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Executive Summary

Switzerland – A strong hub for investment management

A symbiosis between institutional and non-institutional investment management

Swiss Bankers Association and Boston Consulting Group

Switzerland – A strong hub for investment management

Global investment management is a growing area in the financial industry, and so it is in Switzerland. In recent years, investment management has established itself as a core value proposition of the country's financial industry. Investment management adds significant value to the financial and real economy by allocating capital efficiently, creating efficient markets and providing professional management of institutional and non-institutional wealth.

The Swiss Bankers Association (SBA) and Boston Consulting Group (BCG) have identified investment management as a cornerstone of the Swiss finance industry. This study aims to provide more visibility by illustrating the importance of investment management to the Swiss finance industry and, more broadly, the Swiss economy. It also reflects the broader socio-political benefits of a strong investment management industry to, among other areas, the pension fund industry in Switzerland.

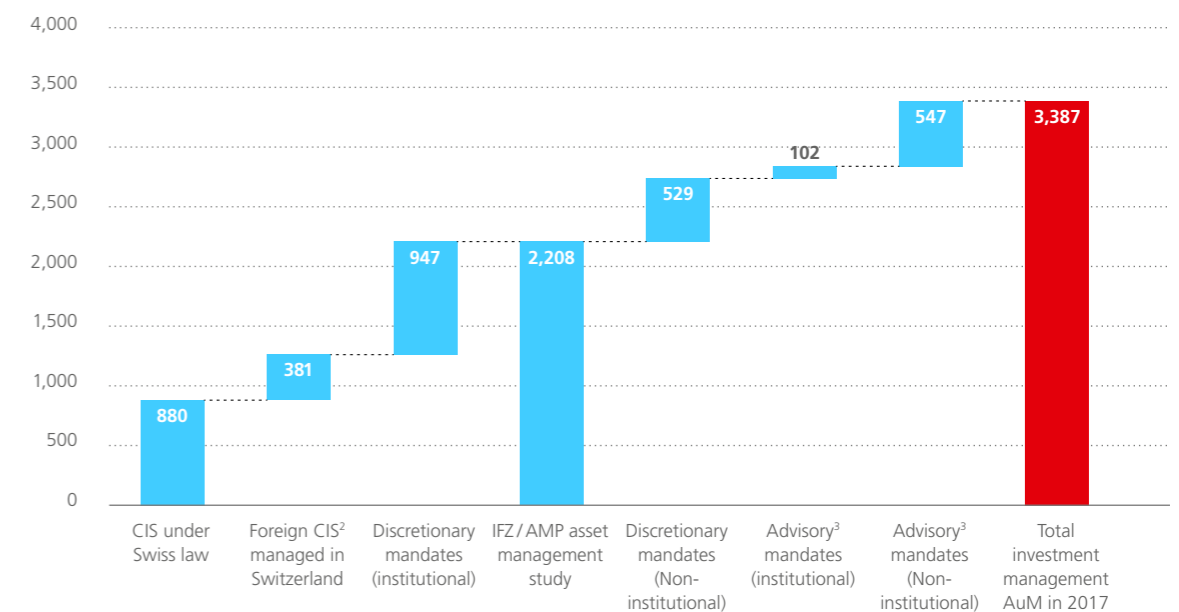
Investment management is defined as the management of collective investment schemes (incl. exchange traded funds) and discretionary and advisory mandates for both institutional and non-institutional clients. This study defines investment management broadly in order to illustrate the strength of both the institutional and non-institutional investment management industries in Switzerland. The broad definition also allows to show the symbiotic relationship of the business types and the potential for cross-fertilisation of innovation and infrastructure, given the combined pool of investible assets.

Primary research with 47 prominent investment managers in Switzerland and expert interviews were conducted to provide facts and gain insights. In Switzerland, assets of CHF 3.4 trillion were managed in 2017. This represents roughly 5 times the Swiss gross domestic product and around 4 times total Swiss pension assets. Swiss investment management generated revenues of between CHF 17 bn in 2016 and CHF 20 bn in 2017. This represents approximately 25 percent of revenues generated in the Swiss finance industry excluding insurance.

Fig. 1

CHF 3.4 tn of assets were managed by investment management in Switzerland in 2017, of which approximately CHF 1.5 tn are discretionary mandates¹

In CHF bn



¹ Institutional and non-institutional discretionary mandates

² Estimates for Foreign CIS managed in Switzerland are considered to be at the lower end of estimates

³ Advisory mandates exclude cash and self-directed portfolios and reflect only pure mandate business

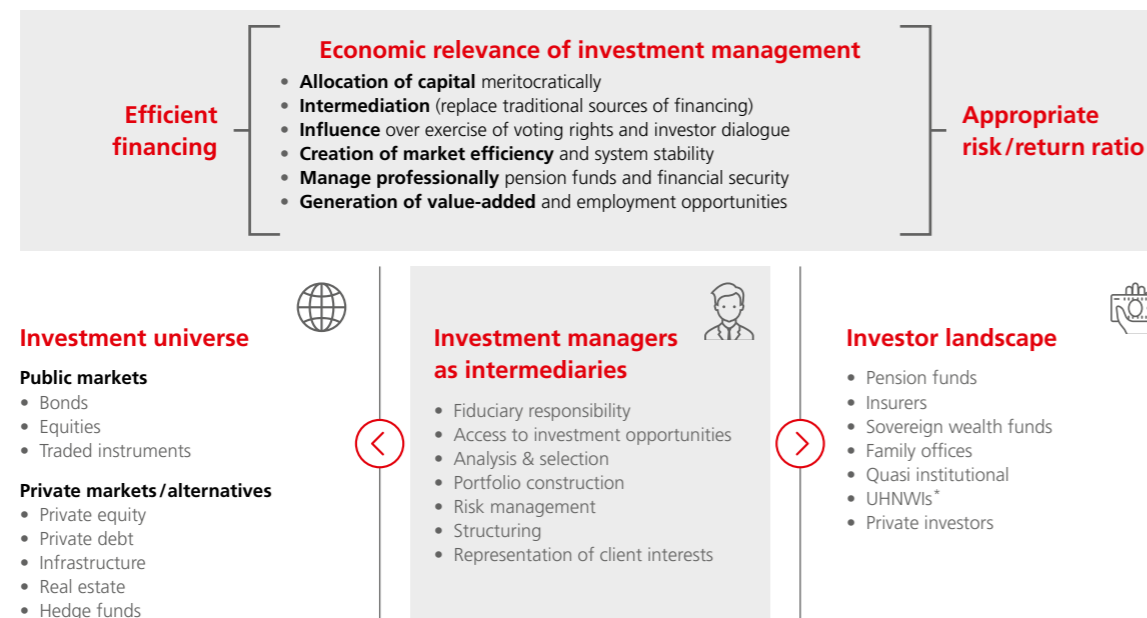
Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

In a recent Study, the Asset Management Platform (AMP) and the Institute of Financial Services Zug IFZ estimated that Swiss asset management employed 55,000 full-time equivalents (FTEs) directly and indirectly in the country in 2017, which includes only institutional asset management. This implies that total FTEs in Swiss institutional and non-institutional investment management are materially over 32 percent of all FTEs in the financial industry (excluding insurance) in 2017.

Investment management plays a central role in the allocation of capital, creation of market efficiency and generation of returns for investors.

Fig. 2

Investment management has key roles and responsibilities in financial markets



* Ultra High Net Worth Individuals

Sources: SBA and BCG

Switzerland's strength in both institutional and non-institutional investment management is a differentiator and competitive advantage that is beneficial for domestic and foreign clients alike. Switzerland is the leading cross border centre for assets of private clients and it is one of the largest asset management hubs in Europe. The two very large wealth pools related to this cross-fertilize each other and foster innovation.

Five core facts about investment management in Switzerland

The study analyses investment management holistically to best illustrate its strengths as well as the measures that need to be taken by the industry, government and regulators to ensure Switzerland differentiates itself from other investment management hubs.

The following 5 facts about investment management in Switzerland have been confirmed by the study:

Switzerland provides investment managers with good conditions – talent, know-how, stable economy and political system, modern infrastructure – to attract domestic and foreign clients with their products and solutions.

Swiss investment management is competitive on a global stage, which drives "export". Of those CHF 3.4 tn assets managed in Switzerland 33 percent are managed for contracting clients abroad, which reflects the broader focus on export in the Swiss economy. A competitive and saturated Swiss investor market will force investment managers in the country to export to secure future growth.

Switzerland is a hub for innovation in the investment management industry. The symbiotic relationship between institutional and non-institutional investment managers in Switzerland is growing as banking secrecy is of lesser relevance to private clients. Investors are placing more emphasis on performance. The combined larger pool of investible assets from institutional and private clients incentivises innovation in the industry. Switzerland has the necessary infrastructure, talent, expertise, tax legislation, liberal immigration laws and stable political system to support a highly innovative investment management industry. Asset volumes in alternative assets remain well below traditional asset classes but a high proportion of investment managers in Switzerland are invested in alternative asset classes. The volume of assets in alternative asset classes (18%) is significantly above the global average of 15 percent.

The Swiss investment management industry is liberalised and open to

foreign products. Switzerland has a liberal market economy and relatively liberal immigration laws, which has attracted increasing numbers of foreign investment managers. Of the top 20 fund managers in Switzerland (by distributed assets), 8 firms are head-quartered outside of Switzerland and distribute some 12 percent of assets. Investment management products distributed by foreign firms in the top 20 in Switzerland rose from 11.1 percent in 2008 to 15.4 percent in 2017.

Sophisticated financial products are key to the success of the Swiss investment management industry. Switzerland offers sophisticated products and has a legacy of client-focussed and refined client solutions; structured investment advisory processes, a technically sound talent pool and a history of wealth management differentiates Switzerland from other hubs such as Hong Kong and Singapore. Swiss investment managers manage greater volumes of investments in alternative assets (18 %) and passive products (24 %) compared to the global averages of 15 percent and 20 percent respectively. A continued shift towards polarised investment management – scale (eg. passive products) or niche products (eg. alternative products) – is likely to continue. Furthermore, investment managers need to embrace technology to improve the administration and management as well as offer integrated and digitised platforms to engage with their clients and vice versa.

Switzerland presides over the conditions that support a robust investment management industry; a strong economy, abundant talent, know-how, access to capital, stable political system and independent judiciary. However, care needs to be taken that other prerequisites such as the access to European institutional clients, appropriate regulation and tax laws are fittingly crafted to facilitate innovation, attract foreign investment and stimulate the continued growth of the industry.

Seven key trends omnipresent in investment management globally and in Switzerland

The analysis of company-specific and industry data led the authors to identify seven key trends that are omnipresent in investment management globally and in Switzerland:

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- **Institutional and non-institutional investment management are symbiotic:** Switzerland is in the enviable position of having a strong investment management industry servicing both institutional and non-institutional clients. This enlarges the pool of investible assets, incentivises innovation and provides global credibility.
 - **Investment management is increasingly focussed on scale or specialised products:** Focus is on asset scale (active or passive products) or sophisticated, higher margin products. Businesses are increasingly accessing private capital markets for debt and equity, which will increase the share of these products in investment management.
 - **Players in the mid-market- range are at risk:** Competition is becoming fiercer, regulatory requirements and technology will continue to exert pressure on margins. Firms must identify a sustainable competitive advantage in scalable or non-replicable niche products to materially grow assets under management and remain relevant.
 - **Technology presents key risks and opportunities:** On the one hand, technology will require material investment and increase transparency, which applies pressure on margins. On the other hand, technology enables investment managers to make their businesses more efficient while providing clients with a necessary integrated investment management platform.
 - **Institutional and non-institutional investment management products and solutions become increasingly homogenous:** Non-institutional clients increasingly expect the same service and performance as institutional clients while investment management's access to critical asset mass drives innovation. Non-institutional investment managers will increasingly leverage products and solutions developed in the institutional business.

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- **Switzerland needs to strengthen the prerequisites of its investment management industry in order to maintain its global position:** Business friendly conditions such as the stable political system, liberal market economy, independent rule of law, or the liberal immigration law must be maintained. Investment management conditions like the access to talent, local expertise, high volumes of investible assets, or appropriate financial regulation must be strengthened. Finally, the regulatory framework must remain competitive in the dynamic, cut-throat global investment management market.
 - **Government and industry support is necessary to drive a competitive advantage for Swiss investment management.** Maintaining liberal immigration policies, adopting “equivalency” to permit access to European institutional clients, and eliminating stamp duty and withholding tax would improve the competitiveness of Swiss investment managers.

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