

February 2011

Wealth Management in Switzerland

Status report and trends

Wealth Management in Switzerland

Status report and trends

Table of contents

Foreword	2
Executive summary	3
1 Wealth management worldwide	4
1.1 Global assets	4
1.2 Private banking	4
1.3 Institutional asset management	7
1.4 Trends in the wealth management business	7
2 Wealth management in Switzerland	10
2.1 The Swiss banking industry	10
2.2 The Swiss wealth management industry	12
2.3 Assets managed in Switzerland	14
2.4 Trends in the wealth management industry	15
3 Local presence and cross-border business as an expansion strategy	17
3.1 Strategies for local presence	17
3.2 Opportunities and risks in local presence and cross-border business	18
4 Conclusion and outlook	19
Glossary	20
Further reading	21

Foreword

The global financial and economic crisis significantly shaped the last three years. With its long tradition of banking and finance, Switzerland coped better than many other financial centres. One of the reasons for this is the extreme heterogeneity of the Swiss banking industry. Another factor is the stability of the Swiss franc, which over the long term can definitely be described as one of the most stable of all currencies. Switzerland offers an attractive operating environment and is a very attractive location for highly qualified financial experts to work. In addition, by adopting the OECD 26 standard on information exchange in tax matters and entering into fresh negotiations about a final withholding tax, the Swiss financial centre took a key step forward which has since been quickly and efficiently implemented. "Swiss private banking" is and will remain a well-known and valued mark of quality. Nevertheless, there are still a number of challenges yet to be mastered. For instance, operating conditions in Switzerland are not yet equivalent to those of other financial centres (as regards stamp duty, to name but one example). We will have to create a level playing field in this respect if we wish to have a competitive financial centre in future.

Wealth management is one of the major pillars of the Swiss financial centre. However, Switzerland faces big challenges. Over the last ten years the Swiss banking industry has consolidated from 372 institutions down to 325. The global financial and economic crisis and the associated loss of confidence have shaken the foundations of the wealth management business world-wide. International competition for assets has stiffened correspondingly. Turbulent times also offer opportunities, though. Now investors are seeking greater geographical diversification in their portfolios. The Swiss wealth management industry with its broad range of services and outstanding expertise is making a significant contribution in this respect.

The rapid structural changes in financial services mean that a constant review and optimisation of government regulation and supervisory instruments is required. The primary aim must be to ensure investor and systemic protection so as to guarantee the stability and integrity of the financial system. Rules that go well beyond international standards are intended to protect the Swiss economy, and above all the taxpayer, from the possible future collapse of any institution regarded as systemically important. Switzerland is leading the way in these efforts internationally, which reflects the importance it attaches to the stability of the financial sector in the interests of both clients and the economy.

The Swiss Bankers Association publishes "Wealth Management in Switzerland" on a regular basis. It is intended to give the reader an overview of the situation in the wealth management business in Switzerland and internationally by looking at current issues and trends. It reviews the global wealth management business and identifies trends such as increasing pressure on margins. Then the situation in Switzerland is examined in particular. The document provides both a status report and looks at financial market regulation. A further section looks at the strategic options in cross-border business and the local presence of Swiss asset managers, and weighs up the risks and opportunities in these strategies. Finally, the publication presents conclusions and an outlook for the wealth management business.

Claude-Alain Margelisch
Chief Executive Officer
Swiss Bankers Association

Executive summary

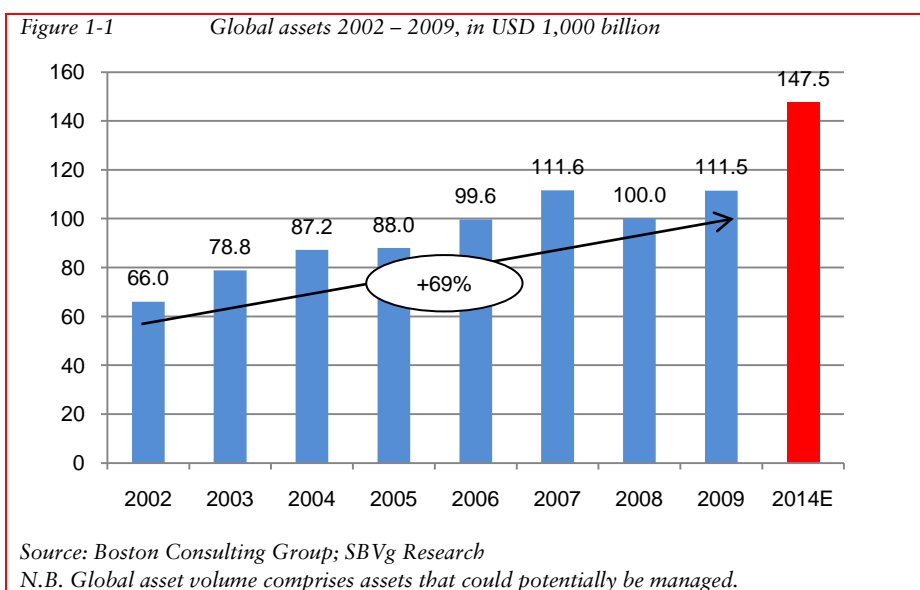
Increase in global assets	Global assets at the end of 2009 were USD 111,500 billion, on a par with the level seen before the crisis in 2007. Growth in 2009 was 11.5%, mainly due to the recovery in financial markets. The assets of the wealthy (high net worth individuals, see glossary) in particular recovered, rising 18.9% over the year to USD 39,000 billion.
Cross-border private banking	The global volume of business in cross-border private banking at the end of 2009 was USD 7,400 billion. Switzerland remains the world market leader with a share of 27%, equivalent to USD 2,000 billion. In booming Asia, the rapidly developing financial centres of Singapore and Hong Kong have a 9% share (USD 700 billion) between them.
Institutional asset management	After a 17% decline the previous year, the global volume of institutional asset management rose 12% in 2009 to USD 52,600 billion. Switzerland saw a 15% increase in institutional assets over the year to USD 2,814 billion.
Trends in the wealth management business	At product level, clients have an increasing preference for simple and transparent financial instruments. Hence, exchange traded funds, for example, are enjoying growing popularity with private and institutional investors. The market for structured products, where Switzerland is world leader in volume terms, promises renewed growth in future. Sustainable investment is also a promising area for wealth management.
The Swiss banking industry	At the end of 2009 the Swiss banking industry employed roughly 136,000 people at 325 banks and other financial service providers. The Swiss wealth management business for domestic and foreign clients is a significant contributor to the country's economic output, generating CHF 15.7 billion. This is equivalent to just under half the value created by banks in Switzerland.
Assets managed in Switzerland	At the end of 2009, banks in Switzerland managed assets of CHF 5,600 billion, up 3.7% or CHF 200 billion on the previous year.
Change in the wealth management business	The wealth management industry is subject to constant change, and the core business of the Swiss banking industry – wealth management for private clients – is not immune to this. Swiss banks focus on taxed money. This approach proved to be correct when negotiations about a new flat-rate tax were opened with Germany and the UK. The importance of cross-border wealth management is still assessed as very high. At the same time, banks are keen to expand their local presence in key countries and growth regions.

1 Wealth management worldwide

The world wealth management business has seen big changes in the wake of the global financial and economic crisis. The current situation in wealth management all over the world is being affected by tighter financial market regulation, stiffer competition and uncertainty on the financial markets. The stiffer competition is mainly due to lower margins and new regulatory requirements that have further pushed up administrative costs. The ongoing crisis surrounding the euro has been causing concern on the financial markets since 2010. Global assets amounted to USD 111,500 billion at the end of 2009 (up 11.5% on the previous year). High net worth individuals account for more than one-third of global assets, with USD 39,000 billion. Switzerland is the world market leader in cross-border private banking with a share of 27% (USD 2,000 billion).

1.1 Global assets

Significant increase in global assets Global assets at the end of 2009 were USD 111,500 billion (BCG 2010a), roughly the same as the previous high seen in 2007 (see figure 1-1). This represents growth of USD 11,500 billion or 11.5% over the year, mainly driven by the recovery in financial markets. It is estimated that in 2014 global assets will reach USD 147.5 billion.

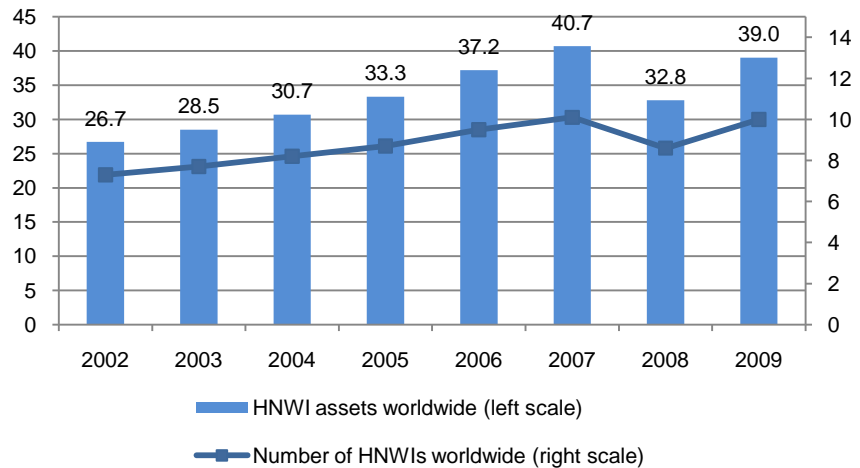


1.2 Private banking

Asset growth for high net worth individuals The very wealthy (high net worth individuals) have also benefitted from the upturn in financial markets. Their assets came to USD 39,000 billion at end-2009, up 18.9% from USD 32,800 the year before (see figure 1-2). The number of HNWI's in 2009 was 10 million (2008: 8.6 million), up more than 16% on the prior year. Of these, 3.1 million are in North America (USD 10,700 billion) and 3.0 million each in Asia-Pacific (USD 9,700 billion) and Europe (USD 9,500 billion). The strongest rise over the year was seen in the number of HNWI's in Asia-Pacific (+25.8%) and North America (+16.6%). Forecasts sug-

gest that HNWI assets in Asia-Pacific will exceed those of wealthy North Americans as early as 2013.

Figure 1-2 Assets and number of HNWI's 2002-2009, assets in USD 1,000 billion (left axis), number of HNWI's in million (right axis)



Source: Capgemini/Merrill Lynch; SBVg Research

Volume of money managed cross-border rises to USD 7,400 billion

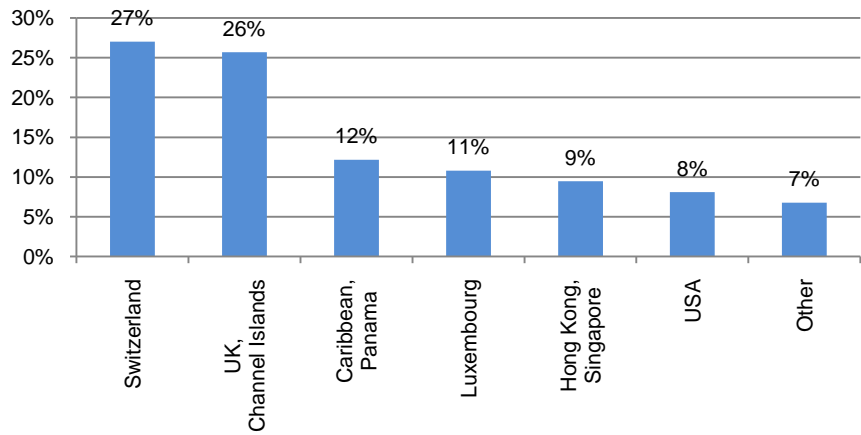
Global assets managed cross-border were also up in 2009, rising 9% from 2008 to USD 7,400 billion (see figure 1-3). This increase was due more to the recovery in financial markets than to capital flows. Switzerland remains world market leader in cross-border private banking with a market share of 27%, equivalent to USD 2,000 billion.

Compared to the previous year, the UK (including the Channel Islands) saw the strongest growth in market share in cross-border private banking in 2009, gaining 26% or USD 400 billion. Luxembourg was the only major financial centre for assets managed cross-border that lost market share compared to 2008 (down USD 100 billion or 11%), partly due to strong political pressure from other countries.

Banks in Switzerland are very respected internationally. The specialist knowledge and linguistic skills of bank staff are valued by international clients, as is the advice provided. Switzerland is known for both political and economic stability. This is of great importance for international investors.

Switzerland is global market leader in cross-border private banking

Figure 1-3 Cross-border private banking (2009), market share in percentage



Source: Boston Consulting Group; SBVg Research

European market growing

In the European market, assets under management by banks (AuM) in the area of private banking rose 10% in 2009 and returned to their 2006 level. Luxembourg was the exception to the positive trend in Europe, reporting a 5% outflow in assets managed. A McKinsey study indicates that the profits of private banks tumbled 25% in 2009. This fall was mainly the result of weaker income and costs that remained the same, pushing down margins. The turbulence on the financial markets also meant fewer securities transactions, putting further pressure on margins.

Hong Kong has China as a major client

Today the Far East has a significantly larger economy and is politically much more stable than it was just ten years ago. Hong Kong is already a large financial centre and has huge potential. As a centre for wealth management, Hong Kong has access to a large client base in the People's Republic of China. Many wealthy Chinese have their assets managed across the border in Hong Kong. The former colony is the centre for mainland Chinese companies looking to raise international capital. Assets managed in Hong Kong were USD 1,091 billion at end-2009, 45.4% higher than the previous year.

Strong growth in Singapore

For several years now the offshore hub Singapore has been one of the financial centres with the highest growth rates. Clients from south-east Asia in particular use the city state as their wealth management centre. Singapore has an efficient government and offers generally good operating conditions. Geographical proximity to Asian clients is a further advantage the location enjoys. As a sovereign state, Singapore is better protected from direct intervention by other countries than Hong Kong. At end-2009, assets of USD 1,208 billion were managed in Singapore, a rise on the year of 39.8% after a decline of 26.3% in 2008.

1.3 Institutional asset management

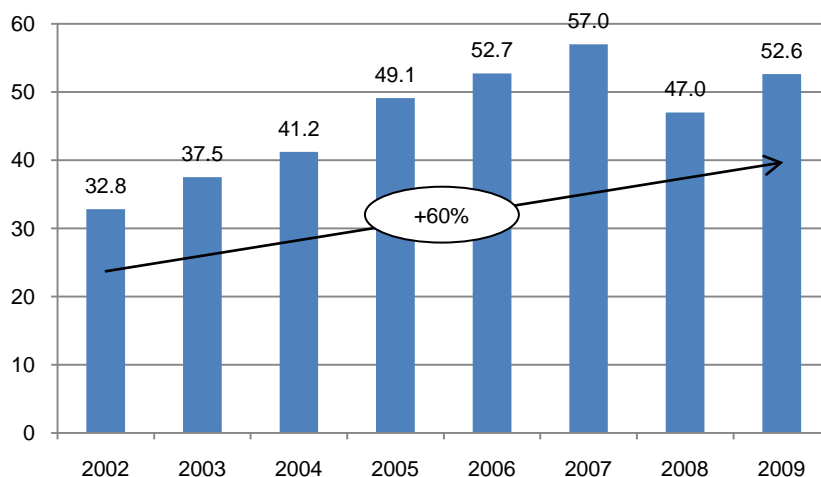
Increase in assets under management

According to a study by Boston Consulting Group (BCG 2010b), the volume of funds under institutional asset management rose 12% in 2009 to USD 52,600 billion, after a 17% decline the previous year (see figure 1-4). The biggest increase in assets was in Asia ex-Japan, up 25%. The extent of the upturn varied greatly by region. AuM in Europe and North America rose by 14% and 11% respectively, but Australia and Japan only gained 7%. Statistics from the SNB show that in 2009 institutional assets in Switzerland were up over 15% to CHF 2,814 billion.

Emerging markets offer great potential for institutional asset managers

The proportion of assets managed which comes from emerging markets is relatively small at present. Institutional asset managers are forecast to grow in developing markets in the coming years.

Figure 1-4 Institutional asset management 2002 – 2009, in USD 1,000 billion



Source: Boston Consulting Group, SBVg Research

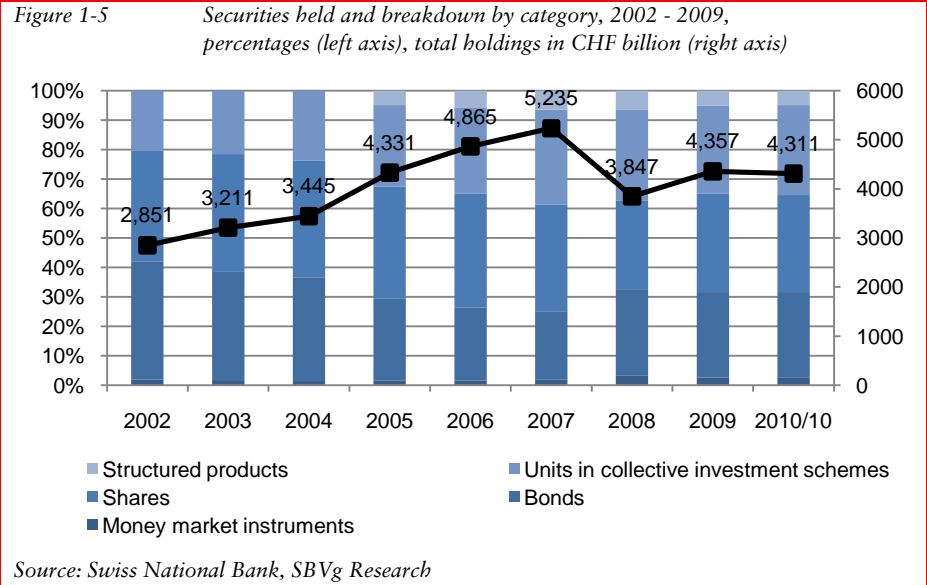
1.4 Trends in the wealth management business

Strong growth in sustainable investments

The financial crisis raised awareness of sustainable development. Only a few years ago, buying sustainable products meant missing out on the market return, but now sustainable investments can compete with traditional products. The market for sustainability funds is growing strongly at present and the products are in great demand. In Europe roughly EUR 70 billion was invested in around 700 sustainability funds in 2009. Booz and Company estimate that by 2015, 20% of all assets in Europe will be managed sustainably.

Islamic banking as a niche	Islamic banking attempts to structure banking transactions in accordance with the religious rules of Sharia. HSBC Amanah/The Banker estimate that at end-2009 USD 822 billion was managed according to Islamic law, a 29% rise on the year before. Money serves only to make it easier to trade. Muslims who lend money on a Sharia basis can only demand repayment of the debt, but no interest. Islamic banking is a promising area of business for Swiss banks, but only as a niche.
Preference for transparent products	At product level, clients prefer simple and transparent financial instruments. Product life cycles are expected to grow shorter, if anything. Greater transparency is now also increasingly evident in structured products. Amongst other things, these offer the ability to hedge against risks (e.g. currency risk) and achieve higher returns.
Exchange traded funds (ETFs)	Exchange traded funds or ETFs first appeared about 20 years ago and have shown remarkable growth. In mid-2000 exchange traded commodities (ETCs) were added, making it much simpler to invest in commodities. ETFs are very popular with both private investors and institutions, chiefly because they are easy to understand and cheaper than actively managed funds. They are characterised by transparency, good liquidity and broad diversification. Today ETFs are available for nearly every asset class, from equities, bonds, commodities, real estate and hedge funds through to leveraged products.
ETFs: Europe has room to catch up	<p>The European market has considerable room to catch up. US investment manager BlackRock puts the European ETF business at USD 250 billion, less than one-third of the amount invested in these products in the USA (USD 850 billion). Trading volume in Switzerland in 2010 was in excess of CHF 60 billion. ETFs are a high-volume business that offers relatively low margins; with 13 providers in 2010 the sector remains manageable.</p> <p>According to the Swiss National Bank, at the end of October 2010 custody accounts in Swiss banks contained CHF 1,474 billion in equities, CHF 1,356 billion in units of collective investment schemes and CHF 1,265 billion in bonds (see figure 1-5). These three asset classes make up 92% of all assets held in Swiss custody accounts.</p>

Securities held and breakdown by category



Switzerland: the world's largest market for structured products

At the end of October 2011, CHF 211 billion was invested in structured products, an amount equivalent to 4.8% of all assets held in Swiss custody accounts. 56% of structured products are held by institutional clients, 37% by private investors and 7% by commercial clients. The Swiss market for structured products is seen as dynamic and innovative, and is the global leader in terms of volume. The overall range of structured products available now has more breadth and depth.

2 Wealth management in Switzerland

Wealth management is an important business for Swiss banks and a major pillar of the Swiss financial centre. Thanks to a favourable combination of high-quality advice and attractive operating conditions, it stands at the forefront of international private banking. The Swiss banking industry can look back on a tradition that stretches over more than two centuries, which allows it to call on excellent specialist expertise that boosts confidence in the whole financial centre and has contributed to this strong position. Wealth management for Swiss and foreign clients is a significant contributor to Swiss economic output and accounts for just under half of the wealth creation generated by banks in the country. Wealth management business created value of CHF 15.7 billion in 2009, equal to 2.9% of gross domestic product. The basic outlines of the Basel III reforms were approved by the G20 group of the twenty largest economies in mid-November 2010, raising the minimum capital and liquidity requirements in the banking industry.

2.1 The Swiss banking industry

The banking industry at a glance There is a wide range of business models in the financial sector. This reinforces the stability of the whole sector. Apart from the large banks, foreign banks and private banks with international activities, the domestic banks (cantonal banks, Raiffeisen banks and regional banks) are of key importance for the Swiss economy because they lend to the domestic real economy. At the end of 2009 Switzerland had 325 banks, of which 156 were foreign, and 3,133 branches. Banks in Switzerland also had 271 branches abroad. Around 136,000 people were employed in the entire Swiss banking industry at end-2009. Of these, 107,500 worked for banks and securities dealers and 28,400 for miscellaneous financial services providers such as independent asset managers. Swiss banks also employed nearly 103,000 staff abroad in subsidiaries and branch offices. Total assets of all banks at end-2009 were CHF 2,668 billion, about five times the size of Swiss GDP (see figure 2-1).

Figure 2-1 Banks in Switzerland at a glance, 1995 - 2009

	1995	2000	2005	2007	2008	2009
Number of banks in Switzerland	413	375	337	330	327	325
of which foreign banks	155	148	150	152	154	156
Number of branches	4,945	4,037	3,839	3,834	3,161	3,133
of which abroad	276	228	304	317	293	271
Employees in Switzerland*	110	112	101	109	110	108
Employees abroad*	33	89	101	130	103	103
Employees, total**	143	201	202	239	239	239
Total assets, in CHF bn	1,323	2,125	2,846	3,458	3,080	2,668
of which foreign business, in CHF billion	514	1,196	1,849	2,320	1,911	1,468

* In 1,000s ** Employees in branches and foreign subsidiaries (in 1,000s)

Source: Swiss National Bank; SBVg Research

Value added of the banking industry The banking industry accounts for 6.7% of value added in Switzerland (CHF 35.9 billion). Wealth management contributes just under half of the total wealth generated by banks in Switzerland, at CHF 15.7 billion. On top of this come

indirect effects (e.g. services purchased from other sectors) and direct effects (e.g. consumer spending by bank employees) (see Bakbasel Economics 2011).

Key figures for the banking industry

Some banks in Switzerland suffered from the effects of the global financial and economic crisis, and this is reflected in the key figures for the industry. Nevertheless, banks in Switzerland were able to increase profits in 2009. Net profit in particular recovered sharply from the previous year (see table 2-2).

Table 2-2 Key figures for banks in Switzerland, 1995 – 2009

	1995	2000	2005	2007	2008	2009
Operating income, in CHF bn	37.8	68.7	68.6	70.7	49.0	54.3
Operating expense, in CHF bn	22.6	37.5	38.9	46.5	40.3	41.5
Gross profit, in CHF bn	17.1	31.2	29.7	24.2	8.6	12.7
Net profit, in CHF bn	6.0	19.2	24.7	9.8	-30.5	2.4
Cost/income ratio (operating expense/operating profit)	56.9%	54.6%	56.7%	65.8%	82.2%	76.7%
Interest income as % of operating income	39.5%	34.4%	32.8%	32.5%	43.7%	47.6%
Commission income as % of operating income	32.6%	42.1%	40.9%	52.0%	61.2%	35.8%
Return on equity	7.1%	16.3%	18.3%	6.8%	-21.7%	1.7%
Return on assets	0.5%	0.9%	0.9%	0.3%	-1.1%	0.1%

N.B. Return on equity is defined as net profit divided by equity; return on assets equals net profit divided by total assets. The collapse in net profit in 2008 was largely due to impairments at a single bank.

Source: Swiss National Bank; SBVg Research

Launches and acquisitions by foreign banks

There has only been a small amount of consolidation in the Swiss banking industry over the last three years. The transactions that have taken place in recent years were mainly partial sales by foreign banks which encountered difficulties following the financial crisis (see table 2-3). At the moment, foreign banks in particular are keen to get back into Swiss wealth management, either through new launches or acquisitions. The total number of banks active in the Swiss wealth management business has remained more or less steady over the past few years.

Table 2-3 M&A and integration of banks in Switzerland, 2009 - 2010

2010	Banque Cantonale Vaudoise announces plans to acquire Banque Franck Galland and merge it with Banque Pignatelli to form Banque Pignatelli Galland & Cie
2010	Banca Gesfid acquired by PKB Privatbank
2010	Luzerner Kantonalbank integrates subsidiary Adler & Co. AG
2010	Tessiner Kantonalbank acquires 80% of the shares of UniCredit Bank (Suisse)
2010	KBL European Private Bankers taken over by Hinduja Group
2010	Fortis Banque (Suisse) SA taken over by BNP Paribas (Suisse) SA
2010	ING (Suisse) SA taken over by Bank Julius Baer
2010	Banque Cramer, a subsidiary of Norinvest, merges with Banque de Patrimoines Privés
2009	Bipielle Bank (Suisse) taken over by Banca Aletti & C. (Suisse) SA
2009	Basler Kantonalbank acquires AAM Privatbank AG from Basellandschaftlichen Kantonalbank
2009	Banking business of Rüd, Blass & Cie AG acquired by Deutsche Bank (Suisse) SA
2009	Dresdner Bank (Schweiz) AG taken over by LGT Bank (Schweiz) AG
2009	Commerzbank (Schweiz) AG taken over by Bank Vontobel AG

N.B. This table shows a selection of activities and makes no claim to be complete.

Source: SBVg Research

Larger banks more profitable

A study of private banks in Switzerland carried out by PricewaterhouseCoopers looked at whether larger banks performed better than smaller ones over the period 2006-2009. The analysis detected no significant difference between individual banks in terms of annual growth in net new money. Clients appreciate small banks for their personal contact, discretion and independent advice. The cost/income ratio before impairments was better at large banks than small ones. This could indicate that in recent years larger banks managed to improve their cost positions and turn their size into a competitive advantage. One explanation is the high fixed costs of compliance, which weigh more heavily on smaller banks. Regulation continues to pursue a "one size does not fit all" policy. Smaller banks have greater flexibility, shorter decision paths and lower operational risks.

2.2 The Swiss wealth management industry

Multi-faceted wealth management industry

The wealth management industry in Switzerland is very heterogeneous and uses various business models. Swiss private banking has a leading position internationally. There is a small number of global financial service providers and a large number of niche operators. Different business models largely reflect the size of the institutions concerned. Generally speaking, the integrated business model (the universal bank) remains the preserve of the larger institutions. These cover the full field of banking activities, from private and corporate business to capital market transactions and wealth management. Small banks, by contrast, pursue a niche strategy and focus on core competences.

Independent asset managers are a large part of the para-banking sector

Independent asset managers represent the lion's share of the para-banking sector, which includes financial institutions without a banking licence. Under the Banking Act, such asset managers may not accept retail deposits, and being financial services professionals they come under the provisions of the Anti-Money Laundering Act. Independent asset managers are not, however, subject to prudential supervision by the Financial Market Supervisory Authority

FINMA, since it would not be appropriate to have them supervised by the banking industry. The banks have a constructive dialogue with the par-banking sector and the supervisory authority to reduce the possibility of regulatory arbitrage and create a level playing field in wealth management.

In general, independent asset managers manage their clients' assets themselves and provide advice on matters relating to money and assets. Around CHF 600 billion is managed by independent asset managers in Switzerland (11% of the market); these tend to be organised as small or very small firms, and around 80% of providers employ fewer than five people.

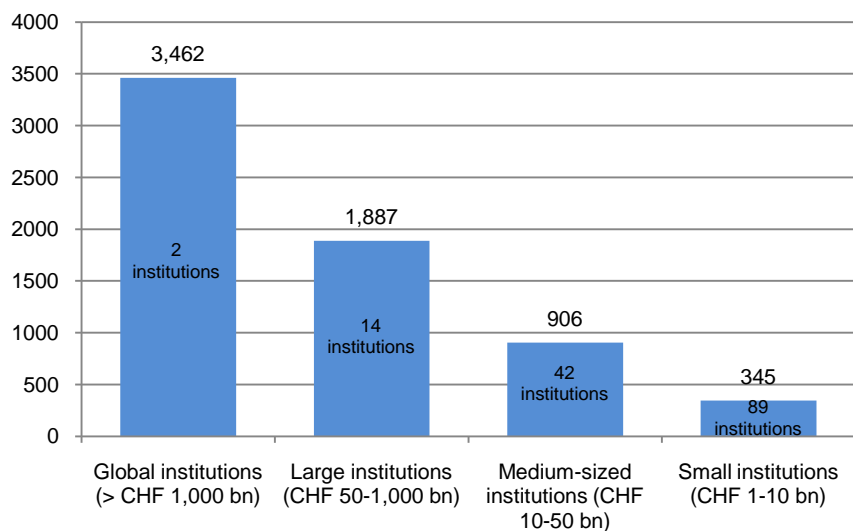
Breakdown by assets managed

Banks in Switzerland can be classified by the assets managed and are divided into four categories. Global banks in Switzerland manage assets in excess of CHF 1,000 billion and employ more than 10,000 staff in their wealth management divisions. Large banks typically have over 1,000 staff and manage CHF 50 to 1,000 billion. Medium-sized institutions manage CHF 10 to 50 billion, and usually employ more than 100 staff in Switzerland. Small banks manage CHF 1 to 10 billion. Institutions with less than CHF 1 billion in AuM are not included.

Assets under management at global and medium-sized banks rose in each case by 6% in 2009 as compared to 2008 (see figure 2-1). The number of banks recorded remained unchanged over the period.

Classification of banking institutions

Figure 2-1 Classification of banking institutions (2009), assets managed in CHF billion



N.B. A total of 147 banks managing an overall CHF 6,600 billion in assets were included in the classification. Micro asset managers (< CHF 1 billion) are not included. These figures differ from the SNB statistics because they were collated at different levels (this graph also includes assets managed by Swiss banks abroad).

Source: annual reports; SBVg Research

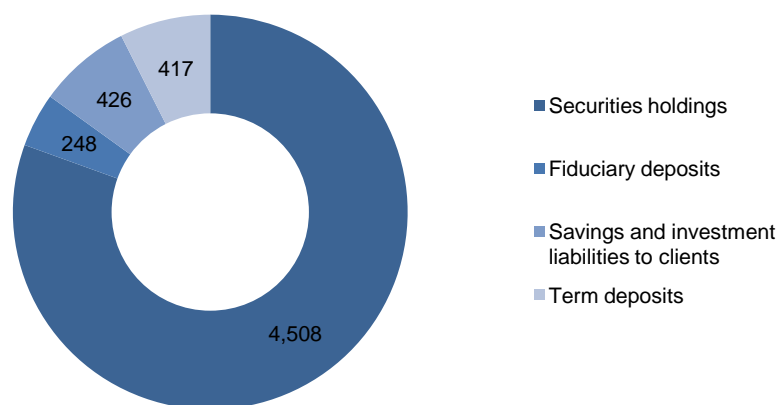
2.3 Assets managed in Switzerland

CHF 5,600 billion managed in Switzerland

In total, banks in Switzerland managed assets of around CHF 5,600 billion at end-2009, up 3.7% or CHF 200 billion from the previous year. Assets managed include the following items: securities, fiduciary deposits, savings and investment liabilities to clients and term deposits.

Breakdown of assets under management

Figure 2-2 Breakdown of assets under management (2009), in CHF billion



Source: Swiss National Bank, SBVg Research

At end-2009, securities holdings at market value came to CHF 4,508 billion; of these, roughly 62% came from institutional investors, 29% from private clients and just under 10% from companies. Custody accounts for foreign clients comprised 55%, for domestic clients 45%. Between September 2009 and October 2010, securities holdings of foreign private investors fell by around CHF 68.9 billion or 9.6%. This was mainly due to currency effects, i.e. the appreciation of the Swiss franc, rather than outflows of client money.

Fiduciary deposits mainly sought by foreign clients

Fiduciary deposits at the end of 2009 were CHF 248 billion. These are short-term investments, mainly in dollars and euro, which banks make in their own name but for the account of the investor (trustor), who bears the risk. These investments are mainly sought by foreign clients (82% of fiduciary deposits reported).

Two-thirds of term deposits from foreign clients

Savings and investment liabilities to clients and term deposits (liabilities to clients for a pre-determined period) were CHF 426 billion and CHF 417 billion respectively at end-2009. Savings and investment liabilities to clients include vested benefit accounts (Pillar II) and tied retirement savings (Pillar III). Roughly two-thirds of term deposits are from foreign clients.

2.4 Trends in the wealth management industry

The Swiss financial centre is a safe haven	The wealth management industry is subject to constant change and the Swiss financial centre, as a major player, is not immune to this. A paradigm change is currently under way in the Swiss wealth management business. Not only is the market environment difficult, but the regulatory requirements are changing significantly too. Against this background, Switzerland is helped by the fact that in such times the Swiss financial centre is once again increasingly perceived as a safe haven for money seeking a home.
Asset regularisation	Under the Swiss Bankers Association Financial Centre Strategy 2015, in future Swiss banks will concentrate on acquiring and managing taxed assets. Banks recommend that their clients regularise any untaxed assets they may possess.
Great importance of cross-border private banking	Even in these circumstances, cross-border private banking will remain of great importance for the Swiss financial centre. The ability to service foreign clients centrally is reflected in lower costs. In addition, foreign clients frequently grant unrestricted asset management mandates. The margins on the assets managed are therefore correspondingly higher. At the same time, banks are also keen to expand their local presence in other countries. However, a greater foreign presence pushes up current costs but tends to reduce income owing to the additional administrative and regulatory costs.
Fall in gross and net margins	According to PricewaterhouseCoopers (PWC 2010), the gross margin at private banks in Switzerland fell from 117 to 110 basis points between 2006 and 2009. The net margin over the same period declined from 32 to 20 basis points. Increased costs were one reason for this. PWC expects to see costs rise further as regulation increases, favouring larger banks that are better able to absorb the higher regulatory costs thanks to economies of scale.
FATCA regulation having a big impact	The planned US Foreign Account Tax Compliance Act (FATCA) will impose significant costs on banks. FATCA requires financial companies worldwide to keep a record of their clients subject to taxation in the USA and supply data on them to the US tax authorities. Clients of banks who do not sign the agreement with the tax authorities will probably be subject to a 30% withholding tax on US securities. Apart from higher costs, FATCA may also cause foreign banks to withdraw from the US capital markets and cease to offer these services to their clients. The negative impact on capital raising in the USA would be much greater than in other countries.
OECD 26 and the flat-rate tax	Given that all other major financial centres have adopted article 26 of the OECD model double taxation agreement as well as Switzerland, the fact that Switzerland signed up has so far had scarcely any effect on the volume of assets managed. This levelling of international competitive conditions will mean that in future mainly the taxed asset model will prevail. The launch of new negotiations about a flat-rate tax with Germany and the UK will also contribute to the regularisation of untaxed assets.
New AIFM directive	On 11 November 2010 the European parliament approved the draft of a new directive for alternative investment fund managers (AIFM). The aim of the di-

rective is to create a safe and comprehensive supervisory and regulatory framework for alternative investment funds (AIFs) and managers of such in the EU. The new directive acknowledges the global nature of the AIF industry and intends to allow European investors to have access to all alternative products. As far as Switzerland is concerned, the new directive states that portfolio and/or risk management of AIFs issued in the EU may be delegated to a manager based in Switzerland provided the manager is supervised by FINMA. Phased introduction of a "non-EU member passport" will make it possible for AIF managers outside the EU to offer their products and services in the European market under a single authorisation procedure, as long as they observe standards of transparency and regulation comparable to those of the EU. As a consequence of adjustments made to the AIFM directive, the impact on non-EU member states like Switzerland will be less severe than was originally assumed.

3 Local presence and cross-border business as an expansion strategy

All in all, the Swiss banking industry survived the global financial and economic crisis better than most of its competitors. Swiss banks' traditional expertise in providing wealth management services for a demanding international clientele will remain an outstanding strength. Great importance is put on handling assets that are subject to proper taxation. Institutions which already have an international orientation are increasingly seeking to expand their local presence in important countries and growth regions. For banks operating from Switzerland, in addition to expanding local presence, cross-border business remains extremely important. There will always be clients who wish to have some of their assets managed outside their own country. Even wealthy Swiss clients do not keep all their assets in Switzerland. There is nevertheless a risk that increasing international regulation will result in constantly bigger barriers to market entry, which is likely to cause difficulties in cross-border business in particular.

3.1 Strategies for local presence

Evaluating the right market is a factor in success

Business models are changed only after a careful analysis is made of the possible courses of action. There are various ways to get into local business. Selecting the right market is an important factor in successfully expanding onshore business. Apart from examining the local potential, the tax and regulatory environment needs to be considered – this is often a hindrance to further growth in the local market. Sharp increases in international regulation may result in higher barriers to market entry. In-depth knowledge of the relevant target markets can be a decisive competitive advantage over other foreign asset managers. The operating conditions for boosting local presence have improved in emerging and developing markets (Asia Pacific, Eastern Europe, Latin America and the Middle East) in particular. These regions are much more stable today, both economically and politically, than was the case ten years ago, so they are also becoming relatively more attractive for the wealth management industry.

Active acquisition strategy

There are three ways to enter a market: acquisition, strategic partnership and organic growth. The type of market entry depends on a full assessment of the market. Acquisition makes sense when the aim is to build up critical scale and know-how in a new market within a short period. It is important not to neglect the risks of cultural differences and compliance. Banks currently expect they will be able to buy cheaply: just a few years ago, they say, they had to pay 4-5% of AuM, whereas today the price is 1.5-2.5%. Acquisitions therefore require less capital and payback times are shorter. One reason behind the current weak demand for acquisitions is increased regulation.

Strategic partnership, an alternative

A second way to enter a market is to form strategic partnerships with local partners. In some markets (including Germany), such partnerships are a mandatory requirement to obtain a private banking licence. Partnerships with local agents and distribution partners are also needed to be able to effectively target the desired clientele.

Organic growth, the third option	The third option for entering a market is organic growth. This has the advantage of offering total control over entry and requires only limited resources. It is very important to define country-specific product and service offerings and build up strong local expertise to meet high client expectations.
Client advisors are a decisive factor	With all of the above options, the decisive factor for success is to be able to attract the best client advisors and retain them over the longer term. The Asian and Middle Eastern markets are characterised by high staff turnover and high performance-related remuneration, which are a hindrance to profitable long-term growth. There is definitely a shortage of qualified client advisors. Asian clients in particular prefer to be serviced by local employees. Banks have to offer client advisors attractive financial and career development packages to retain them for the longer term.

3.2 Opportunities and risks in local presence and cross-border business

Further growth in cross-border wealth management	A study from Boston Consulting Group (BCG 2010a) put global assets in 2009 11.5% higher than the previous year. Over the same period, assets managed cross-border rose 9%. This increase is an indication of clients' need for cross-border transactions, which remain a very important business for Swiss financial institutions. However, cross-border private banking can involve legal and reputational risks. Swiss banks are tackling these risks in a committed manner and minimising them by concentrating on acquiring and managing taxed assets. The planned introduction of a flat-rate tax with Germany and the UK confirms that the taxed assets strategy is gaining acceptance.
Local markets with rapid growth in assets	Swiss banks are also keen to expand their local presence in non-EU countries. The rapid growth in assets in developing regions offers increasing prospects for asset managers. Target markets outside Europe therefore include Asia Pacific, Eastern Europe, Latin America and the Middle East. New money inflows seen here are helping the banks to broaden their basis for future earnings.
Local presence is expensive	Local presence necessitates higher infrastructure costs than cross-border business. In-depth knowledge of the target markets is essential to reinforce clients' loyalty to a Swiss bank, since client churn is expensive for the banks. Asset managers need to operate with large volumes to generate the same level of profitability as in the home market.
Risk management in cross-border business	Financial intermediaries operating out of Switzerland must regularly examine their cross-border activities from the perspective of the legal regimes in question and determine the risks involved. Risk management is extremely important. The Swiss Bankers Association has therefore decided to offer country information to banks that are interested. This is intended to illuminate, and hence minimise, the legal risks in different countries.
Advantages of the Swiss financial centre	Switzerland is an economically and politically stable financial centre with asset managers that have outstanding specialist expertise. Together with the protection that Switzerland affords the personal sphere, it continues to be a good option for foreign clients looking to invest part of their assets outside their home country.

4 Conclusion and outlook

Swiss financial centre tradition	The secret of the success of the Swiss wealth management industry lies in the unique tradition of the Swiss financial centre. Political and economic stability, legal security, currency stability and protection of the private sphere are key advantages in international competition for domestic and foreign investors. It is extremely important to promote tax and regulatory operating conditions, innovation by banks and the skills of the workforce. The professional advice provided to clients is valued internationally, and is based on trust, discretion, reliability and continuity. These virtues form the backbone of wealth management.
Increasing regulation in wealth management	The increasing level of regulation in wealth management is a major challenge, and is being tackled by the Swiss banks in a resolute manner. For each target market, institutions have to define a service model that meets the legal requirements. Additional regulation also has an impact on costs. In particular, the planned introduction of the US Foreign Account Tax Compliance Act (FATCA) is likely to impose very heavy costs on banks, exceeding the additional tax income for the USA by a multiple.
Global asset growth	The volume of global assets is forecast to grow by more than 6% annually to reach USD 147.5 billion by 2014. Asset growth and potential new money is significantly higher in developing markets than mature markets, partly because of the need to catch up. Forecasts suggest that HNWI assets in Asia-Pacific will exceed those of North America (currently the global leader) as early as 2013.
Importance of local presence and cross-border wealth management	Both local presence and cross-border wealth management address needs of international clients and will be very important for the Swiss financial centre in the coming years. Switzerland is perceived as a centre of excellence in international wealth management and enjoys great prestige. We are convinced that Swiss private banking will see sustainable growth.

Glossary

Assets under management There is no standard definition of "assets under management" or "managed assets." According to the Financial Market Supervisory Authority FINMA, managed assets include all assets for which investment advisory and/or wealth management services are provided. Under this definition, managed assets comprise the following: securities holdings in client custody accounts, fiduciary investments, liabilities to clients in the form of savings and investments, and liabilities to clients in the form of time deposits.

High net worth individuals High net worth individuals (HNWI) are investors with net financial assets of at least USD 1 million, excluding their main residence, collections, consumer goods and durable goods.

Institutional asset management Institutional asset management is aimed at professional investors, including insurance companies, pension funds, investment funds, foundations, banks, securities dealers, public sector companies, industrial companies and other private sector companies. The latter are also offered additional special services when required, such as liquidity management.

Cross-border wealth management In cross-border wealth management, client money is managed in a different country to that where the client is resident.

Local presence Local presence is where the bank opens a local office (branch or subsidiary) and is able to manage money for both domestic and foreign clients. The latter would be an example of an offshore hub, such as Singapore.

Private banking Asset management for private individuals is known as private banking. Private banking clients are usually divided into different segments, depending on their financial potential. The typical segmentation for private clients is as follows:

Typical segmentation for private clients, in CHF

Under 250,000-500,000	250,000-500,000 up to 1-2 million	1-2 million up to 50 million	Above 50 million
Mass affluent	Core affluent	High net worth	Ultra high net worth

Source: SBVg Research

Structured products Structured products are investment products composed ("structured") of several elements. These elements are normally a combination of traditional instruments such as equities or bonds and derivatives.

Wealth management Wealth management is a financial service and investment business with varying degrees of personalisation and complexity provided to private, corporate and institutional clients (investors) with significant assets.

Further reading

Bakbasel Economics (2011) forthcoming

Finanzplatz Schweiz - Volkswirtschaftliche Bedeutung und Wechselwirkungen mit dem Werkplatz

Booz & Company (2009)

Private Banking – After the Perfect Storm

Boston Consulting Group BCG (2010a)

Global Wealth 2010 – Regaining Lost Ground

Boston Consulting Group BCG (2010b)

Global Asset Management 2010 – In Search of Stable Growth

Capgemini/Merrill Lynch (2010)

World Wealth Report 2010

HSBC Amanah/The Banker (2009)

Top 500 Islamic Financial Institutions

McKinsey&Company (2010)

European Private Banking Survey 2010

PricewaterhouseCoopers (2010)

Heading for New Horizons – Private Banking in Switzerland

Sources of further information

Swiss National Bank (SNB)

www.snb.ch

Swiss Financial Market Supervisory Authority FINMA

www.finma.ch

• Swiss Bankers Association
Aeschenplatz 7
PO Box 4182
4002 Basel
Switzerland
T +41 61 295 93 93
F +41 61 272 53 82
office@sba.ch
www.swissbanking.org