitical influence 5. Increasing US geopolitical influence 6. Increasing US geopolitical influence 7. Increasing US geopolitical influence 8. Increasing US geopolitical influence 9. Increasing US geopolitical influence 10. Increasing US geopolitical influence 11. Increasing US geopolitical influence 12. Increasing US geopolitical influence 13. Increasing US geopolitical influence 14. Increasing US geopolitical influence 15. Increasing US geopolitical influence 16. Increasing US geopolitical influence 17. Increasing US geopolitical influence 18. Increasing US geopolitical influence 19. Increasing US geopolitical influence 20. Increasing US geopolitical influence 21. Increasing US geopolitical influence 22. Increasing US geopolitical influence 23. Increasing US geopolitical influence 24. Increasing US geopolitical influence 25. Increasing US geopolitical influence 26. Increasing US geopolitical influence 27. Increasing US geopolitical influence 28. Increasing US geopolitical influence 29. Increasing US geopolitical influence 30. Increasing US geopolitical influence 31. Increasing US geopolitical influence 32. Increasing US geopolitical influence 33. Increasing US geopolitical influence 34. Increasing US geopolitical influence

... show a "high-risk network-based system" of risk factors



... analysed concerning connectivity¹⁾ ...



Comments

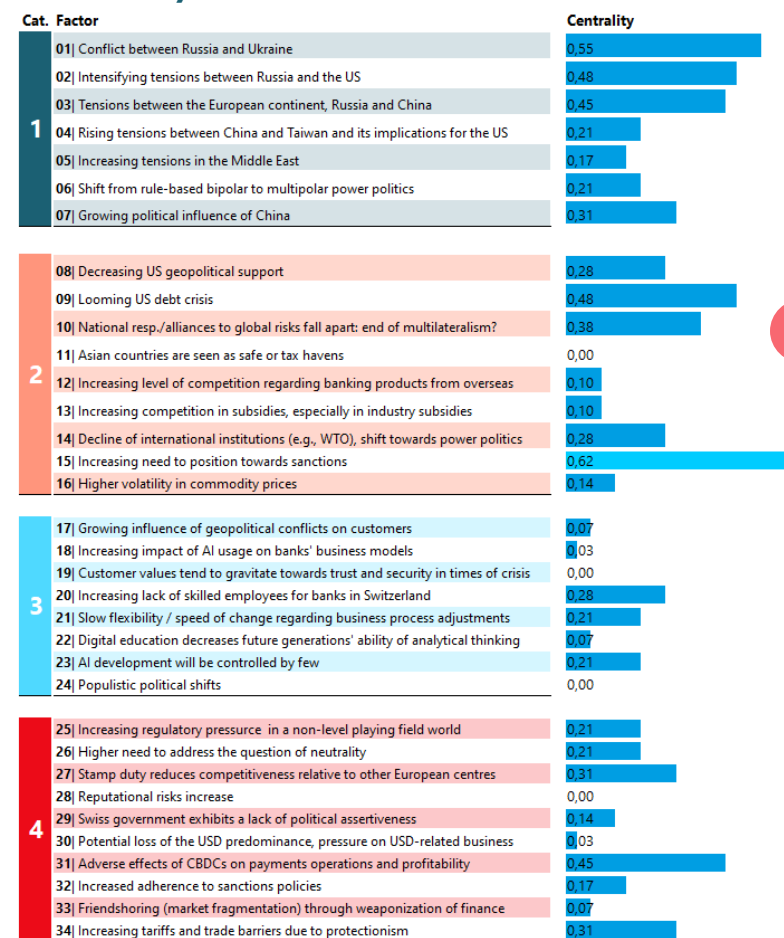
- The importance of the individual risk factors was assessed using the statistical measure of "centrality": The more central a risk factor is in the network, the more important it currently is.
- **The network structure of geopolitical risk factors of Swiss Banking exhibits a high-risk network:**
 - Few highly connected factors have a strong influence on almost all other factors – the correlation between all risk factors shows a strong mutual influence.
 - This makes the network unstable. It can quickly shift from one (relatively calm economic situation) to another (economic crisis).
 - The high density and strength of the network indicate a high energy", i.e. a higher probability of strong swings.
- **So what?** Swiss banks need to be aware of the vulnerability of the current setup and its likelihood of being "rattled", i.e., a war in Taiwan would ultimately lead to significant impacts on global supply chains and AuMs across the globe, affecting corporate or international wealth management (example).

1) See appendix for definition of connectivity| Risk factors enumerated according to previous slide

Central risk factors

Among top10 risk factors “sanctions” most critical – Needs to be addressed with high priority

Centrality of risk factors was measured ...



... and top10 risk factors were singled out²⁾

#	Factor	Centrality	Priority
15	Positioning towards sanctions	0.62	1
01	Conflict b/w Russia and Ukraine	0.55	2
02	Tensions b/w Russia and the US	0.48	3
09	Looming US debt crisis	0.48	4
03	Tensions b/w EU, Russia & China	0.45	5
31	Adverse effects of CBDCs	0.45	6
10	End of Multilateralism	0.38	7
07	Growing pol. influence of China	0.31	8
34	Tariffs & trade barriers	0.31	9
27	Swiss stamp duty	0.31	10

Comments

- Centrality means that the factors are very important and interlinked.¹⁾
- The risk factor “**Positioning towards sanctions**” is the single most important geopolitical / macro topic for Swiss Banking:
 - Imminent conflicts tend to dominate thoughts regarding geopolitics, but ...
 - ... being prepared to face economic and regulatory challenges needs to be a key goal for Swiss banks
- The other risk factors can be clustered in two groups:
 - Imminent geopolitical dangers
 - More general threats to Swiss competitiveness

1) See appendix for definition of centrality | 2) Measured in terms of centrality and their interconnectedness to other factors

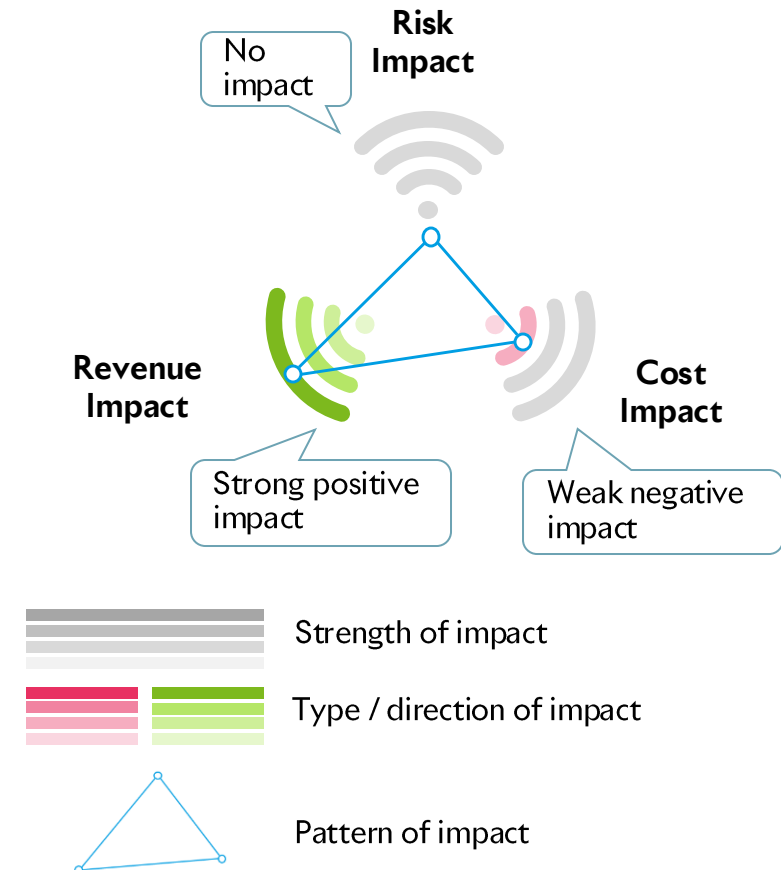
Impact analysis: “How to read”

Assessment of expected impact of these risks on revenue, cost and risk by business model

Approach and terminology

- Whilst previous analyses highlighted the overall importance of individual risk factors across all business models, we asked senior banking experts to assess the impacts for specific business models, focusing on revenues, costs, and risks.
- All expert ratings were aggregated into a cluster model¹⁾ to assess the impact on revenues, costs, and risks for each of the following six business models:
 - **Large Corporate Banking – International**
 - **Corporate/SME Banking – National**
 - **National Wealth Management** (Swiss Onshore Banking)
 - **International Wealth Management** (Cross-Border and international booking centres of Swiss Wealth Managers)
 - **Asset Management**
 - **Retail Banking**
- The findings represent the individual opinions of senior banking experts; however, additional analyses revealed that opinions were highly aligned, with no “outlier” detected.
- Triangles on the right-hand side show the net result: the proportion of experts who perceive a 'beneficial' effect minus those who see a 'non-beneficial' effect.²⁾

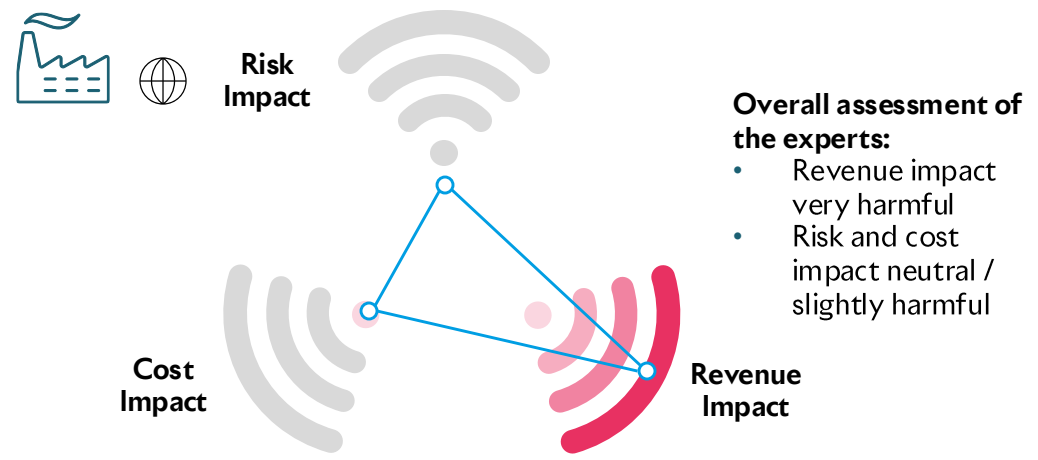
Interpretation of graphs



1) Details see appendix | 2) We adjusted the calculation of each impact by the interrelationships between the factors, so that common influences are not counted multiple times; very central factors are not necessarily (more) influential because they correlate with all other factors

Impact on Corporate Banking – International and National

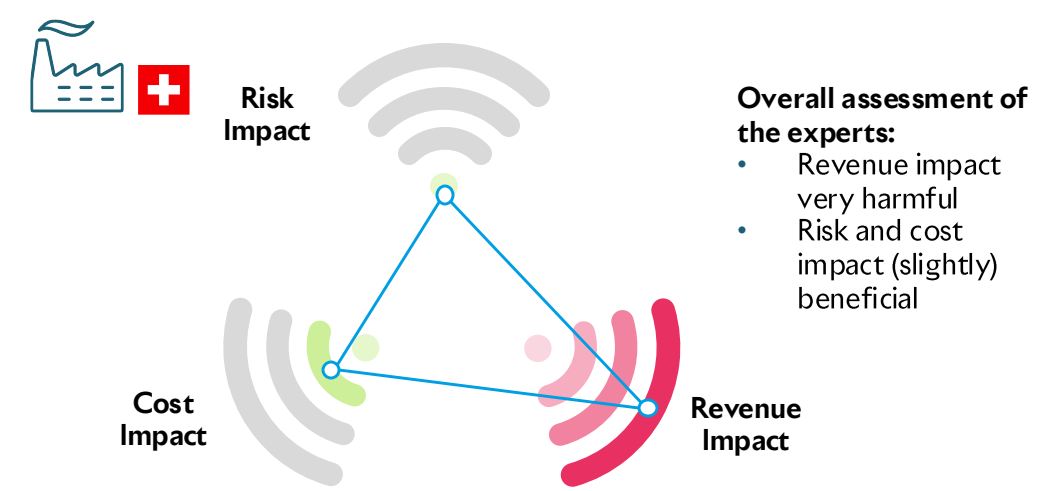
Global exposure of underlying business is harmful to both business models



Large Corporate Banking – International

The assessment shows that Large Corporate Banking – International is impacted harmfully overall, especially regarding revenues. Why?

- Geopolitical tensions can disrupt international trade, global supply chains, and investment flows, leading to a decrease in demand for cross-border corporate banking services.
- Increased regulatory scrutiny and compliance costs can arise from managing international operations in volatile regions, elevating operational expenses.
- Exposure to politically and economically unstable regions might increase credit and operational risks, incl. risk of defaults and disruptions in service.



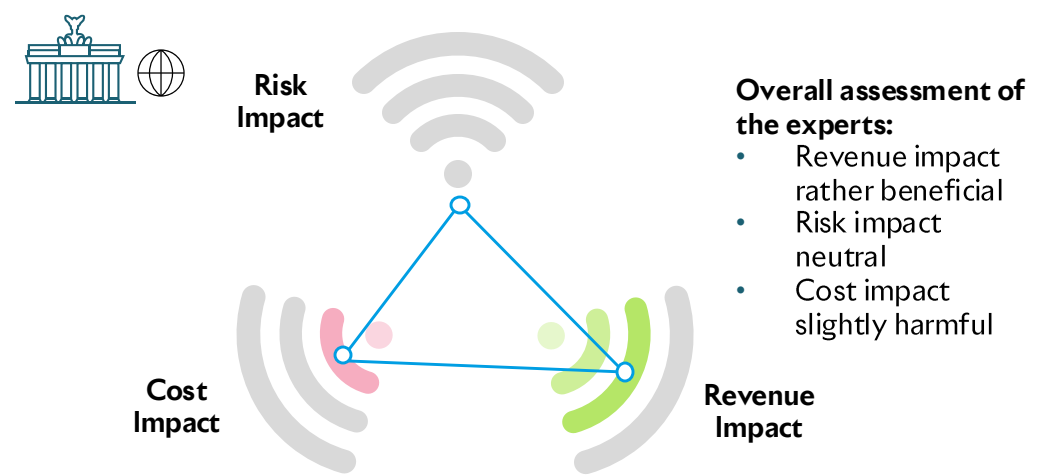
Corporate/SME Banking – National

While the assessment shows that the impact on revenues is also harmful, the impact on costs and risks is even slightly beneficial. Why?

- Domestic corporations may reduce borrowing and investment due to economic uncertainty and geopolitical instability, leading to a decrease in corporate banking revenue. Also, the impact of geopolitical tensions explained above is harmful to local industries and, therefore, SME banking.
- Reduced activity levels are expected to lower operational costs, as fewer resources are needed to manage corporate accounts and transactions.
- Lower business activity may result in fewer loans and reduced exposure to default risks, thus decreasing overall banking risks.

Impact on Wealth Management – International and National

International WM faces mixed impact, while National WM is likely to benefit (net effect)

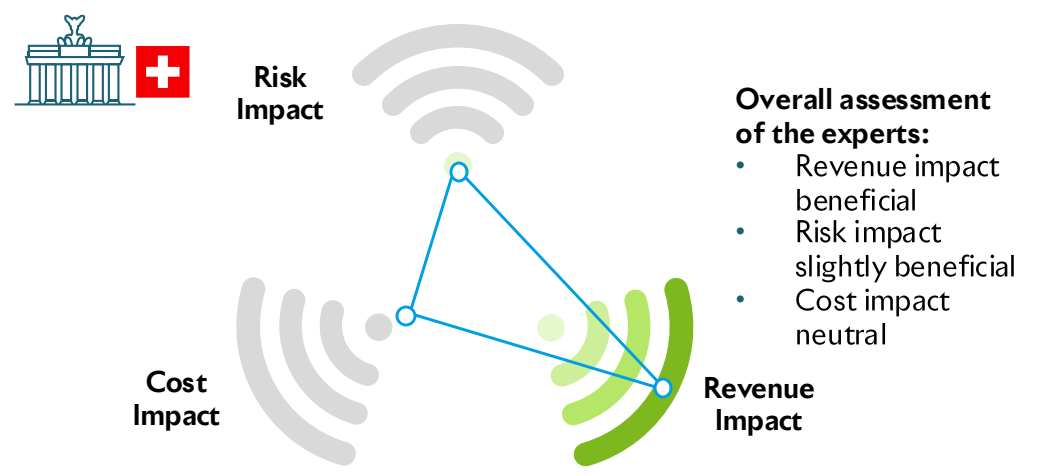


International Wealth Management

The assessment shows that the overall impact on international WM is harmful to neutral; harmful especially regarding costs, slightly beneficial on revenues. Why?

- Wealthy clients from regions experiencing instability may move assets to Swiss private banks¹⁾ seeking ‘safe havens’, thus increasing revenue. However, this effect is only slightly beneficial overall because attractive clients from the global south may react differently given the current Swiss sanctions policy and the interpretation of its neutrality. Nevertheless, clients e.g. in Western Europe may still consider Switzerland a ‘safe haven’.
- The cost of managing assets from diverse international clients, incl. those from more “risky” countries (AML, sanctions, etc.), involves higher compliance costs, especially in a multipolar world with varied regulations.
- A robust regulatory framework and the reputation for stability of Swiss banks help maintain consistent risk levels despite geopolitical changes.

Despite the positive effects of digitalization/AI on efficiency, the number of cyberattacks on Swiss banks (and the costs to protect against them) is expected to grow significantly, as countries not economically tied to Switzerland (e.g., Russia) are expected to increasingly use cyberattacks in the future



National Wealth Management

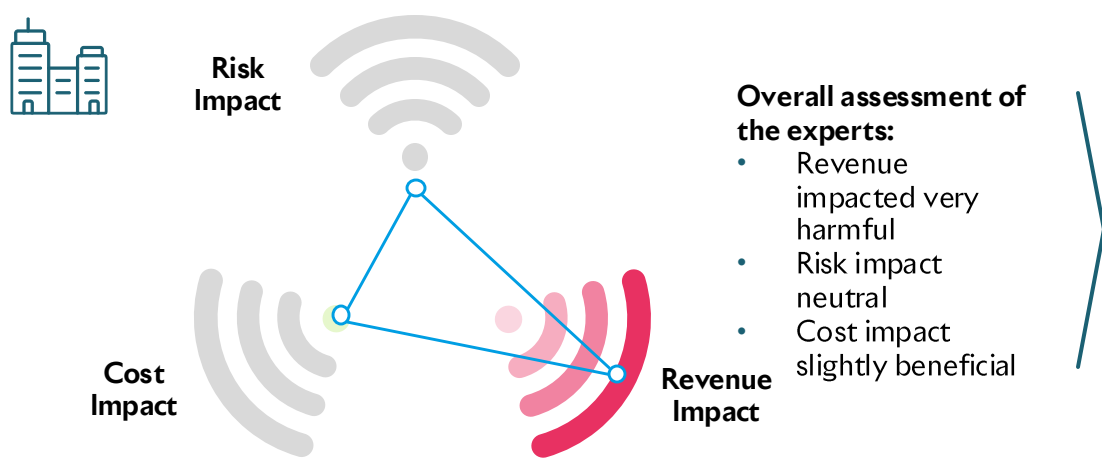
The assessment shows that WM for national clients could be beneficially impacted in all three areas. Why is this, and why is it so different from international WM?

- Revenues are beneficially impacted because national Private Banks (from independent ones to PB-arms of Cantonal Banks) provide stability and security in an uncertain world, increasing demand for WM services. As this is a relative assessment, it does not mean that national revenues will increase more than international ones in absolute terms.
- Operational efficiencies and a stable domestic market may help lower costs nationally.
- For Swiss businesses within Switzerland, the relatively stable domestic environment results in less exposure to geopolitical risks in the short term; however, long-term clients might reconsider.

1) booking centre CH or international booking centres of SwissPrivate Banks

Impact on Asset Management and Retail Banking

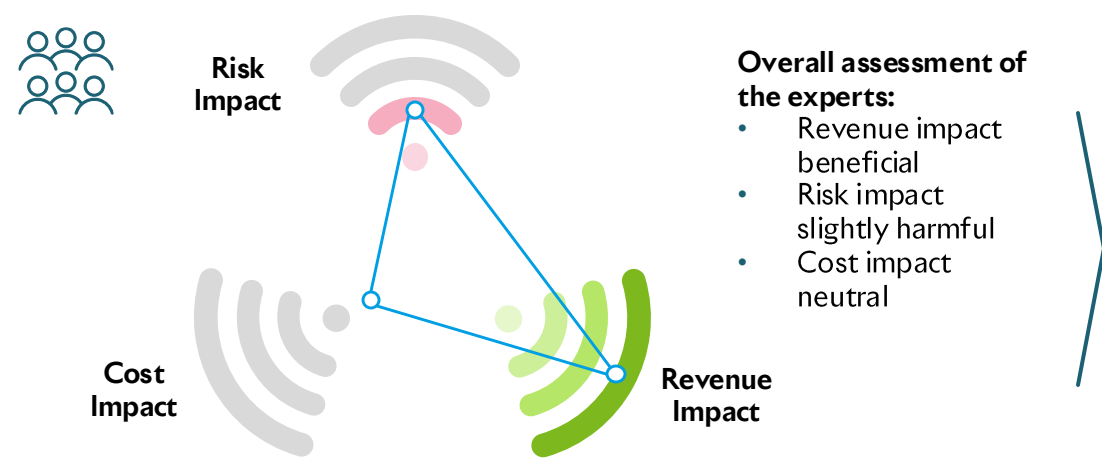
Asset Management is adversely affected, while Retail Banking overall stands to benefit



Asset Management

The assessment shows that Asset Management is overall impacted harmfully, especially regarding revenues. Why?

- The negative impact on revenues is influenced by various effects caused by risk factors such as reduced market asset valuations, reduced risk / investment appetite (in certain regions/industries), trade issues negatively impacting (the valuation of) companies in which AMs invest, regulations and sanctions preventing business in certain areas / reducing inflows, etc.
- Although an overall beneficial effect on costs is expected by streamlining operations and focusing on cost-efficiency (incl. applying digitalization/AI) in response to lower revenues, the cost benefit is not expected to outweigh the harmful impact on revenues.
- By reducing exposure to high-risk markets and focusing on safer investments, asset management firms can mitigate risks associated with geopolitical instability to some extent.



Retail Banking

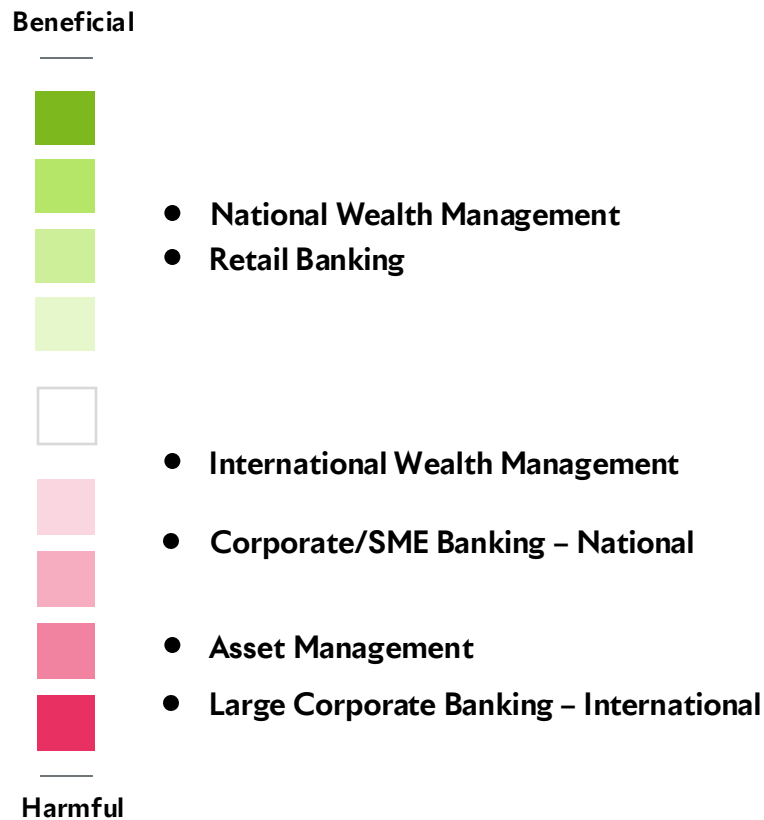
The assessment shows that Swiss Retail Banking is overall impacted beneficially to neutral, especially revenues. Why?

- Similar to National Wealth Management, the increased demand for secure, stable banking services during times of geopolitical uncertainty is expected to boost retail banking revenue, especially with local national and partly state-owned banks, as customers often prioritize savings and basic banking services with nationally oriented banks.
- Retail banking operations are less affected by international geopolitical risks, maintaining stable or improved operational costs.
- Economic pressures and potential shifts in consumer behaviour due to geopolitical tensions can increase credit risk and default rates among retail customers.

Impact: Summary

Clear differences on extent of impact across business models

Impact across all business models in comparison



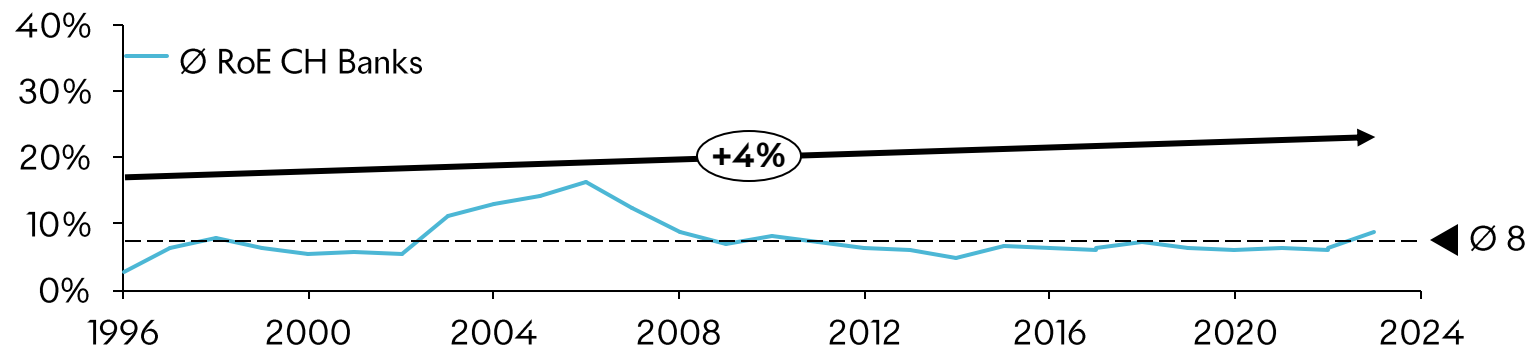
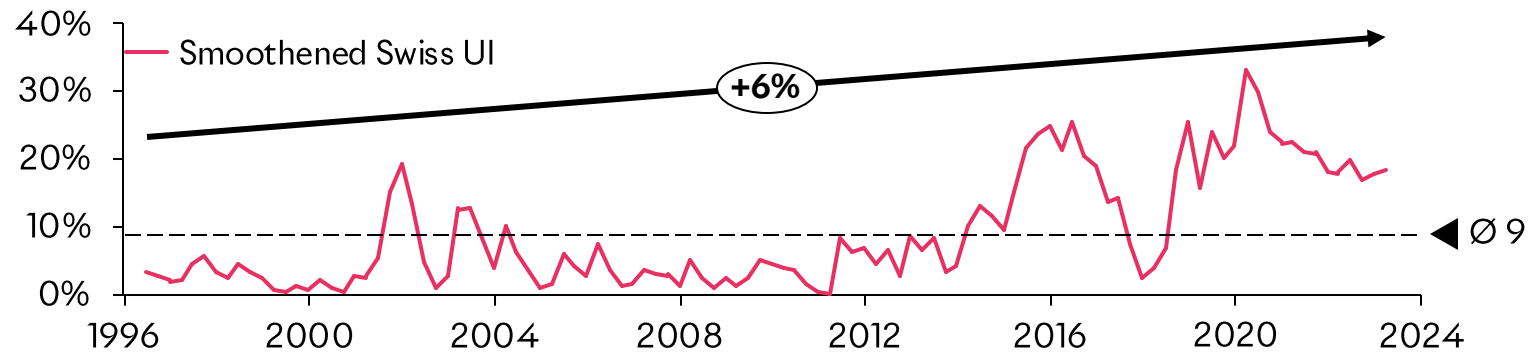
Comments

- Overall, the impact on most business models, esp. international ones like “Large Corporate Banking – International”, “Asset management”, and “International Wealth Management” is harmful or harmful to neutral.
 - Although the relevant risk factors partly differentiate, the models with international exposure are – unsurprisingly – more affected by geopolitical developments.
 - Hence, they are also more harmfully impacted.
- Despite being a national model, “Corporate/ SME Banking – National” may also be adversely impacted – this is largely because their client base is vulnerable to international supply chains and demand trends, and therefore also affected by geopolitical developments.
- Only National Wealth Management and Retail Banking may benefit from the developments around the geopolitical risk factors, largely because they are less affected by international developments / clients and are seen as ‘safe and secure havens’ in times of crisis.
- Irrespective of the business model, a beneficial impact on revenues can generally be observed for factors that develop relatively independently of current conflicts, such as international competition, customer behaviour, and technical developments/AI.

Historical analysis

Swiss banking sector has shown long-term resilience so far (i.e. adaptability to risks)

Historical analysis of all Swiss banks: UI vs. RoE¹⁾



- Even though the uncertainty indexes rose to values >30% between Brexit and the COVID pandemic, the profitability of Swiss Banks, measured by the average Return on Equity (RoE), **has remained stable over the years.**
- Statistical analyses show a low negative correlation between WUI and average Swiss Banking RoE, indicating that there is no close causality.
- **What this means is that:**
 - In the past, Swiss banks have demonstrated adaptability to increasing geopolitical and macro risks.
 - Our previous analysis suggests that there is no reason to doubt that Swiss banks will continue to adapt to geopolitical and macro risks in the future as well.
- However, this **adaptability is not guaranteed** and will require decisive action.

¹⁾ Including all Swiss banks with available RoE information. Source: publicly available financial statements & zeb.research
 WUI: World Uncertainty Index; Swiss Uncertainty Index
 RoE: Return on Equity in percentage

Predictive analysis: “How to read”

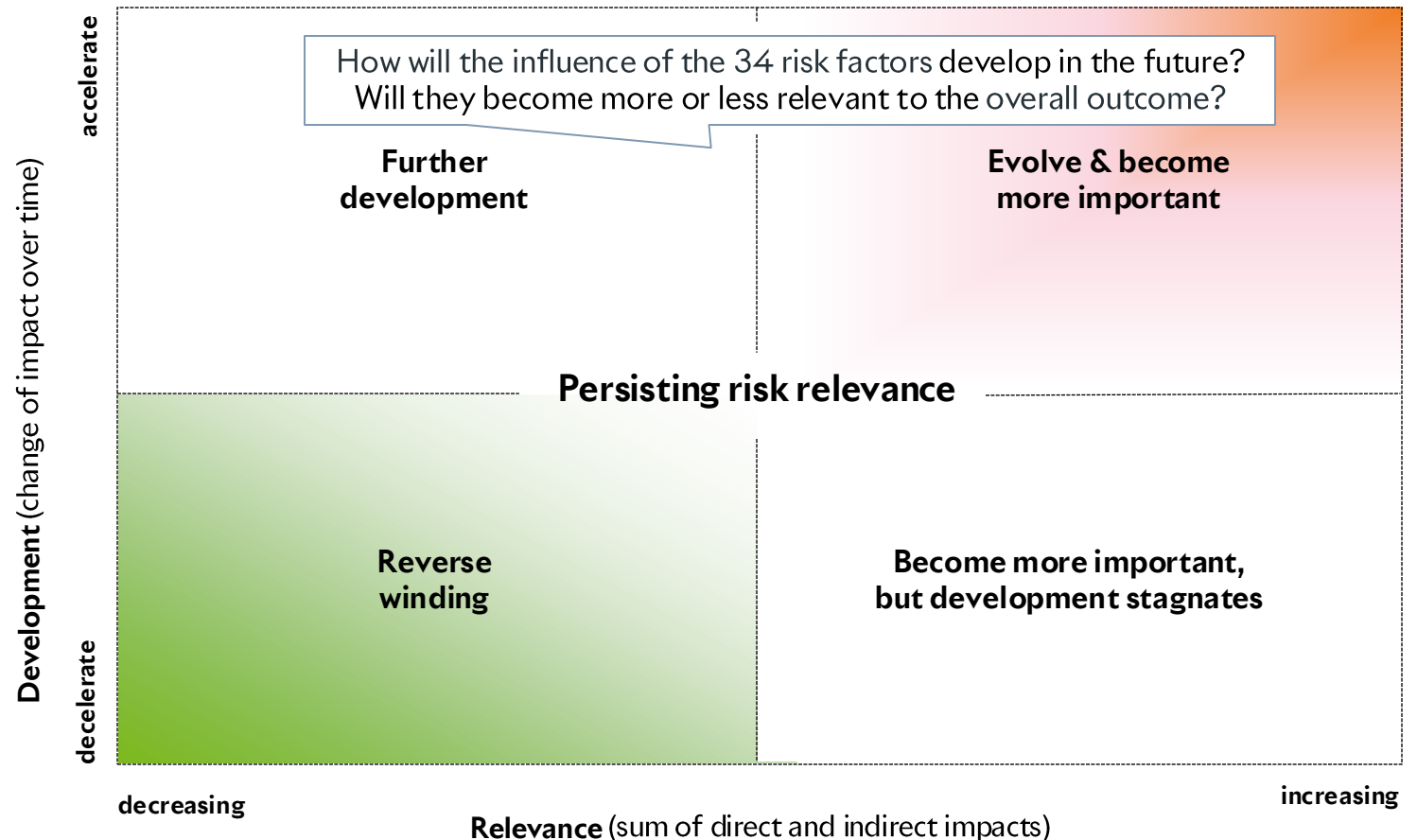
What does the future hold? Simulation of all risk factors across different time spans

Approach and terminology

- We used the **multi-attribute decision model (MADM)**¹⁾ to simulate and predict the development of the identified risk factors over time.
- At the core of the model are **revenue, cost, and risk**, which affect the overall profit. These elements are **connected to 34 geopolitical risk factors**.
- These **connections** are **weighted** by values determined **by external experts’ opinions**.
- **Reinforcing & balancing loops**²⁾ are implemented because risks can either increase or decrease each other’s effects (as suggested by **experts**).
- The **loops** are run for short (5 cycles), medium (15 cycles), and long-term (30 cycles) periods to simulate how these interactions affect the bank’s overall situation.
- **Interdependencies** between factors are considered based on feedback from senior bankers – there is no explicit one-sided modelling.
- We obtain **insight matrices** that indicate the changing importance of each risk factor over time. These matrices help evaluate how adaptable the banks are to each simulated factor.



How to read the predictive simulation results matrix



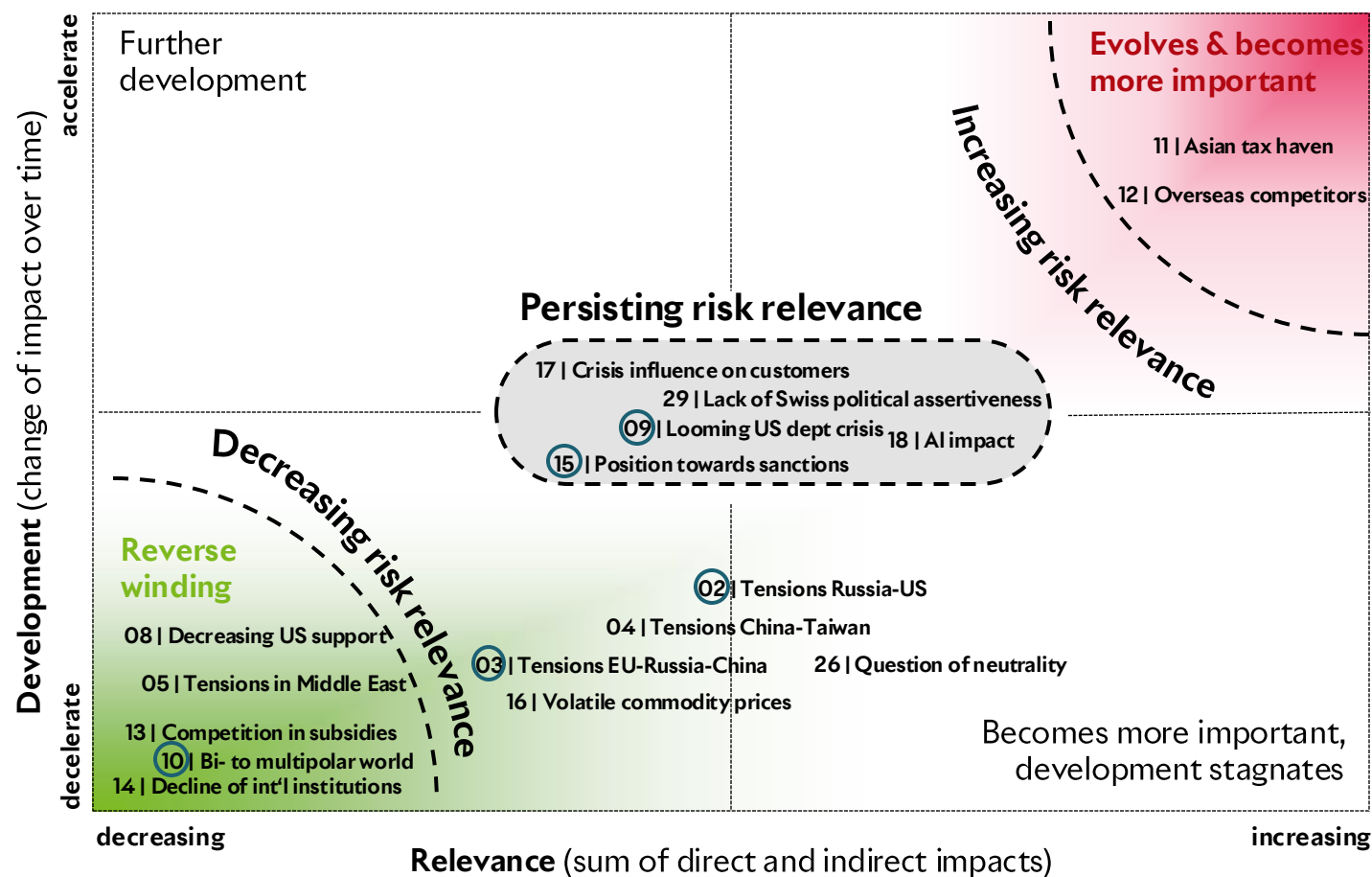
1) See appendix for definition of multi-attributed decision model (MADM) | 2) See appendix for definition of reinforcing & balancing loops

Predictive analysis: Findings

Swiss banks are expected to remain resilient, but only if key risks are given due attention

MADM analysis

Only a selection of the 34 geopolitical risks and the long-term perspective shown here



- **“Increasing”** means the specific risk factor gains in importance over time.
 - Two risk factors stick out: Asian countries (tax haven) and competitors from overseas are undergoing dynamic development that may challenge current business models of Swiss banks more in the future.
 - Both factors did not score very high in the as-is analysis, but they might become more relevant in the long term (and need to be monitored by Swiss banks).
- **“Decreasing”** means these risk factors are of paramount relevance today but will become less important in the future – many current crises / geopolitical risk factors fall into this category in the long term.
- **“Persisting”** means the risk factor’s importance does not significantly change over time but remains important.
 - The position towards sanctions, a looming US debt crisis, and the impact of AI on banks’ businesses are equally important now and in the future.

○ central risk factors



The way forward

Next steps

Key recommendations to be discussed with stakeholders

1 Switzerland needs a proactive approach to deal with sanctions in the future ... and banks need to take an active role in shaping policies

2 Geopolitical risk framework and scenario analysis are required by banks, including national players

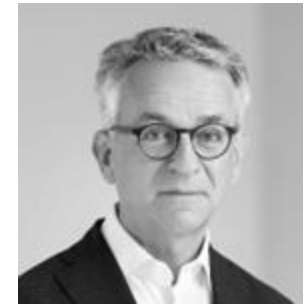
3 Focus on competitiveness in a global market by embracing technology and appropriate regulation

**Contact us
for further
discussions**



Norman J. Karrer
Partner zeb Group

Phone +41 44 560 97 71
Norman.Karrer@zeb.ch
Zürich



Dr. August Benz
Deputy CEO SBA

Phone +41 58 330 62 27
August.Benz@sba.ch
Basel



Appendix

Glossary and explanation of deployed models / approaches

Selected definitions

Asset Management	Asset management is a financial service that involves managing investments on behalf of others
CBDC	Central bank digital currency, a blockchain-based digital form of fiat currency issued and managed by a central bank
Centrality of risk factors	Statistical measure representing the importance of risk factors (highest centrality: highest relevance). Centrality can be formally conceived as involvement in the cohesiveness of the network
Connectivity	Connectivity is a measure of how strongly the nodes in a network are linked together. It specifically refers to the minimum number of nodes that must be removed to disconnect the network into separate, isolated parts.
Corp./SME Banking – National	Specific division of the Bank that offers various banking solutions to Swiss focused corporations as well as to small and medium-sized enterprises (SME's)
ESG	ESG stands for environmental, social and governance and refers to a set of standards used to measure an organization's environmental and social impact
Friendshoring	Friendshoring is a deliberate policy decision to encourage trade with friendly neighbours at a time when geopolitical tensions are increasing around the world
Geopolitical threats / Risks	Influence of geopolitical factors such as election outcomes across the world, military actions, or trade agreements
International Wealth Management	Personalized cross boarder financial and investment service for high-net-worth individuals with global outlook on investments and assets

Glossary continued

Selected definitions

(Generative) AI	Artificial intelligence (AI) that generates original content such as text, images, video, audio or software code in response to a user's prompt or request
Insight matrices	2x2-matrices representing changing importance of each risk factor over time (relative shifts in importance) and the increasing or decreasing relevance (absolute shifts as sums of direct and indirect impacts)
Large Corporate Banking – International	Banking services provided to large corporations that operate across multiple countries
Multi-Attributed Decision Model (MADM)	Process to evaluate and prioritize a finite set of alternatives by considering multiple, often conflicting, attributes or criteria
National Wealth Management	Personalized financial and investment service for high-net-worth and Swiss-based individuals
Network analyses	Method used to study the relationships and structures within a complex system, where the network under scrutiny is composed of risk factors and links that connect them
Retail Banking	Retail banking is a type of banking that provides financial services to individual consumers
Reinforcing & balancing loops	Reinforcing loops are feedback loop leading to further changes in the same direction (increase or decrease), amplifying the initial effect, balancing loops are counteracting an initial change, stabilizing the system and bringing it towards equilibrium or a target state

Glossary continued

Selected definitions

Risk Impact	The major risks faced by banks include credit, operational, market, and liquidity risks
Stamp duty	Swiss stamp duties are levied on each purchase and sale of stocks, bonds, structured products, investment funds, ETFs and other securities
Swiss Private Banks	Booking centre CH or international booking centres of Swiss Private Banks
World Uncertainty Index (WUI)	The World Uncertainty Index (WUI) quantifies the level of economic and political uncertainty globally. It is computed based on the averaged and normalized frequency of the word "uncertainty" in the quarterly Economist Intelligence Unit (EIU) country reports



Norman J. Karrer
Partner zeb Group



Dr. August Benz
Deputy CEO SBA

The SBA/zeb study team



**Prof. Dr. Joachim
Hasebrook**
zeb.business school



Dr. Dirk Holländer
*Senior Partner zeb &
zeb.business school*



Dr. Martin Hess
Chief Economist



Remo Kübler
*Head Research
& Real Estate*



**Dr. Nina-Alessa
Michel**
*Senior Consultant
zeb*



**Dr. Johannes
Branahl**
*Senior Consultant
zeb.research*



**Sarah Auf der
Maur**
Consultant zeb



Vanessa Dubra
*Head of
International*



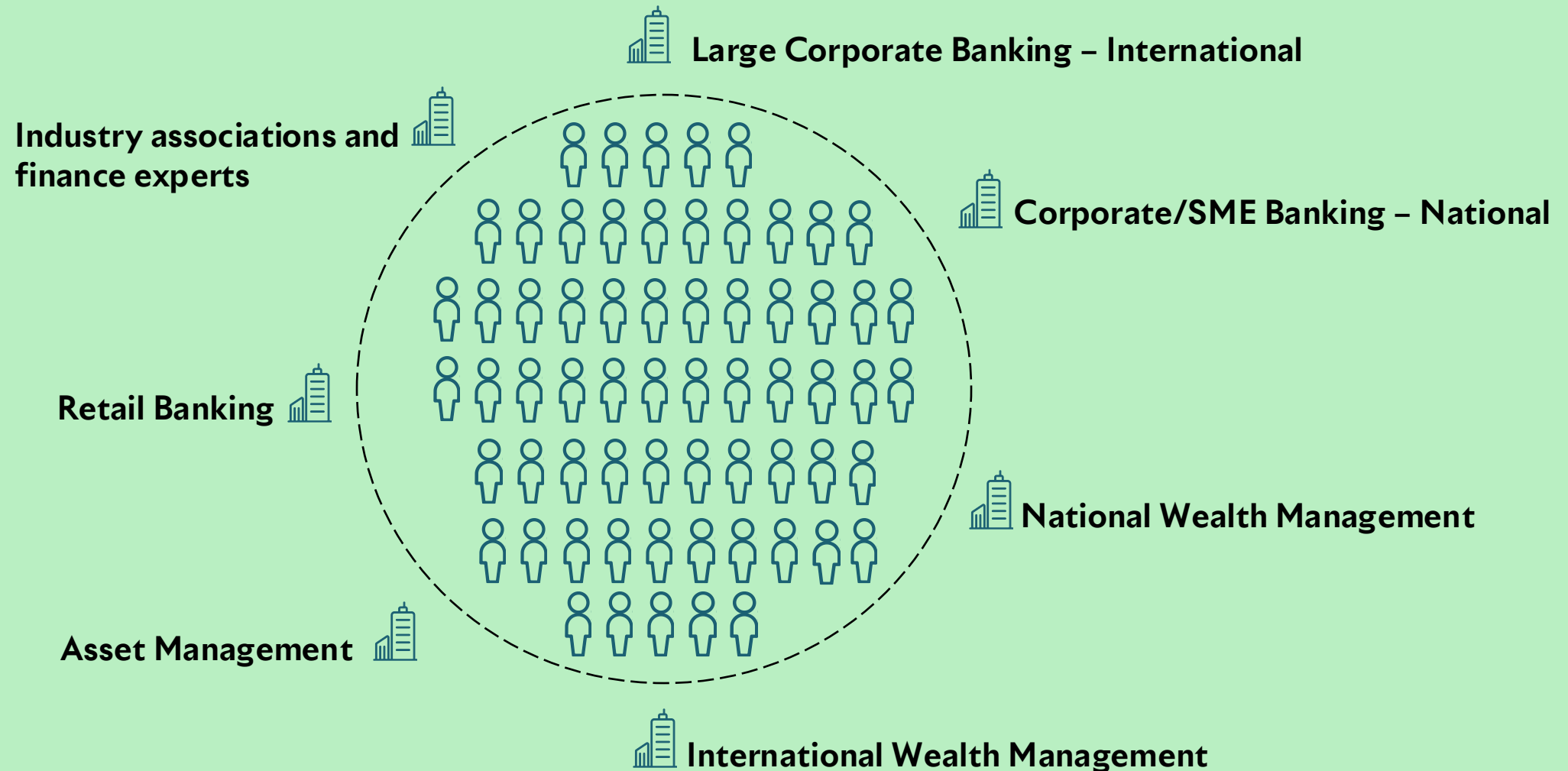
Nino Feltscher
*Policy Advisor
International*



Léa Rohner
*Policy Advisor
International*

We were supported by senior bankers and industry experts from various institutions and collected evaluations from 64 experts

Comprehensive expert support (overview)



About SBA and zeb

• Swiss Banking

As the umbrella association and voice of Swiss banks, the Swiss Bankers Association is committed to ensuring optimal framework conditions for the Swiss financial centre both at home and abroad. The SBA represents the banking industry's interests vis-à-vis the private sector, policymakers, the government and the supervisory authorities. It advocates for open markets, scope for entrepreneurial freedom and a level playing field. As a centre of competence, it propagates banking expertise and actively engages in future topics. The SBA was founded in Basel in 1912, and its membership comprises around 265 institutions and some 12,000 individuals.



As a leading strategy, management and IT consultancy, zeb has been offering transformation expertise along the entire value chain in the financial services sector in Europe since 1992. We have five offices in Germany – Frankfurt, Berlin, Hamburg, Munich and Münster (HQ) – as well as 10 international locations. Our clients include European large-cap and private banks, regional banks, insurers as well as all kinds of financial intermediaries. Several times already, our company has been classed and acknowledged as “best consultancy” for the financial sector in industry rankings.

zeb

Gutenbergstrasse 1
8002 Zürich

zuerich@zeb.ch

www.zeb.ch

**Swiss Bankers
Association**

Aeschenplatz 7
4002 Basel

www.swissbanking.ch