SwissBanking

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Wealth management – at a global level and in Switzerland

Status report and sector trends

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Foreword

Wealth management for private clients, the traditional private banking business, is hugely important both for the Swiss financial centre and for the Swiss economy as a whole. Switzerland is the global market leader in cross-border wealth management business. Few other areas of business are currently undergoing more extensive changes than private banking, however: reason enough to take a look at the present situation this field is facing.

Being a cross-border business, international regulations naturally have a major impact Swiss wealth management. The OECD, which is seeking to establish the automatic exchange of information by 2015, or the EU's MiFID II rules, which could threaten numerous jobs in Switzerland, are just two of many examples. However, domestic regulatory initiatives such as the planned Financial Services Act (FIDLEG) will also have an impact on private banking. With this in mind, it is important for Swiss legislators and regulators to keep an eye on international developments at all times. Switzerland's competitive position must not be weakened through over-regulation.

You are reading "Wealth management – on a global level and in Switzerland", a publication issued regularly by the Swiss Bankers Association (SBA). It examines trends and topics in order to outline the current state of wealth management both globally and in Switzerland. This issue focuses in particular on how banks can access the key EU market.

I hope you find it interesting and informative.

Claude-Alain Margelisch

CEO of the Swiss Bankers Association

Executive Summary

Private financial assets worldwide benefited from the positive stock market performance, economic growth and rising savings rate in emerging markets in 2012, growing by 7.8 percent to USD 135,500 billion. The assets of individuals with freely available net assets of more than USD 1 million (high net worth individuals, HNWIs) rose by a full 10 percent in 2012 to USD 46,200 billion.

HNWI assets in the Asia-Pacific region are forecast to grow by 9.8 percent annually between now and 2015, well above the predicted growth rates for the Middle East (6.8%), Europe (6.2%) and South America (3.1%). Both the volume of assets and the number of millionaires in the Asia-Pacific region are expected to outstrip all other regions by 2014. This emerging market therefore has huge potential and offers attractive opportunities for internationally active banks.

Assets managed cross-border were up 9 percent year-on-year to USD 8,500 billion. The Swiss financial centre is still the global market leader in this area with a share of 26 percent or USD 2,200 billion. Estimates suggest that Switzerland is set to maintain its position for the foreseeable future. By 2017 it is likely to have held on to first place with a share of 25 percent, still well ahead of a rapidly growing Singapore (current market share 12%).

Global assets under management totalled USD 62,400 billion in 2012, an increase of 9 percent year-on-year. This took assets back above pre-crisis levels for the first time. Growth was driven in particular by the positive performance of the equity and bond markets.

Banks in Switzerland managed CHF 5,565 billion in 2012, 51 percent of which came from abroad and 49 percent from within Switzerland. Assets attributable to Swiss asset management totalled some CHF 2,500 billion at the end of 2012. Of this figure, about CHF 1,500 billion related to assets of institutional clients and more than CHF 450 billion to assets of investment funds managed in Switzerland. Around a further CHF 280 billion was invested in investment funds managed in other countries but distributed in Switzerland.

At the beginning of 2013 the Swiss Bankers Association and the Swiss Funds & Asset Management Association launched the Asset Management Initiative. The aim of the initiative is to further enhance Switzerland's reputation as an investment centre and boost synergies with private banking, thus enabling the Swiss financial centre to become a leading location for asset management.

The cost-income ratio across all banks in Switzerland was 70.4 percent in 2012, much higher than in 2005. The main drivers of this increase were a reduction in operating income coupled with a rise in operating expense. In view of the greater cost and regulatory pressures there has long been talk of a pressure to consolidate, particularly in the private banking sector. However, there has been less consolidation than expected in Switzerland in recent years, with a total of 14 mergers and acquisitions in the Swiss banking sector in 2012 and 2013.

The OECD is rapidly advancing towards formulating a proposal for a global model for the automatic exchange of information (AEI). One important step was the agreement reached at the G20 summit on 6 September 2013 to establish AEI as a global standard by 2015. It is safe to assume that compliance with the AEI standard will be monitored through the peer review process of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. We anticipate that implementation of the automatic exchange of information within the OECD will in the short term lead to a reduction in the volume of assets managed in Switzerland, as previously untaxed assets will have to be regularised before the move to automatic exchange of information can take place. We expect the situation to stabilise over the longer term, however, with a corresponding increase in assets managed in Switzerland.

The key issue in wealth management is cross-border market access. With this in mind, authorities and politicians must continue to support the financial centre by working towards a stable and reliable regulatory framework. Only then can the banks continue to focus on their core competence of conducting business on behalf of their clients.

1 Global wealth management

Private financial assets worldwide grew by 7.8 percent to USD 135,500 billion in 2012, while private assets managed cross-border were up 9 percent year-on-year to USD 8,500 billion. Cross-border private banking is coming under pressure due to fundamental changes in the regulatory framework in Europe and the US. Despite the difficult conditions, Switzerland is still the global market leader in cross-border private banking with a market share of 26 percent.

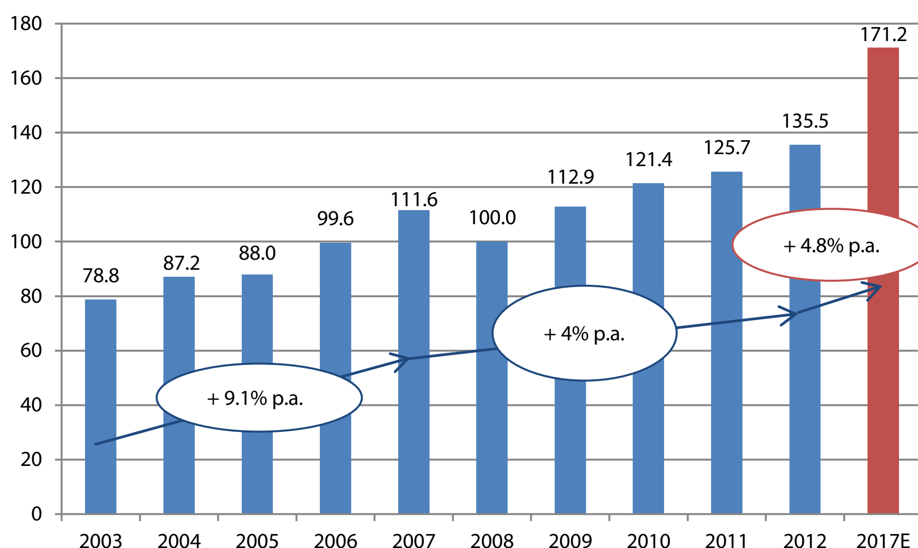
1.1 Global assets

Sharp increase in private financial assets worldwide

Private financial assets worldwide grew by 7.8 percent in 2012 to USD 135,500 billion (BCG 2013a). Global financial assets are expected to reach USD 171,200 billion by the end of 2017, representing an annual growth rate of 4.8 percent. This would put future annual growth above the average rate recorded during the financial crisis (+4% p.a.), but still well below pre-crisis levels (+9.1%). In contrast, global assets exceeded pre-crisis levels back in 2009. Private financial assets worldwide have increased by 72 percent since 2003.

1-1 Private financial assets worldwide

In USD 1,000 billions



N.B.: The Boston Consulting Group definition of financial assets includes cash, securities and other assets, but not real estate, companies and luxury goods.

Source: Boston Consulting Group, SBA

The growth in private financial assets in 2012 is primarily attributable to three factors: stock market performance, which was highly positive both in industrialised countries[1] and in emerging economies[2], economic growth and the rising savings rate in emerging markets.

1.2 Global private banking

Asset growth among high net worth individuals

Studies show that the richest one per cent of the world's population owns around 40 percent of global assets. The assets of individuals with freely available net assets of more than USD 1 million (high net worth individuals, HNWIs) rose by 10 percent in 2012 to USD 46,200 billion (Capgemini/RBC Wealth Management 2013). The increase is primarily attributable to growth among individuals with assets of more than USD 5 million. North America leads the way with USD 12,700 billion, closely followed by the Asia-Pacific region with assets of USD 12,000 billion.

Strong growth in HNWI assets in the Asia-Pacific region

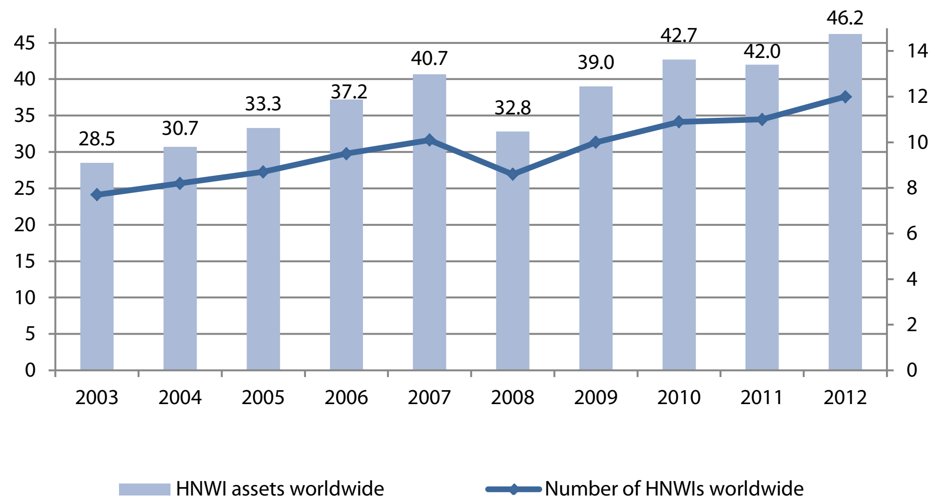
Capgemini expects HNWI assets in the Asia-Pacific region to grow by 9.8 percent per annum between now and 2015. This is a much higher growth rate than for the Middle East, where assets are set to increase by 6.8 percent. Assets in Europe will grow at a rate of 6.2 percent, largely in line with the global average of 6.5 percent. South America is expected to see significantly below-average asset growth of 3.1 percent.

North America has the most HNWIs

The number of HNWIs worldwide rose by 9.1 percent in 2012 to 12 million. North America had the most HNWIs – 3.73 million – in 2012, followed by Europe with 3.4 million.

1-2 Assets and number of HNWIs

USD 1,000 billions (LHS); millions (RHS)



Source: Capgemini, RBC Wealth Management

Increase in assets managed cross-border

Private assets managed cross-border were up 9 percent year-on-year in 2012 to USD 8,500 billion (BCG 2013a). The increase is largely due to clients in the HNWI and UHNWI (ultra-high net worth individuals) segments. UHNWIs are clients with available net assets of more than USD 100 million.

[1] Industrialised countries are defined as those in North America and Western Europe plus Japan.
[2] Emerging economies are defined as those in the Asia-Pacific region (excluding Japan), Eastern Europe, the Middle East and South America.

Cross-border private banking in Europe strong but under pressure

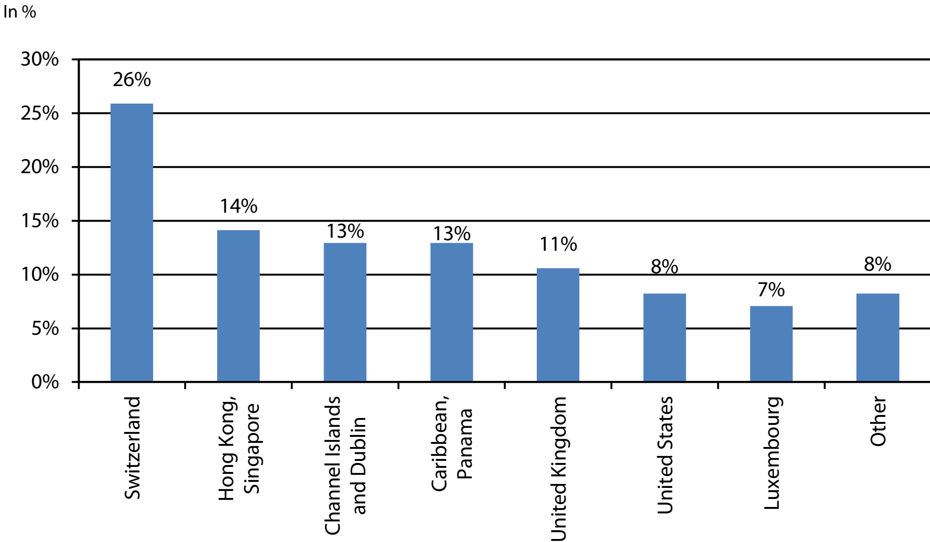
Cross-border private banking is coming under serious pressure due to fundamental changes in the regulatory framework in Europe and the US. In Europe especially, the sector is feeling the effects of these changes and the strong growth in Asia. Europe's position as a centre for cross-border wealth management has weakened in recent years. In 2009, 63.5 percent of these assets were managed in Europe's leading financial centres (Switzerland, UK, Channel Islands, Dublin and Luxembourg), compared with just 59 percent and 57.7 percent respectively in 2010 and 2011. Although the market share fell again last year, Europe still managed 56.5 percent of all cross-border assets in 2012, more than half the global volume.

Switzerland still the global market leader in cross-border private banking

Around USD 2,200 billion of cross-border private banking assets were managed in Switzerland in 2012, ensuring that it remained the global market leader with a market share of 26 percent. Estimates suggest that Switzerland will maintain this leading position for the foreseeable future. By 2017 it is likely to have held on to first place with a share of 25 percent of the cross-border private banking market, still well ahead of a rapidly growing Singapore (current market share 12%) (BCG 2013a). The key success factors for cross-border private banking in Switzerland are extensive experience, high-quality services, legal certainty and a high level of economic and political stability. To remain successful in the cross-border wealth management business, however, Switzerland's banks must also continue to develop offerings and know-how that are geared to specific needs and position Switzerland as an integer financial centre.

1-3 Market share of cross-border private banking in 2012

In %



Source: Boston Consulting Group

Continued strong growth in assets from the Asia-Pacific region in cross-border private banking

Investors from the Asia-Pacific region are expected to be the main contributors to the growth in cross-border private assets over the next five years. The majority of these new assets will be managed in the Asia-Pacific region, primarily in Singapore and Hong Kong, with these two countries' share of the cross-border private banking market set to rise to 18 percent by 2017 (BCG 2013a).

Margins remain low

It is not just cross-border but also local private banking in Europe that is under pressure. Although assets under management rose by 8 percent overall in 2012, profit margins fell by one basis point to 23 basis points (2007: 35bps). The reduction in profitability is attributable to increased regulatory requirements and changes in client preferences, in particular the trend towards more risk-averse asset allocation. Profits from private banking have fallen by more than 30 percent since the start of the financial crisis in 2008. Nevertheless, one in four European banks are now more profitable than they were before the crisis (McKinsey 2013).

1.3 Global asset management

Asset Management: wealth management based on a management mandate

Asset management is the area of wealth management that focuses on investment methods and investment processes and is conducted on the basis of wealth management mandates or suitable structures such as funds or foundations. It is therefore an important part of the overall wealth management process. Asset management services are provided to both institutional (pension funds, insurers, etc.) and private investors.

Capital in asset management on the increase for the first time since the start of the crisis

Global assets under management totalled USD 62,400 billion in 2012, an increase of 9 percent year-on-year (BCG 2013b). This took assets above pre-crisis levels for the first time. Growth was driven in particular by the positive performance of the equity and bond markets. Operating margins[3] rose by one percentage point to 37 percent, only slightly below the pre-crisis level of 38 percent. Although net new money enjoyed stronger growth than in previous crisis years, rising by 1.2 percent, it was still below the growth rates seen before the financial crisis.

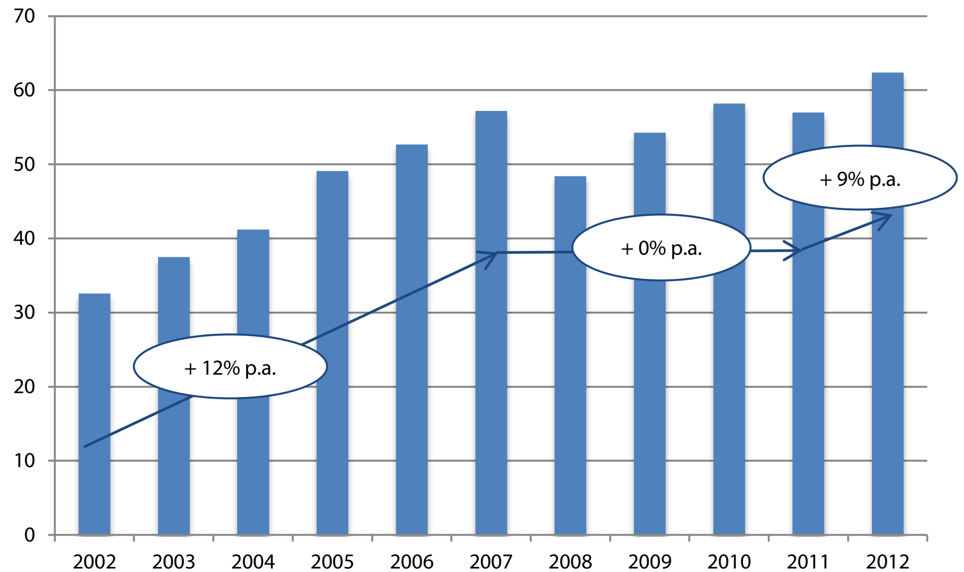
It is becoming increasingly clear that a two-tier world is being created: although growth rates in the emerging economies are higher than those in their major industrialised counterparts, the markets in these emerging economies are still small, meaning that in terms of absolute volume they are still being outstripped by growth in industrialised countries. Asia (excluding Japan and Australia) recorded the strongest asset growth of 17 percent, closely following by South America with 14 percent and South Africa and the Middle East with 12 percent. Europe and North America recorded growth of 8 percent and 9 percent respectively (BCG 2013b).

[3] Profit as a proportion of net revenue.

Recovery in global asset management

1-4 Global asset management

In USD 1,000 billions



Source: Boston Consulting Group, SBA

1.4 Trends in global wealth management business

Growing demand for customised, client-specific products

Customised, client-specific solutions are becoming increasingly important in both the institutional and private client segments. On the institutional side, liability-driven investments (LDIs) are enabling pension funds to invest in line with the maturity profile of their pension assets. Interest rate, liquidity and credit risks are covered in line with client needs in order to protect expected liabilities. In addition to customised solutions, the private clients segment is currently seeing an explosion in thematic investment solutions. In the area of defined contribution pension plans, for example, target date funds (TDFs) have now largely replaced traditional risk-based plans. TDFs are investment funds whose asset allocation becomes more conservative as the investor's retirement date (target date) approaches (BCG 2013b).

Private banking in Asia offers huge growth potential...

The number of HNWIs in emerging economies will continue to increase at a rapid rate, whereas HNWI growth in industrialised countries is set to stagnate. According to a Capgemini study, both the volume of assets and the number of millionaires in the Asia-Pacific region will outstrip all other regions by 2014. By 2014, 28 percent of HNWI assets will come from the Asia-Pacific region and 23 percent from Europe (Capgemini/RBC Wealth Management 2013). The emerging Asia-Pacific market therefore has huge potential and offers attractive opportunities for both local and international banks.

...but also presents major challenges

Tapping into the markets of the emerging Asia-Pacific region is not without its difficulties for financial institutions, however. They face relatively high costs coupled with a comparatively long investment period until breakeven, and margins in Asia are traditionally lower than those in Europe (BCG 2012). In addition, Asian clients often attach great importance to being served by client advisors who understand their culture. Wealth managers therefore have to tailor their services to regional requirements and involve local talents. In other words, wealth managers will only be successful and able to exploit the market potential of this emerging region if they can adapt to a discerning clientele with specific needs.

Private Banking 2.0: Cutting-edge technology shapes the client-advisor relationship

Individual client requirements, new technologies and social media are opening up new opportunities for wealth managers, but also present new challenges. For example, the wealth manager of the future must have excellent IT skills. However, close cooperation with clients and the provision of round-the-clock access to their financial plans also call for suitable tools and techniques. Integrated software platforms with modular applications are required to offer products that are tailored to individual needs. According to Capgemini, HNWIs under 40 years of age are the group most interested in digital channels for private banking. It is not just a case of financial services providers having to adapt their communication methods and infrastructure accordingly, however; they can also benefit from potential cost savings.

Deterioration in conditions due to the flood of regulation

The level of regulatory complexity in both wealth management and asset management is set to increase. Financial services providers report[4] that regulatory requirements are often out of touch with reality and actually result in a greater bureaucratic burden rather than any improvement in investor protection. If they are to be successful in the lucrative but highly competitive wealth management and asset management market, however, financial services providers have to adapt as efficiently as possible to the considerably increased requirements of regulatory authorities and clients.

Major step towards AEI

The OECD intends to establish the automatic exchange of information (AEI) by 2015. The OECD's timetable is very ambitious. A memorandum of understanding and a uniform reporting standard are to be presented by February 2014, with a technical solution for the electronic exchange of data to follow by the middle of the same year. Wealth management will therefore focus increasingly on integrity, transparency and not least performance.

More mergers, acquisitions and cooperation

The changes in both the regulatory framework and client requirements are expected to lead to consolidation in the global wealth management market over the coming years. The research company Aite anticipates that large wealth managers will increasingly acquire their competitors in order to generate growth and counter growing cost pressures. Small and medium-sized financial institutions, meanwhile, will build partnerships with other banks and with companies outside the sector such as software providers (Aite Group 2013).

[4] Survey of 141 financial portfolio managers conducted by DAB Bank.

2 Wealth management in Switzerland

The Swiss banking sector is extremely heterogeneous and offers a wide range of business models. Banks in Switzerland managed around CHF 5,565 billion as at the end of 2012, 51 percent of which came from abroad. The sector is keen to further enhance Switzerland's reputation as an investment centre and boost synergies with asset management, which is why the Swiss Bankers Association and the Swiss Funds & Asset Management Association (SFAMA) launched the Asset Management Initiative.

2.1 The Swiss banking sector

297 banks, 3,294 branches, 105,166 employees

The wide range of business models contributes to the stability of the Swiss banking sector. In addition to the international institutes, the domestic banks are also vitally important for Switzerland as a business location.

2-1 Banks in Switzerland at a glance

	2000	2005	2010	2011	2012
Number of banks in Switzerland	375	337	320	312	297
of which foreign banks	148	150	154	148	131
Number of branches	3,661	3,497	3,405	3,338	3,294
of which abroad	228	298	284	269	263
Employees in Switzerland (in 1,000)	112	101	108	108	105
Total assets, in CHF billions	2,125	2,846	2,715	2,793	2,778
of which foreign business, in CHF billions	1,196	1,849	1,452	1,424	1,286

Source: Swiss National Bank

Private banking is the key income component

Net income from commission business and services, which is generated primarily in private banking, fell by one per cent in 2012. It is still the key income component for banks in Switzerland, however, accounting for some 40 percent of their profits.

254 banks reported a profit for the year

A reduction in profits for the year and an increase in losses for the year among banks in Switzerland led to a fall in aggregated net profit from CHF 13 billion to CHF 186.1 million. 254 reported a profit for the year, while 43 reported a loss. The main reasons for the fall in aggregated net profit were provisions created by the big banks for litigation, regulatory and similar matters, high impairment losses on goodwill and other non-financial assets and extraordinary expenses relating to the new accounting standards for pension funds. The aggregated return on equity and the return on assets also suffered for the same reasons. The cost situation also deteriorated, with the cost-income ratio across all banks in Switzerland rising to 70.4 percent in 2012, much higher than in 2005. The main drivers of

this increase were a reduction in operating income coupled with a rise in operating expense, due in part to the stricter regulatory requirements.

2-2 Key figures for banks in Switzerland

	2000	2005	2010	2011	2012
Operating income, in CHF billions	68.7	68.6	61.5	59,1	59
Operating expense, in CHF billions	37.5	38.9	42.5	40.4	41.5
Gross profit, in CHF billions	31.2	29.7	18.9	18.7	17.4
Net profit, in CHF billions	19.2	24.7	10.6	13.0	0.186
Cost-income ratio (operating expense/operating profit)	54.6%	56.7%	69.2%	68.3%	70.4%
Net interest income, as % of operating income	34.4%	32.8%	32.2%	35.3%	35.5%
Net income from commission business and services, as % of operating income	42.1%	40.9%	40.5%	40.0%	39.7%
Return on equity	16.3%	18.3%	7.4%	8.5%	0.1%

N.B.: Return on equity is defined as net profit divided by equity.

Source: Swiss National Bank

Low consolidation trend to date

With cost-income ratios rising there has long been talk of a pressure to consolidate, particularly in the private banking sector. Switzerland has seen fewer consolidations than expected in recent years, however, with the acquisitions of Sarasin by the Brazilian Safra Group, ABN Amro (Switzerland) by Geneva-based Union Bancaire Privée, and Clariden Leu by Credit Suisse (albeit within the same group) causing a particular stir. Most recent transactions were triggered by financial difficulties, conditions for government assistance (requirement to withdraw from certain markets) and legal disputes (in particular the US tax dispute). Despite these structural changes there has been no increase in consolidation among institutions in Switzerland (RolandBerger 2013).

17 exclusions and two new additions

The number of banks in Switzerland fell from 312 to 297 institutions as at the end of 2012. Five banks were taken over, six were liquidated and one had its bank status removed. Bankruptcy proceedings were initiated against one institution, and four branches of foreign banks were also closed. Two new banks were also added (Aquila & Co. AG, Quilvest (Switzerland) Ltd.). Two banks announced in 2013 to withdraw from banking business (Bank Frey & Co. AG and Bank Gutenberg AG).

2-3 M&As and integrations of banks in Switzerland, 2009 to October 2013

Year	Event
2013	PKB Privatbank announces its acquisition of the Lugano branch of Liechtensteinische Landesbank (Switzerland) Scheduled to be completed in the 4th quarter of 2013
2013	Banque Cramer announces its integration of Banque de Dépôts et de Gestion Scheduled to be completed in the 4th quarter of 2013
2013	Union Bancaire Privée announces its acquisition of Lloyds Banking Group's international private banking business
2013	Banque J. Safra and Bank Sarasin merge to form Banque J. Safra Sarasin
2013	P&P Privatbank merges with wealth manager Sallfort to form Sallfort Privatbank
2013	Group-internal integration of Deutsche Bank (Switzerland) and Sal. Oppenheim
2013	Bank Julius Baer acquires the non-US wealth management business of Bank of America subsidiary Merrill Lynch
2013	Falcon Private Bank acquires Clariden Leu Europe (wholly owned subsidiary of Credit Suisse)
2012	Bank Julius Baer acquires Bank of China (Suisse) SA
2012	Raiffeisen Switzerland acquires Notenstein Privatbank AG
2012	Nettobank AG acquires the non-US business of its parent company Wegelin & Co. and is renamed Notenstein Privatbank AG
2012	PKB Privatbank SA acquires CMP Banque Privée (Suisse) SA
2012	Group-internal integration of Clariden Leu into Credit Suisse
2012	Bank Leumi acquires Banque Safdié SA and merges it with Bank Leumi Switzerland to form Leumi Private Bank
2011	Group-internal integration of Spar + Leihkasse Steffisburg, Valiant Privatbank and Banque Romande Valiant to form Valiant Bank
2011	Union Bancaire Privée acquires the Swiss arm of Dutch ABN Amro Bank
2011	Bank CA St. Gallen and Swissregiobank merge to form acrevis Bank
2011	Banque Cantonale Vaudoise acquires Banque Franck Galland and merges it with Banque Piguet to form Banque Piguet Galland & Cie
2011	Banca Credinvest SA acquires FIDEURAM Bank (Suisse) SA
2010	Bank von Roll acquires Atlantic Vermögensverwaltungsbank
2010	Banque Cantonale de Fribourg acquires Caisse d'épargne de Vuisternens-devant-Romont
2010	PKB Privatbank acquires Banca Gesfid
2010	Luzerner Kantonalbank integrates its subsidiary Adler & Co. AG
2010	Banca dello Stato del Cantone Ticino acquires 80% of the shares of UniCredit (Suisse) Bank
2010	Hinduja Bank (Switzerland) acquires Banca Commerciale Lugano
2010	BNP Paribas (Suisse) SA acquires Fortis Banque (Suisse) SA
2010	Bank Julius Baer acquires ING Bank (Switzerland) Ltd
2010	Banque Cramer, a subsidiary of Norinvest, merges with Banque de Patrimoines Privés
2009	Banca Aletti & C. (Suisse) SA acquires Bipielle Bank (Suisse)
2009	Basler Kantonalbank acquires AAM Privatbank AG from Basellandschaftliche Kantonal-bank
2009	Deutsche Bank (Switzerland) Ltd acquires the banking business of Rüd, Blass & Cie AG
2009	LGT Bank (Switzerland) Ltd. acquires Dresdner Bank (Switzerland) Ltd.
2009	Bank Vontobel Ltd. acquires Commerzbank (Switzerland) AG

N.B.: This table only shows a selection and makes no claim to be complete.

Source: SBA

Four private banks change their legal structure

In January 2013 Geneva's two biggest private banks Pictet & Cie and Lombard Odier & Cie announced that they were to change their legal structure from a pure limited partnership to a corporate partnership with effect from 1 January 2014. Later on in the year, Mirabaud & Cie. and La Roche 1787 also decided to become limited companies in 2014. The reasons for the transformation are the rapidly changing regulatory environment and strong growth, particularly abroad. The change of legal structure will facilitate international expansion and enable the banks to better exploit growth potential. As a result, the circle of traditional Swiss private banks will get smaller next year and fall from eleven to seven institutions.

Backing for the Asset Management Initiative

The US financial firm BlackRock, the world's biggest wealth manager, announced in summer 2013 that it was to expand its presence in Switzerland. BlackRock CEO Laurence Fink told the Swiss Economic Forum in 2013 that Switzerland was one of the best locations for establishing an asset management or wealth management business. Fink believes that financial products denominated in Swiss francs will be a more attractive proposition for investors going forward.

Number of employees falls by 2.7 percent

The generally unstable economic environment in Europe and the US, increasing regulatory and cost pressure and mergers were also reflected in job cuts in the Swiss banking sector. According to the SNB, the number of domestic employees fell by 2.7 percent or 2,932 jobs in 2012 to 105,166 full-time equivalents.

2.2 The Swiss wealth management industry

Multi-faceted wealth management industry

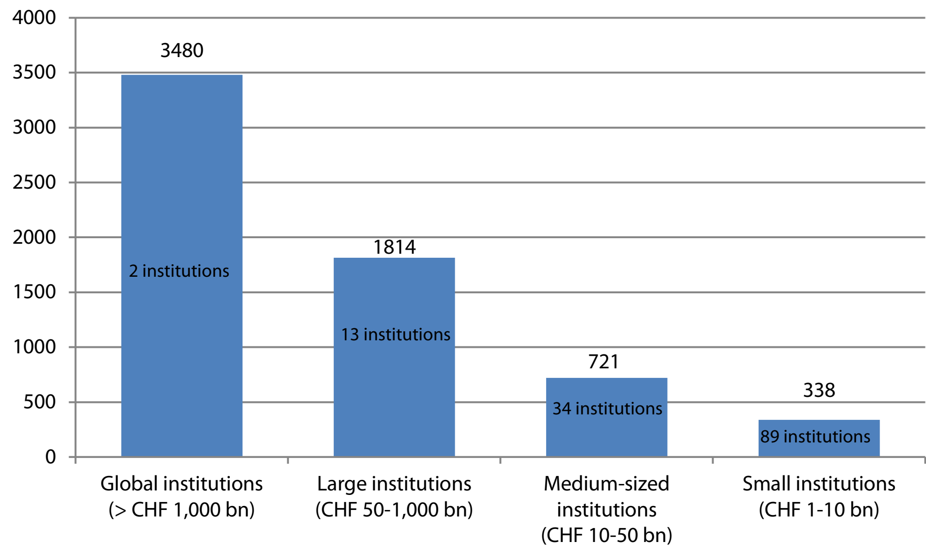
The wealth management industry in Switzerland is diverse and uses various business models. There are a small number of global financial services providers and a large number of niche operators. The business models vary depending on the size of the bank. Generally speaking, the integrated business model (the universal bank) remains the preserve of the larger institutions. These cover the full range of banking activities, from private and corporate business to capital market transactions and asset management. The smaller banks, by contrast, pursue a niche strategy, focusing on core competences.

Breakdown by assets under management

Banks in Switzerland are categorised on the basis of the volume of assets under management: global banks 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 50-1,000 billion. Medium-sized institutions manage CHF 10-50 billion, mostly employing more than 100 staff in Switzerland. Small banks manage CHF 1-10 billion. Institutions with less than CHF 1 billion in assets under management are not included.

2-4 Classification of banking institutions (2012)

Assets under management in CHF billions



N.B.: A total of 138 banks were included, managing assets totalling CHF 6,333 billion. Micro asset managers (AuM < CHF 1 billion) were 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, SBA

Independent wealth managers are the largest para-banks

Para-banks include financial services providers without a banking licence. Independent wealth managers make up the lion's share of the Swiss parabanking sector. In general, those companies manage their clients' assets themselves and provide advice on money and wealth management issues. However, under the Swiss Banking Act, such wealth management companies are prohibited from accepting retail deposits. In a 2010 report, the Swiss Financial Market Supervisory Authority (FINMA) suggested that there were between 2,800 and 3,600 independent wealth managers in Switzerland, which is roughly ten times the number of banks. Although there are no official figures, it may be assumed that the number of employees in this field is a fraction of those employed in the banking sector.

New rules proposed for independent wealth managers

Independent wealth managers are subject to the Anti-Money Laundering Act and must either be approved by FINMA or be a member of a recognised self-regulatory organisation (SRO). Further, they must generally join a recognised industry organisation in order to avoid the duty to obtain authorisation as a distributor under the Collective Investment Schemes Act. Less regulation and supervision of independent wealth managers could cause distortion of competition to the detriment of banks. There are efforts underway to make independent wealth managers subject to prudential supervision (see section 2-5).

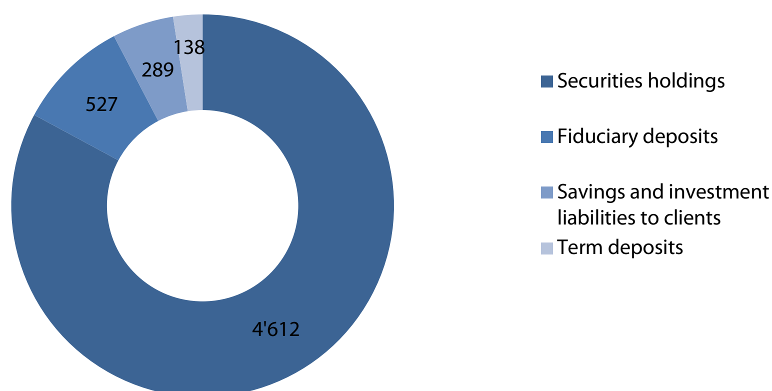
2.3 Assets under management in Switzerland

CHF 5,566 billion managed in Switzerland

Total assets managed by banks in Switzerland stood at around CHF 5,566 billion as at the end of 2012. This corresponds to a year-on-year increase of CHF 320 billion or 6.1 percent. 51 percent of assets under management came from abroad as at the end of 2012, 49 percent from domestic clients. Assets under management include the following positions: securities held in client accounts, fiduciary deposits, savings and investment liabilities to clients and term deposits.

2-5 Breakdown of assets under management (2012)

In CHF billions



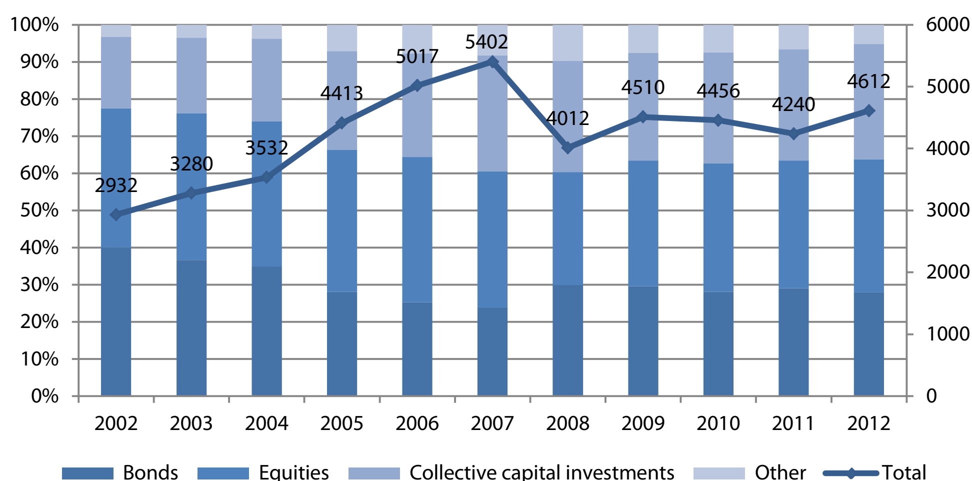
Source: Swiss National Bank

Lion's share invested in shares and in collective investment schemes

At the end of 2012, custody accounts in Switzerland contained CHF 1,654 billion in shares (+13.4%), CHF 1,427 billion in units of collective investment schemes (+12.2%) and CHF 1,289 billion in bonds (+4.7%) (see figure 2-6). These three asset classes make up 95 percent of all money held in Swiss custody accounts.

2-6 Securities holdings by asset class

Percentages (LHS), total holdings in CHF billions (RHS



Source: Swiss National Bank

Fiduciary deposits mainly sought by foreign clients

Short-term fiduciary deposits, which are mainly denominated in US dollars and euros, are made by the banks in their own name but for the account and at the risk of the investor (beneficiary). These are mainly sought by foreign clients (82% of fiduciary deposits reported).

79 percent 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 526.5 billion and CHF 289.1 billion respectively at the

end of 2012. Savings and investment liabilities to clients include vested benefits accounts (Pillar II) and tied retirement savings (Pillar III). Foreign clients account for just 12 percent of these funds. By contrast, 79 percent of term deposits are from foreign clients.

2.4 Asset management in Switzerland

CHF 2,500 billion under Swiss asset management

The value of assets under direct Swiss asset management stood at around CHF 2,500 billion as at the end of 2012, with institutional client assets representing around CHF 1,500 billion of this total and investment funds managed in Switzerland more than CHF 450 billion.

Additional opportunities of up to CHF 900 million identified

In contrast to private banking, Switzerland is not yet a leading international location for asset management. The aim of the Asset Management Initiative is to further enhance Switzerland's reputation as an investment centre and boost synergies with private banking. A study conducted jointly by the SBA and BCG identified additional opportunities for increasing net income by up to CHF 900 million by 2015 (BCG and SBA 2011).

Asset Management Initiative

In December 2012, the SBA and the SFAMA published a white paper on asset management in Switzerland. The objective is to expand asset management in Switzerland, making it a further cornerstone of the Swiss financial centre. Asset management in Switzerland is an important mainstay of the Swiss financial sector. On the international scene it is to stand for the highest level of reliability, independence and quality and to be known and recognised for these characteristics throughout the world. At the beginning of 2013, the Asset Management Initiative was launched in order to push forward the implementation of recommendations contained in the working paper. The initiative is now driven by the SBA, the SFAMA, the Swiss Insurance Association (SIA), the Swiss Association of Pension Funds (ASIP) as well as the Conference of white of Investment Foundations (KGAST). The main areas of focus are "standards in asset management" and the issue of "adequate supervision" as essential requirements in relation to the overarching issue of market access.

There is no firm set of rules regulating asset management in Switzerland. Instead, it is regulated through organisations (via Banking Act, insurance legislation, circulars published by the supervisory authority) or products (via Collective Investment Schemes Act). The Initiative seeks a standard approach irrespective of whether a bank, an insurance company, an investment fund, a pension fund, investment foundation or independent asset manager is involved. The regulatory framework is to be based on professional standards of management, codes of conduct and best practices and procedures and must be efficient, transparent and internationally recognised and accepted.

The Initiative also aims to strengthen Switzerland as a business location and to provide a comprehensive range of training for specialists in the field of asset management. These framework conditions are to make it possible for the Swiss financial centre to present itself to foreign asset managers as an attractive place of work.

Multi-faceted Swiss fund market

The fund market in Switzerland is characterised by its broad range of products from domestic and foreign companies. The funds cover all key investment markets and allow investors to implement their investment strategies in a targeted way. In 2012, a total of 1,382 funds were domiciled in Switzerland. A further 6,105 funds established in foreign jurisdictions were licensed for public distribution in Switzerland. The asset management of many of these foreign funds takes place in Switzerland. This illustrates the significance of Switzerland both as an asset management and distribution location. As well as a liberal approach to distribution, the Asset Management Initiative focuses largely on ideal conditions in order that yet more foreign funds can be managed in Switzerland.

Investment fund assets in Switzerland stood at CHF 731 billion in August 2013

The total volume of the Swiss fund market stood at around CHF 731 billion in August 2013, which compared to the same month in the previous year corresponds to an increase of 4.6 per cent or CHF 32 billion. Of this, around CHF 280 billion comes from foreign and CHF 450 billion from domestic asset managers. Net inflows stood at CHF 1.4 billion in August 2013. 39.7 per cent of this, or CHF 290.2 billion, is attributable to funds for institutional investors (SFAMA 2013). The ten largest providers on the Swiss fund market together accounted for a market share of 69 percent in August 2013. Eight of these ten providers are Swiss companies.

Switzerland as world's biggest market for structured products

As at the end of July, CHF 171 billion was invested in structured products. This corresponds to a fall of 7.1 percent compared to the same month in the previous year and 3.7 percent of all money deposited in Swiss banks. Despite this fall, Switzerland is the world's biggest market for structured products and is considered dynamic and very innovative.

2.5 Trends in the Swiss wealth management industry

AIFMD in force in the EU since July 2011

On 21 July 2011, the AIFMD entered into force in the EU and has already been transposed into national law in the majority of EU member states. "AIFMD" stands for the EU Directive on Alternative Investment Fund (AIF) Managers. The aim of the AIFMD is to establish a common supervisory and regulatory framework for asset management and the distribution of alternative investment funds. Implementation of the AIFMD in Switzerland has far-reaching significance for market access.

EU marketing passport possible from 2015

During the drafting of the AIFMD, possible EU market access for non-member states was still very unclear. In the final version of the Directive, a possibility was provided to delegate portfolio management and/or risk management for AIF domiciled in the EU to an asset manager subject to Swiss supervision. Since Switzerland is affected by the third country provisions in this Directive (possible delegation of portfolio management to asset managers domiciled in a third country - EU marketing passport possible from 2015) and in order to remain an attractive location for asset managers at the heart of the EU, Switzerland quickly transposed the AIFMD into national law. Accordingly, the Federal Council opened the consultation procedure for the amendment of the Collective Investment Schemes Act (CISA) at the beginning of May 2011. This established all necessary requirements for the delegation. In relation to the EU marketing passport, all conditions in this regard are now fulfilled. A corresponding decision from the European Securities and Markets Authority (ESMA) is awaited in 2015. In the meantime, Switzerland may still undertake marketing activities in individual EU states under private placement rules which are expected to be phased out after 2018.

Already various cooperation agreements between Switzerland and EU

One of the conditions for the delegation of management of European alternative investment funds to a Swiss asset manager or for their distribution in EU member states to professional investors is a cooperation agreement between Switzerland and the EU. Based on a memorandum of understanding, FINMA and the ESMA had already agreed to cooperate regarding the supervision of alternative investment funds in December 2012. On 16 July 2013, FINMA concluded agreements with the supervisory authorities of 28 EU and EEA member states. These entered into force on 22 July 2013 and regulate collaboration and exchange of information in respect of the supervision of managers of alternative investment funds. All essential points are now satisfied so that Swiss asset managers can distribute their AIFs to qualified investors and/or can assume asset management for EU-domiciled funds.

MiFID II and MiFIR as major brake on profitability

In autumn 2011, the EU Commission proposed a far-reaching review of financial market regulation with the Markets in Financial Instruments Directive (MiFID II) and the applicable Regulation (MiFIR). The third country regime contained here would seriously impede market access for Swiss financial service provider and, for all practical purposes, make such access impossible for smaller institutions. Current proposals provide that financial institu-

tions in third countries will only have access to the EU market if applicable national law is recognised by the EU as equivalent to EU law. Further, cross-border transactions could only be conducted through a branch in an EU member state. Even if the full impact of MiFID II on the Swiss financial centre cannot yet be definitively assessed, the industry does agree that MiFID II will be a major impairment to profitability and will lead to the loss of jobs. If cross-border business were completely prohibited, this would place at least 7,000 jobs in the Swiss banking sector at risk. MiFID II/MiFIR are currently in a crucial phase of the legislative process. Major points of contention will be discussed in tripartite negotiations between the EU Council, Parliament and Commission. A solution must be found by the end of 2013 if these are to be dealt with in the current legislative period.

MiFID II and review of taxation of savings: comprehensive package required

Switzerland would like to link negotiations on the EU Agreement on the Taxation of Savings to those on MiFID II. The Federal Council adopted a corresponding draft mandate at the beginning of October. According to the Swiss Federal Department of Foreign Affairs (FDFA), the Agreement on the Taxation of Savings is only to be amended if a satisfactory solution for the rule with regard to third countries and the provision of cross-border financial services can be found within the framework of MiFID II.

FATCA with relatively low impact

Apart from increased costs, the Foreign Account Tax Compliance Act (FATCA) is likely to have a much lesser impact on the Swiss asset management industry than MiFID II. One the one hand, the share of US clients is relatively small and steadily decreasing, and on the other hand Switzerland and the US have agreed a slightly simplified implementation of FATCA. Swiss financial institutions must implement FATCA from 1 July 2014. The agreement means that information will not be passed directly between tax authorities, but rather the banks will supply information on US accounts directly to US authorities, provided the account holder has given consent to the disclosure of this information. Otherwise, US authorities will be able to access the required client data by way of administrative assistance. At the beginning of October 2013, a committee[5] called for a referendum on FATCA. The initiators have until 16 January 2014 to collect the necessary 50,000 signatures for a referendum. A no vote would have catastrophic consequences for Swiss banks: they would be excluded from the important US capital market.

Financial Services Act must be approached with caution

A Financial Services Act (FIDLEG) would ensure that conduct and product rules are adhered to at the point of sale across sectors. Existing regulations are to be supplemented, harmonised and adjusted to the standards of the future MiFID II. FIDLEG aims to achieve equal treatment, competitive neutrality, investor protection and market access. A key change in asset management is the planned prudential supervision of independent wealth managers by FINMA, thus creating a "level playing field" between banks them. The consultation on FIDLEG is expected to open in the first quarter of 2014. The banking sector basically welcomes the drafting of FIDLEG and has signalled its readiness to collaborate on preliminary work for the legislation. A Swiss finish is to be avoided if the Swiss banking sector is not to be placed at a disadvantage to other countries.

Swiss banking centre also affected by foreign regulation

The automatic information exchange already mentioned in section 1.4 will also impact on the Swiss financial centre. We expect assets managed in Switzerland to fall over the short term following the introduction of automatic information exchange on a global level. This will be due to legacy issues. We expect the situation to stabilise over the longer term, however, with a corresponding increase in assets managed.

Domestic bank-client confidentiality in discussion

Demands for the repeal of bank-client confidentiality, also for domestic clients, are becoming louder in Switzerland. These demands run contrary to the Swiss understanding of state which is based on a traditional relationship of trust between citizen and state. Compared to its neighbouring countries, Switzerland is characterised by the high level of tax honesty among its citizens. The SBA therefore continues to support tried and trusted mechanisms

[5] This includes representatives from the Swiss People's Party (SVP), the Campaign for an Independent and Neutral Switzerland (AUNS), the Geneva Citizens Movement (MCG), the Ligue vaudoise, the Lega dei Ticinesi and the Geneva Movement "Le Lobby des Citoyens".

of tax policy such as self-declaration by citizens and the withholding tax. Basic mistrust by the state against its citizens is therefore not the right approach.

A group of experts will formulate future financial market strategy

As already mentioned, access to foreign markets is absolutely crucial for the Swiss financial centre. An expert group led by Professor Aymo Brunetti will deal with the issue of ensuring market access as well as improving competitiveness. We expect the expert group to provide pointers on how banks are to structure their wealth management business models in future.

3 Conclusion

Growth potential in the Asia-Pacific

Growth opportunities for wealth management are currently to be found in the emerging Asia-Pacific market, where both the volume of assets and the number of millionaires is likely to outstrip all other regions by 2014. This market potential is to be exploited, provided that the specific needs of this discerning group of clients can be properly taken into account.

Off-the-peg products are losing significance

Specific client needs will in future also impact on the product range in wealth management. Customised, client-specific solutions are therefore becoming increasingly important in both the institutional and private client segments.

Market access must be secured

Cross-border private banking will remain a cornerstone of the Swiss financial centre in future. Future performance also depends crucially on the regulatory framework. Banks must also have non-discriminatory access to their key markets in future. For the Asset Management Initiative, market access is also fundamental. Support from politicians and authorities in the matters is also essential. In bilateral negotiations, they can ensure in good time that the right future course is set.

Establishing Switzerland as an asset management centre

Alongside cross-border private banking, asset management is also to be strengthened. If Switzerland's reputation as an investment centre can be strengthened and synergies with private banking boosted, net earnings in this business field could increase by up to CHF 900 million by 2015.

Reliable framework conditions are essential

Authorities and politicians must continue to support the financial centre with a stable and reliable regulatory framework if banks are to be free to concentrate on their core competences and do business on behalf of clients. This includes, above all, maintaining traditional location factors in Switzerland: political, economic and fiscal stability, legal certainty as well as a competitive tax system. In the past, banks and their clients have been able to benefit from all these factors. Yet these are now at risk from constant amendments to Swiss law, uncertainty in connection with the harmonisation of taxation practices and the movement away from an opening up of the market. For their part, banks must ensure that sufficient qualified staff is available.

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