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Wealth management in a period of change

Facts, figures and industry trends – globally and in Switzerland

Wealth management in a period of change

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Foreword

Dear readers,

In your hands you hold the Swiss Bankers Association's (SBA) latest study on the most important business segment for the Swiss banks – wealth management. The study examines trends and issues in order to illustrate the current state of wealth management both globally and in Switzerland.

The continued growth of wealth in certain regions of the world holds opportunities for the Swiss banks. Overall, Swiss institutions are very well positioned, well-capitalised and innovative. As such, they have a solid basis from which to service new and existing customers.

In addition to a strong and robust domestic market, Switzerland's market share of the cross-border wealth management business is consistently high, but other financial centres are catching up. Our banks are subject to strict regulation, which on the one hand strengthens our financial centre's reputation for reliability and solidity. On the other hand, however, being subject to requirements that far exceed those of other comparable financial centres is damaging to the competitiveness of the Swiss banks. The same applies for undifferentiated regulations that fail to take into account the diversity of the banking sector. The political framework conditions have also worsened for the banks, for example their restricted access to the EU market.

My conclusion is: We must ensure the openness and international focus of the financial centre at all levels. If we do so, we will succeed in remaining the first choice for wealthy customers from around the world in future, which is something that all the banks in Switzerland will benefit from.

I hope you find this study interesting and informative.

Claude-Alain Margelisch
CEO of the Swiss Bankers Association (SBA)

1 Executive Summary

With one-quarter of global assets under management, Switzerland remains one of the biggest cross-border financial centres for private banking. Despite this fact, the Swiss wealth management industry cannot afford to rest on its laurels. Competing wealth management centres – particularly in Asia – are closing the gap, and some of these have significantly higher growth rates than Switzerland.

The Swiss wealth management banks are confronted with a multitude of challenges that have an impact on long-term success. The fact that the regulatory environment for the banks has become increasingly demanding in recent years is general knowledge, and this trend is expected to continue. Just as in every other industry, customers have growing expectations of their banks in terms of transparency and their technological offering. The increase in competitive pressure is resulting in greater cost pressures, which are further fuelling consolidation in private banking. Institutions are becoming larger as a result of mergers, an effect which is expected to translate into greater profitability. The unexpected appreciation of the Swiss franc resulting from the lifting of the minimum exchange rate with the euro, and the introduction of negative interest rates by the Swiss National Bank have also had a major impact on wealth management institutions. And finally, the high administrative costs arising from new regulatory requirements (such as increased investor protection), are cause for concern.

There is, however, no reason to be pessimistic. Global wealth is rising, particularly in Asia – and therefore so is the need for the highest levels of service quality in private banking. With their outstanding service and over 200 years of experience, Swiss banks are particularly well-positioned to seize these new international opportunities. Due to its political stability and high level of education, wealthy investors will continue to look to Switzerland as a safe haven for their assets. Swiss institutions must, however, seize potential additional opportunities in order to ensure long-term customer retention. Part of this process entails the alignment of business models with the trend toward digitalisation, the further training of bank employees, as well as addressing the rising demand for sustainable and social investments.

The discussions surrounding economic policy must be used to facilitate the creation of the best possible framework conditions for wealth management. The Swiss banks must be guaranteed unfettered access to their key markets. This is the only way to preserve jobs in Switzerland. The Swiss financial centre must not be at a disadvantage in international tax matters, in particular with regard to the implementation of the automatic exchange of information (AEOI). A level playing field must be established for all comparable financial centres. And finally, regulation that goes beyond international standards (Swiss finish) and that puts Swiss financial services providers at a disadvantage vis-à-vis their competitors abroad must generally be avoided.

2 Global wealth management

In 2014, global private financial assets rose by 11.9 percent to USD 164,300 bn. This increase is primarily attributable to the growth of existing assets. The slight economic recovery in industrialised countries, and the continued loose monetary policy pursued by a number of key central banks in particular, were drivers for the performance of securities markets. Further to this, consumption was boosted by rising incomes, which resulted in an economic upswing, primarily in countries experiencing rapid growth. The cumulative wealth of individuals with assets in excess of USD 1 m rose by 7.2 percent in 2014 to USD 56.4 tr. Despite challenging framework conditions, Switzerland remains the global leader for cross-border private banking with a market share of 25.0 percent.

2.1 Global assets

Rise in global private financial assets

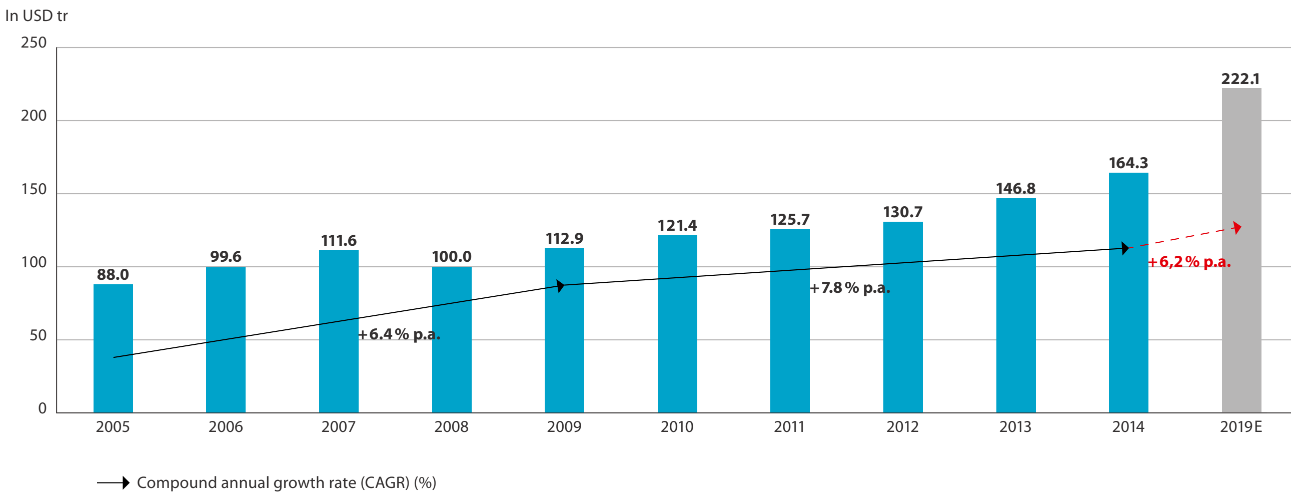
Global private financial assets increased by 11.9 percent in 2014 and amounted to USD 164.3 tr at the end of the year (BCG 2015a). The rise in private financial assets in 2014 is primarily attributable to the strong performance of equity markets. The first reason for this is the slight economic recovery in the industrialised countries[1] and the continued loose monetary policy pursued by key central banks. The second reason is that consumption in emerging countries[2] was boosted by rising incomes, which resulted in strong economic growth, particularly in developing economies such as Chile, Malaysia and the United Arab Emirates.

Further solid growth of global private assets expected leading up to 2019

Global private financial assets are expected to reach USD 222.1 tr by the end of 2019. This corresponds with an annual growth rate of 6.2 percent, which is twice as high as during the financial crisis and the onset of the sovereign debt crisis in 2011 (3.0%). It will not be possible, however, to match the pre-crisis growth rate and the rate achieved between 2012 and 2014 of just over 9.0 percent. Nevertheless, global private financial assets have more than doubled since 2003 (+108.5%).

Fig. 1

Global private financial assets



Note: Financial assets as defined by The Boston Consulting Group comprise cash, securities and other assets, not, however, real estate, companies or luxury goods.

Sources: Boston Consulting Group, SBA research

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

2.2 Global private banking

The number of global households with financial assets in excess of USD 1 m rose by just under 1 m to 14.6 m in 2014. Combined, these households account for a 41.0 percent share of global private financial assets. The assets held by these HNWI households (HNWI: High Net Worth Individuals) experienced above-average growth in 2014, rising by 7.2 percent to USD 56.4 tr. The key driver for this increase were individuals with disposable net assets of over USD 30 m (Ultra HNWI). The total number of these individuals experienced the most significant rise in 2014 (+8.6 percent). The total number of HNWIs reached 14.6 m at the end of 2014, but compared to an increase of 6.7 percent in 2014, did not rise as markedly as in the previous year (+14.2%). The Asia-Pacific region, with 4.7 m HNWIs, overtook North America (4.68 m HNWIs) by a small margin to take the top ranking. The number of HNWIs in Europe amounted to 4.0 m. However, at USD 16.2 tr, HNWI assets in North America remain in first place ahead of the Asia-Pacific region with assets of USD 15.8 tr (Capgemini/RBC Wealth Management 2015).

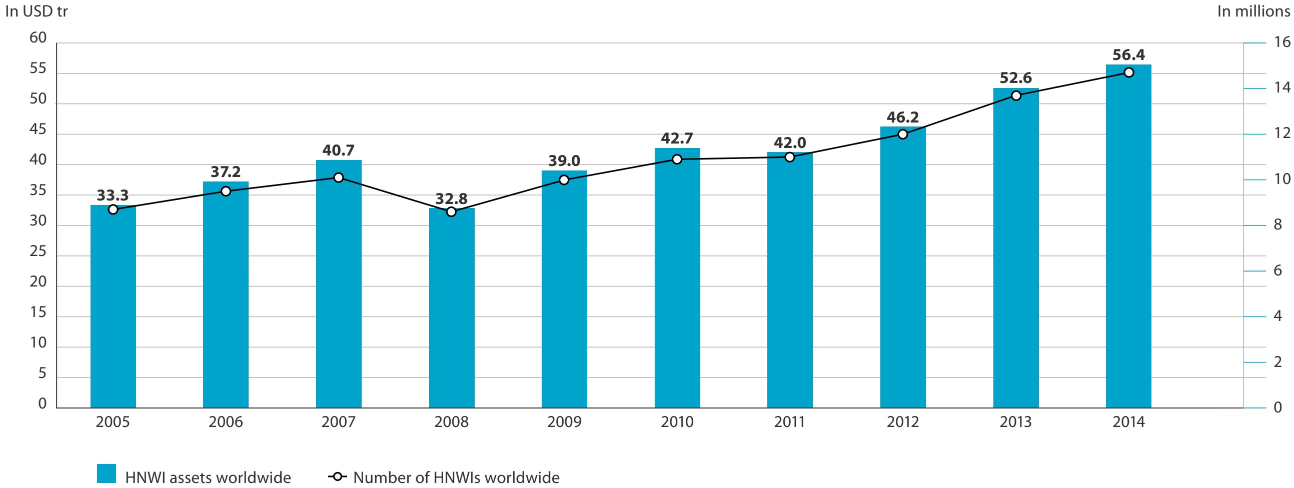
Rise in assets held by high net worth individuals

In its *World Wealth Report 2015*, Capgemini forecasts an annual growth in HNWI assets of 10.3 percent for the Asia-Pacific region by 2017. This stands in contrast to a moderate projected annual growth of 7.0 percent for North America. It is likely that the Asia-Pacific region will overtake North America in 2015 in terms of total HNWI assets. Assets in Europe are expected to grow 8.4 percent by the end of 2017. This is 2 percentage points higher than between 2009 and 2014. According to Capgemini, assets in Latin America will experience a below-average growth rate of 3.1 percent. Low commodities prices, a subdued mood in Latin American equity markets and Brazil's weakening economy are listed as reasons for this development.

HNWI assets in Asia-Pacific catching up quickly

Fig. 2

Assets and number of HNWIs



Source: Capgemini/RBC Wealth Management

Assets managed cross-border rose 7.0 percent in 2014, or by USD 600 bn compared to the previous year, to just under USD 10 tr. This increase consisted of asset inflows from the Asia-Pacific region (around USD 300 bn), Eastern Europe (around USD 200 bn) and South America (around USD 100 bn) (BCG 2015a).

Rise in assets managed cross-border

In 2010, the leading European financial centres (Switzerland, UK, Channel Islands, Dublin and Luxembourg) still managed 59.0 percent of global cross-border assets. In 2012, they accounted for a 56.6 percent share and in 2014, their share decreased to 55.0 percent. This can be explained on the one hand by the fact that assets are increasingly being invested in the emerging Asian financial centres such as Singapore and Hong Kong. On the other hand, the cross-border wealth management industry in Switzerland and other regions in Europe is coming under pressure, primarily due to fundamental changes to the regulatory framework, and despite significant investment demand from wealthy customers and the ensuing business opportunities. Assets are once again increasingly being invested in customers' home countries, not least because tax transparency has risen in response to international pressure. The demand for cross-border wealth management services is expected to stabilise after the regularisation of legacy assets and the introduction of the AEOI. Wealthy customers in particular will continue to appreciate the possibility of geographic diversification and the high service standards offered by the Swiss financial centre. However, the level of competition will also intensify with the elimination of tax discretion in international wealth management centres, and as a result of the higher level of transparency and comparability between value propositions.

Cross-border private banking leads in Europe, but is visibly under pressure

Switzerland was able to maintain its market share of cross-border wealth management from the previous year. In 2014, around USD 2.4 tr in cross-border assets were managed in Switzerland, which corresponds with a market share of 25.0 percent. The largest share of these assets under management (40.0%) originate from Western Europe. Switzerland therefore remained the global market leader despite the tax dispute with Europe and the US, and notwithstanding stricter regulatory requirements. The introduction of the AEOI will pose a short-term burden on the industry. However, estimates predict that Switzerland will maintain its global market leadership for the medium-term.

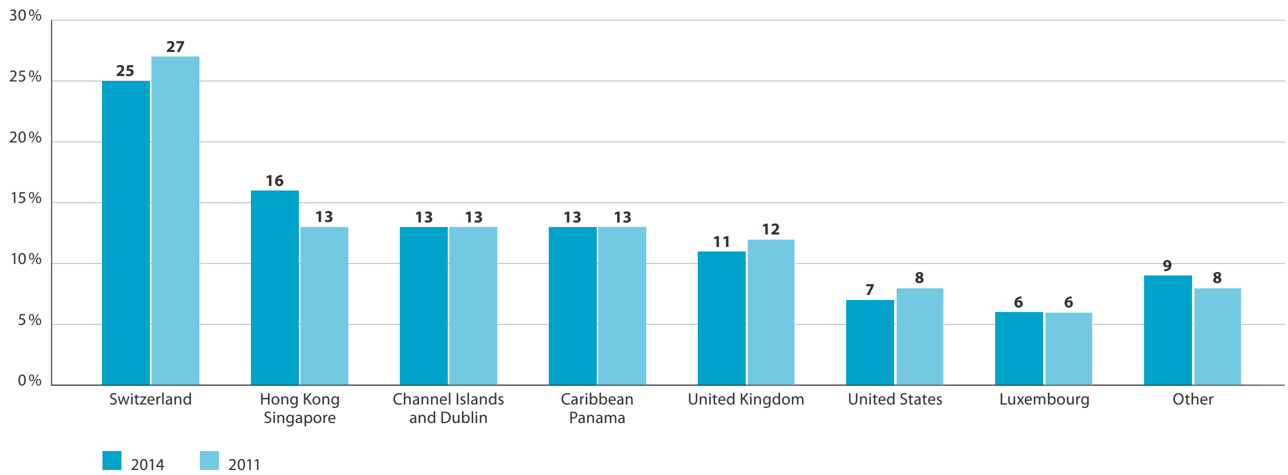
Switzerland's market share remains constant

Asia-Pacific's market share of the global cross-border private banking business will continue to grow in the coming years. It is expected that the two hubs Hong Kong and Singapore will be able to increase their combined market share from 16.0 percent to 19.0 percent by the end of 2019. The majority of this growth will be generated by new assets originating from Asia (BCG2015a).

Private banking in Asia catching up quickly

Fig. 3

Market share of cross-border private banking



Source: Boston Consulting Group (BCG 2015a)

Assets under management in Western Europe rose by a total of 5.0 percent in 2013, whereby 2.0 percent is attributable to net new assets and 3.0 percent to performance effects. Prior to 2008, growth rates for net new assets still ranged between 6.0 and 8.0 percent. Profit margins rose by 2 basis points to 25 basis points in 2013, reaching their highest peak since 2009 (2009: 20 bps). Reasons for this increase were staff reductions and cutbacks in sales, marketing, back office and IT. However, the aggregated figures obscure the differences between the individual European private banks: One out of seven banks incurred losses in 2013, while one out of three institutions reported net asset outflows. In light of this, consolidation in the sector is likely to continue and further mergers and acquisitions (M&A) activity is expected (McKinsey 2014).

Slight rise in profit margins for wealth management in Europe

Although the Asia-Pacific region reports the highest growth rates in private assets, this does not automatically translate into a profitable wealth management business. According to an analysis conducted by the consulting firm EY, a bank requires at least USD 20.0 bn in assets under management in the Asian region in order to operate profitably. Some international private banks have pulled out of the Asian business. While only a few years ago, profit margins were still at 90.0 to 100.0 basis points as measured against assets under management, margins in the current market environment range between 60.0 to 70.0 basis points. At the same time, operating costs are high and on the rise. This can be attributed in part to expenditures for client advisors, and regulatory, compliance and technological investments (see also chapter 2.4). In 2013, three Swiss institutions ranked among the top ten private banks with operations in Asia-Pacific. They managed combined assets of USD 448.0 bn in Asia (EY 2014).

Assets under management decisive factor for performance in Asia-Pacific

2.3 Global asset management

The term asset management refers to wealth management for professional investors. This service is offered both to institutional (pension funds, insurance companies etc.) as well as private investors.

Asset management: wealth management conducted on a management mandate-basis

In 2014, assets managed as part of the global asset management business amounted to USD 74.0 tr. This corresponds with an increase of 7.7 percent compared to 2013 (BCG 2015b). The growth in 2013 and 2014 is in part due to the strong performance of equity markets. Compared to 2013, operating margins (profit as a proportion of net revenues) remained constant at 39.0 percent. This corresponds approximately with pre-crisis levels. At 1.7 percent or USD 1.2 tr, net new assets also maintained the same levels as the previous year (+1.6% or USD 1.0 tr), but continue to remain significantly below the growth rates seen prior to the financial crisis.

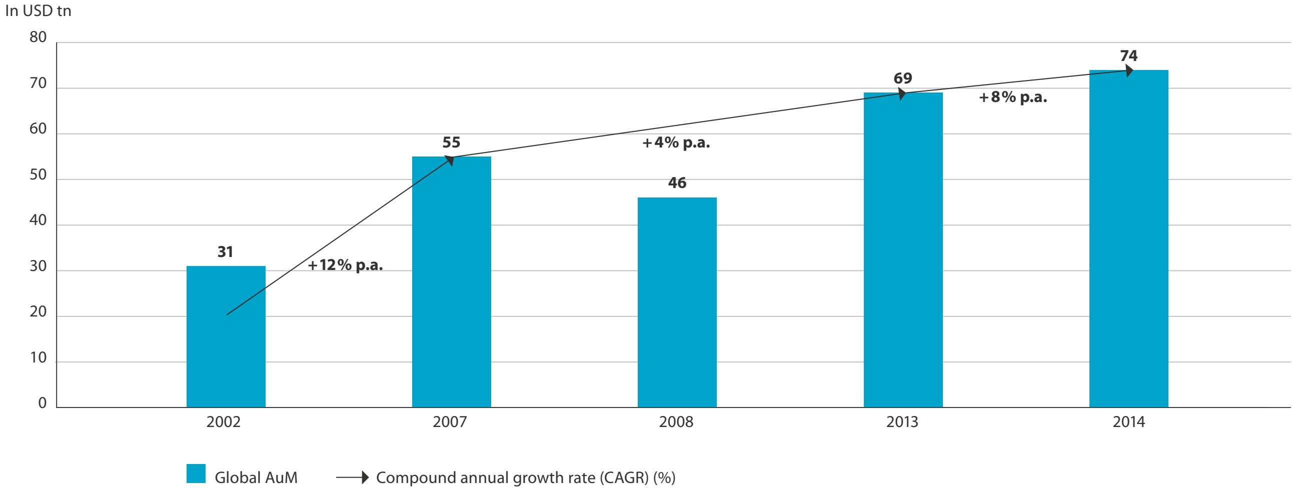
Key figures for global asset management

The trend of reallocating traditionally managed investments to passive investment classes and specific solutions continued in 2014, albeit to a somewhat lesser extent compared to previous years. Demand from investors for inexpensive, results-orientated products and improved portfolio diversification is another ongoing trend.

Trend toward passive investments continues

Fig. 4

Global asset management



Source: Boston Consulting Group

Europe records higher net new asset inflows …

The inflow of net new assets in Europe picked up further momentum in 2014 after having recorded the lowest rise in net new assets after the financial crisis, and reported an increase of 1.7 percent in assets under management (AuM) compared to the previous year (2013: 1.3%). The highest net new asset inflows were seen in Spain, Italy, Scandinavia and Germany in particular, and are attributable in part to the rise in the sale of investment funds. Accounting for 3.7 percent of AuM in 2013, net inflows from private customers experienced a significantly higher increase than inflows from institutional investors (+0.7%).

… but continues to experience slow growth in international comparison

Last year, Europe reported another rise in growth rates for net new assets, but together with the US (2014: 1.6%) remains one of the slowest-growing regions. The inflow of net new assets in the Asia-Pacific region amounted to 3.0 percent of last year's AuM (2013: 4.0%). In Latin America, net new asset inflows were also 3.0 percent.

2.4 Trends in the global wealth management business

The specific needs of Asian customers …

In order to develop markets in the emerging Asia-Pacific region, financial institutions must take into account high costs and a comparatively long investment period before reaching the profit threshold (see chapter 2.2). Asian customers place great importance on wealth managers aligning themselves with regional needs. In particular, the demanding clientele expects a focus on digital strategies. According to Capgemini/RBC Wealth Management (2014), 82.0 percent of HNWIs in the Asia-Pacific region expect to be able to conduct their interactions with wealth managers primarily or entirely by means of digital channels, and 83.0 percent would change wealth managers if they did not offer any integrated digital solutions.

… represent significant challenges

The wealth management sector is striving to respond even better to the individual needs of their customers in future. Until recently, customer-specific solutions differed only in terms of size and the number of products on offer. Customer information was usually closely linked to the client advisor who was in direct contact with the customer. With the help of digital methods such as data mining, existing customer information can be used much more effectively, which means that in future, it will be possible to offer customers tailored solutions.

Demand from young HNWIs for social investments

An increasingly important factor in global private wealth management is the sustainability component of investments. According to the «World Wealth Report 2015» by Capgemini, sustainable and social investments are experiencing increasing demand, in particular from younger HNWIs. For the wealth management business, this presents significant and growing potential. However, reliable sources of information are often lacking, sources that highlight the possibilities and investment methods for sustainable investing. Also often lacking is the necessary expertise on the part of wealth managers. Financial institutions must secure the required support from experts. The range of products must be expanded in order to better implement social and sustainable investment strategies. A number of financial institutions are leading the way, offering their client advisors specialised training, creating socially responsible funds, and cooperating with social institutions and government authorities. For example: A forum dedicated to sustainable investing was created in Switzerland with the aim of promoting exchanges between a variety of stakeholders (see chapter 3.5.2). It will be key for wealth managers to call their customers' attention to the offering in the social investment segment and to anchor this in customer discussions as an integral part thereof. This would be a means by which to better cover the growing demand for social investments from wealthy private customers in future (Capgemini/RBC Wealth Management 2015).

Changed customer needs, increased competition and sinking profitability in European private banking

Private banking in Europe is confronted with significant challenges. These include increased competition and the changing demands of customers. At the same time, profitability, which has declined by around 20 percent since the time of the financial crisis, continues to decrease. This trend is being driven by the changed capital market environment with historically low interest rates, and in particular by costs arising from the stricter regulatory requirements (particularly with regard to investor protection). Against this backdrop, a joint study by J.P. Morgan Asset Management and Oliver Wyman (2014) lists three important trends that wealth managers should be aware of:

- Bigger providers are focussing more on core private banking competencies and the servicing of individual customer segments. This would suggest that these providers are distancing themselves from certain areas of the business such as settlements or even asset management activities, and are instead investing more in the core "customer advisory" segment.

- Digital technologies facilitate and optimise customer contact. Through the reallocation of resources, they enable improved customer advisory services and a more active service level both in the digital world and during personal exchanges. The younger generation of customers has distinctly different advisory needs and a contrasting investment culture. The connecting link between these two elements is openness to digital solutions and increased cost sensitivity (see chapter 3).

- Regulation by the supervisory authorities focussing on customer protection and the stability of the financial system create numerous new and complex tasks for providers. While these contribute to declining profitability, they also create new opportunities for differentiation.

3 Wealth management in Switzerland

Totalling 275 banks, the Swiss banking sector is highly diversified. The banks in Switzerland managed CHF 6,656 bn at the end of 2014, of which 51.1 percent was of foreign origin. Digitalisation, the strong Swiss franc and regulatory framework conditions are, however, presenting challenges for Swiss wealth managers. Switzerland's reputation as an investment centre is to be further strengthened and the synergies with asset management are to be increased.

3.1 The Swiss banking sector

The large variety of business models contributes to the stability of the Swiss banking sector. In addition to the international institutions, the banks with a domestic focus are also vitally important to Switzerland as a business location.

275 banks, 104,053 employees, balance sheet total of CHF 3,042 bn

Fig. 5

Banks in Switzerland at a glance

	2000	2010	2012	2013	2014
Number of banks in Switzerland	375	320	297	283	275
of which foreign banks	148	154	131	120	118
Number of branches	3,661	3,405	3,294	3,240	3,188
of which abroad	228	284	263	253	251
Employees in Switzerland (in 1,000 full-time equiva-lents)	112	108	105	106	104
Total assets, in CHF bn	2,125	2,715	2,778	2,849	3,042
of which foreign business, in CHF bn	1,196	1,452	1,286	1,283	1,429

Source: Swiss National Bank (SNB)

Overall, the number of banks in Switzerland decreased from 283 to 275 institutions between the end of 2013 and the end of 2014. Two banks were taken over, two were liquidated and five lost their bank status. This was only slightly offset by the addition of one bank.

Nine exclusions and one new inclusion

The number of financial institutions further decreased in October 2015 as a result of the closure of private bank Hottinger. The Swiss Financial Market Supervisory Authority (FINMA) has initiated bankruptcy proceedings against the bank as a result of its sustained losses and unresolved legal issues. FINMA introduced the proceedings after restructuring attempts at the bank failed and it fell below the minimum capital requirements dictated by FINMA.

Closing of private bank Hottinger

In 2014, 246 (2013: 235) banks in Switzerland reported an annual profit, which amounted to CHF 14.2 bn (2013: CHF 11.9 bn). 29 banks (2013: 48) generated annual losses amounting to a total of CHF 6.8 bn (2013: CHF 1.4 bn). Aggregate net income was CHF 7.4 bn (2013: CHF 10.5 bn). The largest contribution to annual profits was made by one of the big banks. The rise in extraordinary income from this big bank is primarily attributable to the release of write-downs and provisions. The annual losses were primarily generated by the foreign-controlled banks and one big bank, and are largely attributable to a rise in expenses for "write-downs, provisions and losses" (SBA 2015).

246 banks reported an annual profit

Aggregate return on equity improved in 2013 and 2014 thanks to positive net incomes, but continues to remain significantly below pre-financial crisis levels. The banks' cost situation also deteriorated. The cost-income ratio for all the banks in Switzerland was 65.9 percent in 2014, and therefore far higher than in 2005. Slightly lower operating expenses and a slight rise in operating incomes resulted in an improvement of the cost-income ratio compared to 2012.

| Slight rise in operating income

Fig. 6

Key figures for banks in Switzerland

	2000	2010	2012	2013	2014
Operating income, in CHF bn	68.7	61.5	59.0	60.8	61.5
Operating expense, in CHF bn	37.5	42.5	41.5	41.3	40.5
Gross profit, in CHF bn	31.2	18.9	17.4	19.5	21.0
Net profit, in CHF bn	19.2	10.6	0.2	10.5	7.4
Equity capital in CHF bn	117.5	144.1	151.5	165.8	169.1
Cost-income ratio (operating expense/operating profit)	54.6%	69.2%	70.3%	67.9%	65.9%
Net interest income, as % of operating income	34.4%	32.2%	35.4%	36.5%	38.5%
Net income from commission business and services, as % of operating income	42.1%	40.5%	39.7%	40.3%	38.9%
Return on equity (net profit/equity capital)	16.3%	7.4%	0.1%	6.3%	4.4%

Source: SNB

With cost-income ratios rising since the turn of the millennium, there has long been talk of consolidation pressure, particularly in the private banking industry. Notwithstanding, there were fewer consolidations in recent years than initially predicted by a number of consulting firms. Transactions of particular relevance were the acquisitions of long-standing private bank La Roche by Notenstein Private Bank, a subsidiary of Raiffeisen Group, at the beginning of 2015, the Israeli bank Leumi by Julius Baer in mid-2014, and the Royal Bank of Scotland subsidiary Coutts International by Union Bancaire Privée in spring 2014.

| Consolidation trend

Fig. 7

M&As and the integration of banks in Switzerland, 2009 to August 2015

2015	Union Bancaire Privée acquires Coutts International, a subsidiary of Royal Bank of Scotland
2015	Notenstein Private Bank, a subsidiary of Raiffeisen Group, acquires La Roche
2014	Notenstein Private Bank, a subsidiary of Raiffeisen Group, acquires Swiss private banking portfolio of Landesbank Baden-Württemberg
2014	Julius Baer acquires Swiss private banking business from bank Leumi
2014	Brazilian BTG Pactual acquires Ticino-based private bank BSI
2014	Banque Cramer acquires Swiss private banking activities of Valartis
2014	J. Safra Sarasin acquires Morgan Stanley's Swiss private banking business
2013	PKB Privatbank acquires Lugano branch of Swiss subsidiary of Liechtensteinischen Landesbank (LLB)
2013	Banque Cramer acquires Banque de Dépôts et de Gestion
2013	Union Bancaire Privée acquires 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 Kantonalbank
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

Note: The table represents only a selection of transactions and makes no claim as to completeness.

Source: SBA

Four private bankers change their legal entity structure

The private bankers La Roche & Co AG, Lombard Odier & Co AG, Mirabaud & Cie AG and Pictet & Cie SA changed their legal entity structures effective 1 January 2014, to become "Aktiengesellschaft", or what is known under Swiss law as a corporate partnership. This transformation came as a result of the rapidly changing regulatory environment and strong growth, particularly abroad. The rationale for the change in legal structure was to facilitate international expansion, which turn allows these banks to more readily seize growth opportunities (SBA 2015).

3.2 The Swiss wealth management industry

Diverse wealth management industry

The wealth management industry in Switzerland is diverse and features various business models. The industry consists of a small number of global financial services providers and a large number of niche players. The business models differ depending on the size of the banking institution. Generally speaking, the integrated business model (universal bank) remains reserved for the larger banking institutions. They cover the full range of banking activities, from the private and corporate customer business to capital market transactions and wealth management. In contrast, the smaller banking institutions pursue niche strategies and focus on their core competencies.

Private banks in a period of consolidation …

The Swiss banking landscape is witnessing consolidation and M&A activities to which the private banks are not immune. This process of market concentration is not just impacting the number of institutions, but also resulting in a shift in market share of managed assets. For example, between 2007 and 2013, the share of assets over CHF 25.0 bn managed by private banks rose from 60.0 to over 75.0 percent. Further to this, a growing number of foreign banks are questioning their presence in Switzerland and explaining an exit from the market as the result of declining profitability arising from costly regulatory and compliance requirements. But economic considerations such as lower margins and rising costs also make Switzerland less attractive for international banking groups (KPMG 2015).

… as are independent wealth managers

The independent wealth managers (IWM) industry is also in a period of consolidation. IWMs make up the greater part of the Swiss parabanking system. They do not hold bank status, and generally manage their customers' assets themselves and provide advisory services in money and wealth management matters. Consolidation in this segment is occurring firstly as a result of costly regulation. IWMs are subject to the Anti-Money Laundering Act and must either be approved by FINMA or be a member of a self-regulating organisation (SRO). Secondly, they must generally be members of a recognised industry association in order to avoid the duty to obtain authorisation as a distributor under the Collective Investment Schemes Act. Lower levels of regulation and supervision of IWMs could cause a distortion of competition to the detriment of the banks. It was therefore decided to subject IWMs to prudential supervision (see chapter 3.5.3). Thirdly, financial institutions are no longer interested in serving as custodian banks for small wealth managers, as the monitoring thereof is too costly. And fourthly, many independent wealth managers completely dependent on their founders, who often withdraw the funds that would be required to further pursue the business as soon as they retire.

Around eight times more IWMs than banks in Switzerland

In a study conducted in 2014, the Zurich University for Applied Sciences (ZHAW) found that there were 2,300 IWMs in Switzerland, although only companies that were members of both a SRO and an industry association for wealth managers (BOVV), and therefore bound by certain quality standards, were included. This figure corresponds with around eight times the number of banks in Switzerland. FINMA puts the number of market participants at 3,488 (incl. investment advisors). However, this likely also includes companies whose primary business activity is not wealth management.

3.3 Assets under management in Switzerland

CHF 6,656 bn assets under management in Switzerland

Assets under management comprise the following positions: securities held in customer custody accounts, fiduciary deposits, savings and investment liabilities to customers, and customer time liabilities. Total assets managed by the banks in Switzerland amounted to around CHF 6,656 bn at the end of 2014. This corresponds with an increase of CHF 518 bn or 8.4 percent compared to the previous year. A 51.1 percent share of managed assets were attributable to foreign customers at the end of 2014. In 2005, this share was still 59.0 percent. The decrease is likely attributable to the fact that foreign customers generally have higher deposit values in euros and US dollars, both of which suffered foreign exchange losses against the franc as a result of the depreciation of these currencies. A further reason is likely the regularisation of legacy assets by foreign private customers and the ensuing tax settlements.

73.5 percent of fixed deposits are hold by customers abroad

The two balance sheet items savings and investment liabilities to customers, and fixed deposits (customer time liabilities) amounted to CHF 639.5 bn and CHF 257.0 bn respectively at the end of 2014. Customer savings and investment deposits include vested benefits accounts (second pillar) and assets related to tied pension provisions (third pillar). Foreign customers account for only 7.5 percent of these assets. In contrast, 73.5 percent of fixed deposits are attributable to customers abroad.

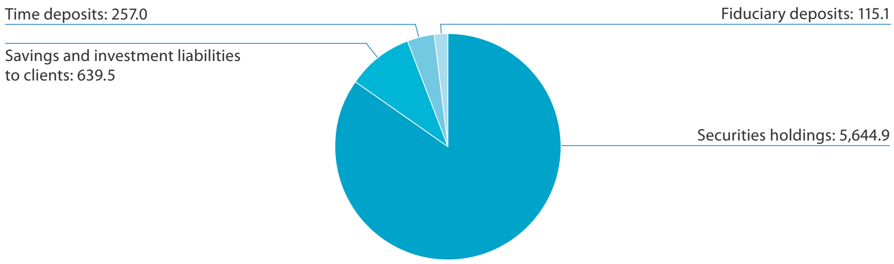
Strong decline in fiduciary deposits since 2007

Short-term fiduciary investments are made or granted by the bank in its own name, however for the account of the investor ("trustor"), as well as at the investor's risk. The demand for such investments comes primarily from foreign customers (83.1% of reported fiduciary investments in 2014). Since 2007, managed fiduciary assets have decreased significantly from CHF 482.9 bn to CHF 115.1 bn. Fiduciary deposits, which are generally invested in money market instruments, have become less attractive as a result of the persistently low interest rates.

Fig. 8

Breakdown of assets under management (2014)

In CHF bn



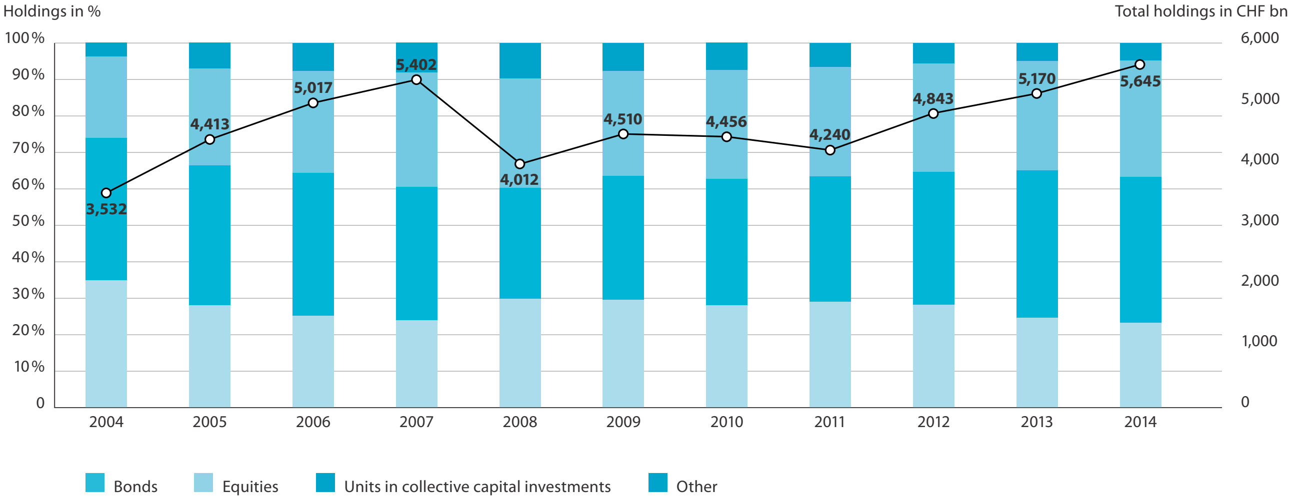
Source: SNB

Equities and units in collective investment schemes account for greatest share of holdings in custody accounts

At the end of 2014, custody accounts in Switzerland held CHF 2,257 bn in equities (2013: CHF 2,081 bn), CHF 1,804 bn in units of collective investment schemes (2013: CHF 1,555 bn) and CHF 1,314 bn in bonds (2013: CHF 1,278 bn) (see figure 9). These three assets classes account for 95.2 percent of all assets held in Swiss custody accounts.

Fig. 9

Securities holdings by asset class



Source: SNB

3.4 Asset management in Switzerland

Wealth management has a long tradition in Switzerland and distinguishes itself through an exceptionally high level of expertise, a strong network for information and communication, and a broad range of services. Switzerland's tradition in wealth management has primarily been shaped by the private banking business. Recently, however, institutional investors have become an important customer segment for the Swiss banks. Private banking and asset management share numerous synergies and interfaces, and a joint examination therefore makes sense (Private – Das Geld-Magazin, 2015).

Importance of asset management on the rise

Asset management is set to grow substantially worldwide in the coming years. According to expert estimates, global assets under management will rise by around 6 percent annually leading up to 2020, and reach USD 101,700 bn by 2020. In contrast to its position in the private banking segment, Switzerland is not yet a leading international location for asset management. A study published by the SBA and The Boston Consulting Group in 2014 indicates that a targeted expansion of asset management as a business segment could result in a rise in investments in collective investment schemes in Switzerland of 1.9 percent annually to CHF 1,710 bn by 2018. In order to take advantage of these additional opportunities, the SBA and the Swiss Funds and Asset Management Association (SFAMA) launched the Asset Management Initiative Switzerland. The initiative aims to further strengthen Switzerland's reputation as an investment hub and to develop Switzerland into a leading global location for asset management.

Expansion of asset management could result in a rise in collective investments in Switzerland to CHF 1,710 bn by 2018

Asset Management Initiative Switzerland

In December 2012, the SBA and SFAMA published a white paper on asset management in Switzerland. The Asset Management Initiative Switzerland was launched at the beginning of 2013 in order to expedite the actions recommended in the white paper. Today the initiative is supported by the SBA, SFAMA, the Swiss Insurance Association (SIA), the Swiss Pension Fund Association (ASIP) and the Conference of Managers of Investment Foundations (KGAST).

The initiative aims to significantly improve the framework conditions for asset management in Switzerland. Asset Management is to be expanded to become a further key pillar of the Swiss financial centre. As an important mainstay of the Swiss financial sector, it is to be both recognised and known around the world as standing for the highest level of reliability, independence and quality. The key elements of the initiative are:

- Improvement of the regulatory environment and the creation of competitive framework conditions: Swiss asset managers must be able to competitively provide their services and products out of Switzerland to countries abroad, as institutional assets abroad are expected to experience very significant growth. Focus is therefore clearly being placed on the exportability of products and services out of Switzerland.

- Relocation of new asset managers to Switzerland and fostering of entrepreneurship: The initiative aims to bring new asset managers to Switzerland and support innovative ideas for asset management in Switzerland. This would result in an increase in the number of jobs in Switzerland and significant growth of the market. However, these efforts are currently being held back due to political developments in Switzerland. The implementation of the mass immigration initiative, for example, the scope of which has still not been defined, is creating increased legal uncertainty and makes it more difficult for foreign asset managers to opt for relocation to Switzerland.

- Increase the share of added value created by asset managers already in Switzerland: This is to be achieved, for example, by bringing parts of the value-added chain that are currently conducted abroad, to Switzerland. However, the initiative faces the same domestic political challenges in this area as those described in the above-listed point.

- Strengthen Switzerland's reputation as a location: By means of active promotion and branding, awareness of Switzerland as a location for asset management will improve, which in turn will attract new business.

A number of milestones have already been achieved:

- The Asset Management Initiative made a strong contribution to the legislative and consultation processes for the Federal Financial Services Act (FinSA) and the Financial Institutions Act (FinIA). These two legislations aim to reinforce client protection in the financial sector as well as reduce the distortion of competition between the various providers of financial services (see also chapter 2.5).

- A regular exchange on strategic issues has been established between FINMA and the industry representatives. It is also helpful that the supervisory authority has added more staff in the asset management segment and granted it a seat on the executive board, thus positioning asset management in accordance with its importance.

- Significant progress has been made in the consolidation of interests within the sector. In addition, through continued communication with industry representatives, an ongoing dialogue on the topic of asset management has also been established, making it possible to position the issue accordingly.

One of the next steps foreseen by the initiative is to interconnect the industry. The creation of a think tank for the exchange of ideas is envisaged, while the establishment of an asset management park as an incubator will aim to foster entrepreneurship in the asset management segment. Further to this, foundations are to be laid that will broaden the statistical base for asset management. At present, statistics provide insight only into the fund business, which is why statistics for the mandate business are also to be collected in future. In parallel to this, a methodology and process are to be developed to enable the automated collection of the relevant data in future. The initiative also proposes measures to be undertaken in the area of education and training. For example, the Swiss Finance Institute (SFI) began offering the International Asset Management Program in the fall of 2015. This programme is internationally-orientated and provides further training for executives who work for asset managers with a global focus.

Diverse Swiss fund market

The fund market in Switzerland is characterised by a diverse offering of products from domestic and foreign companies. The funds cover all important investment markets and enable investors to implement their investment strategies in a targeted manner. A total of 1,466 funds were domiciled in Switzerland in the first quarter of 2015. According to FINMA, a further 7,019 funds established in foreign jurisdictions were licensed for public distribution in Switzerland. Many of these foreign funds are managed in Switzerland. This demonstrates the significant importance of Switzerland as a location for asset management on the one hand, but also as a location for distribution. In addition to the possibility of liberal distribution, a key focus of the Asset Management Initiative is establishing the best possible framework conditions so that an even greater number of foreign funds will be managed in Switzerland in future.

Investment fund assets in Switzerland stood at CHF 878.4 bn in August 2015

For investors, investment funds constitute an important investment opportunity. Total assets invested in the Swiss fund market reached CHF 878.4 bn in August 2015, which represents an increase of 1.6 percent or CHF 13.9 bn compared to the end of 2014. The extent of growth of the domestic fund market becomes even clearer when comparing the figures with 2011, at which time the fund market still accounted for only CHF 620.7 bn (this growth includes both market effects and net inflows). The ten biggest providers in the Swiss fund market had a combined market share of 71.1 percent in August 2015. Nine of these ten providers are Swiss companies (SFAMA 2011/2014/2015).

Switzerland largest global market for structured products

As at June 2015, CHF 217.2 bn was invested in structured products, which represents a share of 3.3 percent of all assets held in Swiss custody accounts. Switzerland is the largest market for structured products worldwide (SSPA 2015). In addition to being the global leader for assets invested in structured products, the industry is also regularly a frontrunner in terms of innovation in the segment. For example: a number of metatools have been invented in Switzerland. Metatools can be used as an independent instrument for the calculation of a product's fair value. This type of innovation is important for the financial centre, in particular so long as low interest rates and low stock market volatility continue to present an additional challenge for investors and product providers (FuW 2015a).

3.5 Trends in the Swiss wealth management industry

3.5.1 The monetary policy environment

SNB decision resulted in an abrupt 8.3 percent fall in revenues

The sudden appreciation of the franc arising from the lifting of the minimum exchange rate against the euro in January 2015, and the introduction of negative interest rates by the Swiss National Bank (SNB) also had a significant impact on the wealth management business. The majority of expenses for private banks are in Swiss francs, while their revenues are often generated in foreign currencies, which results in a currency mismatch. As such, Swiss private banking demonstrates characteristics of a traditional export industry. Some private banks are even reporting a higher currency mismatch than other export-orientated manufacturing companies. Expressed in consolidated figures for the overall private banking segment, Julius Baer estimates that as a result of the SNB decision, assets under management and the gross revenues generated by these assets decreased 8.3 percent in the span of a month (VAV-ABG 2015). Many private banks are additionally affected by the introduction of negative interest rates. The extent to which they are impacted depends to a significant degree on the business model, level of diversification of customer deposits in foreign currencies on custody accounts, as well as the intensity of the bank's lending business. The introduction of negative interest rates is disadvantageous in particular for institutions that have a high concentration of customers who are domiciled in Switzerland, and who at the same time do not conduct substantial lending activities. Transaction banks, which are required to have a high level of cash holdings and can only invest a very limited portion of customer assets long-term, are also greatly affected. The SBA understands the reasons for the SNB's drastic decision. Due to the resulting high costs for the economy, however, the perpetuation of extraordinary monetary policy measures must be prevented. It is therefore vital that the SNB periodically and critically reviews the effectiveness and efficiency thereof, and makes the results transparent. If the situation improves, or the side effects are too severe, the measures must immediately be reversed.

3.5.2 Sustainability

Growing importance of sustainable investments …

The discussions surrounding the integration of sustainability into the finance business have intensified not only around the world, but also in Switzerland. This can be seen, for example, in the creation of the platform Swiss Sustainable Finance (SSF) in 2014. The platform aims to strengthen Switzerland's global position in sustainable financing. Thanks to its expertise in banking and finance, its innovative companies and its awareness of sustainability, Switzerland has a particularly strong potential to promote a sustainable financial sector. In Switzerland, assets managed according to sustainability criteria rose to CHF 71.3 bn in 2014. This corresponds with an increase of 26.0 percent compared to the previous year and constitutes the third consecutive double-digit rise. The increase is the result of both net inflows as well as capital appreciation. Almost all sustainably managed assets in Switzerland fall into the classes of equities (66.0%) and bonds (25.0%), which generally recorded a positive performance in 2014 (FNG 2015).

… for institutional and private customers …

The demand from big institutional as well as wealthy private customers for sustainable investment opportunities is rising gradually. Institutional investors do not necessarily expect higher returns, but rather a lower drawdown for their portfolios. This is because loss prevention is becoming increasingly important in the current low interest rate environment. Certain characteristics are qualitative in nature and do not therefore have to be quantifiable in terms of monetary value, for example the exercising of shareholder voting rights. In the private customer segment, it is often young investors from very wealthy families who pay particular critical attention to how their money is "working" for them (FuW 2015b).

… with significant further potential

However, sustainable forms of investment account for only a small part of total invested assets. For example, investment funds with specific sustainability criteria accounted for a total market share of only around 4.0 percent at the end of 2014. There are a number of factors that are hindering their further expansion:

- The level of standardisation for financial products that factor in sustainability criteria is still low and they often require the investor to pay a premium, which renders these products more expensive than traditional financial instruments.
- Investors prefer liquid investments. Sustainable investments, however, particularly in the infrastructure investment segment, often have a long-term investment horizon and are therefore less in demand. Big institutional customers in particular hesitate to invest in such products, not least due to regulatory requirements (e.g. Solvency II).
- Due to the low level of demand from institutional investors such as pension funds, investment managers invest only a small amount of resources in sustainable products.
- Both investors and financial institutions are lacking knowledge of sustainable products that would enable them to efficiently introduce these into investment processes (Swiss Team for the UNEP Inquiry 2015).

3.5.3 Regulation

MiFID II / MiFIR narrows profits for Swiss wealth managers

Following drawn-out negotiations between the EU Council, European Parliament and the EU Commission, the official legislation for the revised Markets in Financial Instruments (MiFID II/MiFIR) directive and regulation was announced on 12 June 2014. The provisions contained in the directive and regulation will generally come into effect beginning on 3 January 2017. For private banking in Switzerland, the third-country provisions contained in the two legislative texts in particular are of significant relevance. For the active provision of financial services to retail customers, these generally foresee the status quo, that is, the regulation in place at the national level of the domicile/country of domicile in question. The decision of whether the active acquisition and servicing of domestic customers by financial institutions from third countries is dependent on the existence of a local branch thus continues to remain at the discretion of the individual EU member states. If an EU country imposes the obligation for a local branch and a Swiss financial institution decides against opening such a branch, this would result in a significant restriction of cross-border wealth management and therefore a halt of inflows of new customer assets. The decision of a Swiss bank to open a local branch would also negatively impact costs on the one hand and reduce revenues on the other, because customer assets would not be booked in Switzerland.

Harmonised rules for cross-border services

MiFIR now envisages harmonised regulation for the provision of cross-border services by financial institutions from third countries to professional investors. If the EU Commission recognises the provisions defined in the ordinance relating to the regulatory and supervisory rules and codes of conduct of a third country as equivalent to the EU's (equivalence), then financial institutions from these countries are granted an EU passport following their registration with the European Securities and Markets Authority (ESMA). This allows them to service professional clients and eligible counterparties throughout the EU. For third countries whose regulation is deemed equivalent, the individual EU member state itself will continue to be able to determine the conditions for access.

In addition to these two market access regimes, the possibility of passively marketing and providing services is to be retained. This is important insofar as the business of the Swiss banks is currently based on a passive business model in many important EU/EEA markets. Depending on the shape and interpretation of the provision, a limited or enhanced opportunity to service existing clients will result in future.

The effects of MiFID II/MIFIR cannot yet be conclusively assessed. There is no question, however, that the two legal instruments will have a negative impact on profits for Swiss wealth managers.

Swiss AIFMs granted EU-Passport rights

The Alternative Investment Fund Manager Directive (AIFMD) is to provide more transparency in the European fund market and protect investors from investment risks. At the heart of the directive is the EU passport, which must be extended to alternative fund managers (AIFMs) and their alternative investment funds (AIFs) in order for them to operate in the EU market. The directive has been in force for EU fund managers and their funds since July 2013. Since October 2015, fund managers from third countries must request authorisation in order to distribute AIFs in the EU. 30 July 2015 was a satisfying day for Swiss asset managers, as ESMA recommended the extension of the AIFMD passport regime both to Switzerland as an EU-third country and to authorised Swiss alternative fund managers. The decision can be interpreted as a sign that the indirect implementation of the AIFM directive by means of the partial revision of the Collective Investment Schemes Act (CISA) was successful. The EU Commission now has until the end of November 2015 to reach a decision and determine a date for the definitive enactment of the EU passport. Uncertainties exist to that effect, however, because the EU Council of Ministers and the European Parliament can still block a potential favourable decision by the Commission by means of a veto right. An AIFMD passport grants Swiss wealth management in Switzerland access to the entire European market, which to date has been restricted. In the context of Switzerland's ongoing efforts to transpose the securities guideline MiFID II, this gives grounds for hope that facilitated market access for banks can also be achieved.

Swiss FATCA agreement in force since 1 July 2014

Swiss financial institutions have been implementing the Foreign Account Tax Compliance Act (FATCA) since 1 July 2014. Switzerland and the US concluded an intergovernmental agreement for the facilitated implementation of FATCA (FATCA Agreement), which served as the basis for the Swiss FATCA law. This came into force on 30 June 2014. The Swiss FATCA agreement is currently based on Model 2. A changeover to Model 1 is, however, being pursued for the future. The Federal Council approved the mandate for negotiations to this end on 8 October 2014. Model 1 differs from Model 2 on several points. The biggest difference is that under Model 1, information is not provided directly to the US tax authorities by the financial institution, but rather to the Federal Tax Administration (FTA) and then from the FTA to the US tax authorities. The new agreement based on Model 1 will come into force in 2018 at the earliest.

Stricter regulation as a result of new financial market legislation

Switzerland is currently revising its financial market legislation. The government has launched a major legislative project to this end that aims to revise the existing legislation to varying degrees. The new financial market architecture will be based on the existing Financial Market Supervision Act (FINMASA), the Federal Financial Services Act (FinSA), the Financial Market Infrastructure Act (FMIA) and the

Financial Institutions Act (FinIA). The Federal Council took note of the consultation results for the FinSA and FinIA in March 2015, and has taken initial decisions on the direction to be taken. It mandated the Federal Department of Finance (FDF) to draw up a dispatch by the end of 2015. With the FinIA, the FDF aims to combine the specific rules for securities traders, fund management companies and asset managers into one law, and now also bring independent wealth managers and trusts under one suitable law. A cascade system for licensing is foreseen here: The license with more extensive requirements automatically also encompasses the less comprehensive licenses. For example, a license for a fund management company would also automatically include the license for asset managers and wealth managers. The SBA welcomes the fact that the Banking Act will continue to exist as an up-to-date special law. The primary objective of the FinSA is to expand investor protection for the customers of financial services providers. For example, the FinSA foresees the harmonisation of the duties of financial services providers vis-à-vis their customers. The duties will not only apply to banks, but also to all wealth managers and investment advisors. The law governs the duty to provide information for the distribution of financial products, but also facilitates the assertion of customer rights in the event of a dispute. The FinSA and the FinIA are not expected to come into effect before 2018.

The financial market reform will increase confidence in the Swiss wealth management business, for example through strengthened customer protection resulting from higher transparency.

Federal Council defines principles for shaping of supervision of independent wealth managers

As part of the preparation of the dispatch for the FinIA, the Federal Council reached further decisions in June 2015, and defined the concrete shaping of the supervision of independent wealth managers (IWMs). The subjection of IWMs to prudential supervision provided for in the consultation draft was welcomed by both the Federal Council and the banking sector. Due to the higher degree of acceptance shown, the Federal Council decided that supervision would be performed by an additional supervisory organisation (instead of direct supervision by FINMA), and defined the parameters for this supervision. The independent supervisory organisation will be authorised and supervised by FINMA. A risk-based regime is envisaged for the supervisory activity. For smaller asset managers with lower risk potential and straightforward structures, the audit frequency may be increased from one year to a maximum of four years. The supervisory organisation will perform supervision independently, and the possibility of establishing more than one organisation where necessary is to be left open.

The introduction of supervision for IWMs enables the establishment of a level playing field between the banks and IWMs, a condition which has long been called for. Increased asset inflows to the wealth management banks or a rise in the disappearance of IWMs as a result of the stricter requirements are conceivable outcomes.

FinSA foresees further training for bankers

In a world of transparency and the AEOI, performance will no longer only be measured in absolute terms, but much more in relative terms, that is to say in comparison to the performance that competing banks in the customer's home country achieve after taxes. Bankers in Switzerland must bring true added value to their wealthy customers. The Federal Council has recognised the importance of guaranteeing minimum professional standards in order to strengthen the competitiveness of the financial centre, and in June 2015, embedded rules governing the basic and further training of bank employees in the regulatory frameworks of the FinSA and the FinIA. Further bank training programmes are to create a foundation for mandatory skills and ensure a high level of service quality.

Taxation of savings agreement to be replaced

From 2017/2018 onward, the cross-border taxation of savings agreement between Switzerland and the EU in place since 2005 will be completely revised in formal terms and will be effectively replaced by the OECD's

AEOI standard, for which Switzerland signed an agreement in May 2015. The EU Savings Tax Directive will be amended through the transposition of the AEOI. The new global standard not only covers interest income, but also all types of investment income as well as trusts and foundations. The existing withholding tax exemption for the cross-border payment of dividends, interest and royalties between related entities will remain in place, which is in the interests of Switzerland as a business location.

AEOI to enable establishment of level playing field

Switzerland will implement the AEOI with countries abroad in accordance with the global OECD standard in 2017. That year will thus mark the first time that the Swiss banks collect data relating to the bank accounts and securities holdings of taxpayers who are domiciled in AEOI partner countries. These will be provided to the FTA in 2018. The FTA for its part will then exchange the information with the respective tax authorities in the partner states. Switzerland and the EU signed an agreement on the introduction of the AEOI on 27 May 2015. Because the central concerns of the Swiss financial industry were taken into account by the OECD in the current standard, the banks in Switzerland are largely satisfied with the way the AEOI has been designed.

With regard to the introduction of the AEOI, it is important for the wealth management business that wealth managers exhibit a proactive, customer-orientated approach in order to maintain good customer relationships. For smaller wealth managers in particular, the upcoming regulatory requirements could present significant challenges. A possible strategy for such institutions could be to focus on certain markets, and consequently specialise their own services in terms of product and market-specific requirements. For Switzerland as a wealth management location, it is also essential to ensure the most comprehensive implementation of the AEOI possible. This would prevent the distortion of competition and achieve the envisaged goal of a level global playing field. This is all the more important in light of the high implementation costs for Swiss financial institutions (CHF 300 m to CHF 500 m).

3.5.4 Further developments

Brunetti group of experts underlines importance of cross-border market access

The final report from the Brunetti group of experts on the further development of the financial market strategy was published in December 2014. The group of experts was commissioned by the Federal Council to analyse the financial centre's framework conditions on the basis of the existing foundations, and to make recommendations for the further development of the financial market strategy based on this analysis. The final report is an important element for the further strengthening of the competitiveness of the financial centre in Switzerland and vis-à-vis other countries. Among other things, the report states that for value creation and the preservation of jobs at the banks in Switzerland, cross-border access to key markets is of central importance. Isolationist tendencies toward Europe must be prevented while at the same time, measures for developing new growth markets must be undertaken. The expert group believes that cross-border market access for the Swiss financial industry abroad, namely for banks and wealth managers with a focus on the private customer segment, will become more difficult in future. Complete closure of certain markets for providers out of Switzerland as a result of the legal (supervisory) requirements in place in countries abroad, among others also at the EU-level, is conceivable. The speed at which such a deterioration could occur and which areas of business would be particularly affected in this case is difficult to predict. Mention should also be made of the significant changes taking place in the private banking business, which is of particular importance for Switzerland. What in the past were clear differences between the private banking and asset management businesses are increasingly becoming more blurry. This development harbours as much of a danger for Swiss wealth managers (new, strong competition) as it does opportunities (opening up of large new customer segments). Other recommendations made by the Brunetti group of experts relate not only to wealth management, but to all financial institutions. For example, that Swiss capital requirements for the big banks should be stricter, although no concrete numbers were defined. The report also emphasises that further efforts are required with regard to the envisaged implementation of emergency plans for the big banks. In addition to regulation for the big banks, the experts also suggested the revision of deposit protection. Furthermore, they recommended the tax framework also be improved, with the objective, for example, of developing a dynamic Swiss capital market.

Federal Council appoints "Advisory Board for the future of the financial centre"

In parallel to taking note of the final report by the Brunetti group of experts, the Federal Council formed the "Advisory Board for the future of the financial centre", which in future will evaluate the fundamental challenges and future prospects of the financial centre independently of the day-to-day business of the authorities. The Advisory Board is to take into consideration the interests of the entire economy and where applicable, provide the Federal Council with recommendations for the amendment of the financial market strategy and improvement of the framework conditions of the financial centre. For the time being, the duration of the board's mandate is limited to the end of the next legislature at the end of 2019.

Good framework conditions more important than ever

Good framework conditions for the domestic wealth management industry are of key importance, particularly in light of the difficult economic and currency-related environment. On the one hand, Swiss private banks must be guaranteed unfettered access to their key markets. On the other hand, the mandatory observance of a level playing field in tax matters at the international level must be advocated. In general, regulation that goes beyond international standards and that puts Swiss financial services providers at a disadvantage vis-à-vis their competitors abroad must be avoided. One positive factor is the Federal Council's awareness and intention that regulation and the administrative costs arising for companies as a result, must be kept under control.

4 Megatrend: Fintech

Digitalisation is penetrating all areas of the banking business and changes customer demands

Fintech, the digitalisation of processes and products relating to financial services, will penetrate down into all segments of banking and lead to a structural reconfiguration of the banking business. The ability to streamline processes and better cater to changing customer needs is a prerequisite for success in the international competition between financial locations. Strengthening the innovative capacity of the Swiss financial centre is therefore essential, in particular also for the cross-border business. Technological advancements translate on the one hand into cost benefits and new services (for example in the area of distribution and communication channels). On the other hand, technological advancements strengthen the position of the customer and change customer demands. Sought-after services must be transparent, intuitive and convenient to use, quick and secure in terms of access, personalised and compatible with other services. They must also be obtainable from a centralised digital platform. Digitalisation is likely to cause a breakup of the existing value chain and create a level of industrialisation in banking. Critical to success will be the ability to recognise and organise the new interfaces that emerge between the steps in the production process, and the ability to achieve economies of scale.

Private banks and wealth managers initially hesitant about digitalisation

Swiss private banks and wealth managers, like the majority of other financial institutions, were initially hesitant to digitalise their businesses. The nature of private banking in particular led to the assumption that in contrast to retail banking, this type of business was too complex for it to be conquered by fledgling digital companies. A number of analyses concluded that startups would not be able, for example, to get direct access to investment banking services, and could not offer philanthropic investments or complex products such as currency hedging. Current innovations challenge this assumption and have led to a change in mind-set, as well as to the implementation of related measures at numerous banks. A multifaceted Fintech ecosystem has recently developed in Switzerland as a result. The exchange between young and established Fintech companies and the banking institutions has intensified rapidly as potential business opportunities have increasingly been recognised. This development contributes to the overall strengthening of Switzerland's competitiveness.

Robo advisors making in-roads

Startups such as Betterment and Wealth Front already offer comprehensive wealth management services and do so without the need for client advisors. These companies have customers fill out questionnaires regarding risk appetite and investment preferences. Robo advisors, which are automated trading systems, use this information to invest the assets in the various asset classes according to investor behaviour. All it takes is a few clicks to define a personal investment strategy. In order to minimise costs, these robo advisors mainly use inexpensive investment products such as exchange traded funds (ETFs). By using ETFs, robo advisors are able to charge substantially lower fees than traditional wealth managers (NZZ 2015a). However, one potential weakness of automated investment processes could be that fundamental data, which could be particularly relevant for an investment decision, cannot be saved in a data base and is not accessible by an automated investment process. Swiss wealth managers are still selective in their application of such systems, but are aware that there will be no stopping this trend.

For the long-term, digitalisation improves efficiency and reduces costs

In future, a bank must be able to adapt its traditional business model and its strategies at all levels to the new technologies. This changeover or realignment entails significant initial investment at the financial and organisational levels. In order to adapt to the changes resulting from a digital world, where speed and agility in particular are fundamental, top management will be called on to place particular focus on this area. Space must be created for the testing of new digital strategies and concepts. Digitalisation will bring advantages for the long-term. A digital offering provided on a number of channels lowers costs and increases efficiency for the execution of traditional activities such as opening accounts and onboarding customers. At the same time, automation reduces operational risks in the back and mid-offices. Digitalisation does not only lead to cost efficiencies but also to additional revenues arising from improved contact with customers. According to UBS Wealth Management, customers who are digitally active execute up to 1.7 times more transactions than traditional investors (NZZ 2015b), a fact which is expected to result in an increase in income from commissions.

Big data has advantages …

Big data is the collection and analysis of large volumes of data, and is already bringing advantages to many companies. The application of big data can also translate into significant benefits for banks, for example the personalisation of services for customers. For the majority of banks, traditional client relationship management (CRM) is the source of big data. Together with unstructured data from a wide variety of sources such as records from customer interactions, user behaviour on the internet or communication with the bank, a large knowledge base gradually emerges. The first banks are starting to make use of this data by means of new digitalisation methods in order to address customers in a more targeted manner. This method can also be implemented in a more complex and differentiated form for automated portfolio solutions. To this end, the bank compares the customer's portfolio with the chosen investment objectives and if there are deviations from the parameters that were initially established, automatically suggests alternatives, which the customer can then implement (NZZ 2015c).

… but is being applied cautiously

Although the possibilities for commercial use are advantageous for the banks, this could signify a loss of data sovereignty for the individual customer. Particularly in countries such as Switzerland, where great importance is placed on data protection, projects involving big data therefore pose significant strategic and legal challenges. Because the protection of privacy is a key quality hallmark of the Swiss wealth management industry, the application of big data must be carefully thought out. The Swiss banking sector is therefore applying big data cautiously. In light of ongoing discussions surrounding the misuse of data and data protection, concern for the trust placed in the banks by the customer must be the central focus.

Interaction with client advisors is changing, but remains important

When it comes to which digital services should be provided, wealth managers must offer their customers further possibilities specific to wealth management in addition to basic services such as online account openings. Among others, these include portfolio management, integrated account management, and access to research and social media (Figure 10). Despite these interactive solutions and other, potentially more advanced possibilities, personal contact with the client advisor will remain important especially for wealthy customers. In this area in particular, digitalisation can foster stronger ties with a financial institution, in that customer contact is complemented by digital interaction and becomes possible irrespective of location or time.

Fig. 10

Digital products and services offered by wealth managers

Basic banking offering
- Buy all retail products
- Overview of spend by account and total in spend categories
- Planning tools

Market data
- Market data feed (integrated into user view)

Best-in-class online advisory model
- Secure instant chat with RM
- Live meeting through video chat
- Screen-sharing

Easy and accessible learning tools
- How-to guides
- Investment-related online education modules
- Expert forums
- Visual presentation of product offerings tailored to the customer (sales push)

Trusted social community
- Personal exchange
- Exchange of investment ideas
- Private investment opportunities

Next-generation online investment
- Extensive, full trading offer including all listed assets from key markets
- Advanced trading functionalities (potential direct market access) for sophisticated investors

Portfolio management
- Full portfolio overview and analytics including other accounts
- «Theme» as well as algorithm-driven investment and product ideas
- Porftfolio analytics/«what-if» analysis

Access to top-tier information channels
- Real-time 24/7 access to top-tier news channels such as Morningstar, Bloomberg, FT, Reuters and Dow Jones

Personal services
- Personal services to facilitate day-to-day transactions
- Access to exclusive events and 3rd party offers, including cars and holidays

Source: McKinsey

Various areas of regulation must be adjusted for digitalisation

Current developments in the digital shift are exceeding the limits of the existing legal framework, which can result in increasing legal uncertainty. The present framework conditions must be examined in terms of their suitability for the digital age. Trust and security, which are Switzerland’s keys to success, are of fundamental importance in the digital segment. They must be at the centre of deliberations. Achieving the right balance in the tug of war between ensuring security and taking advantage of opportunities to innovate is pivotal for long-term success. Due to the interdisciplinary nature and the multidimensionality of digitalisation, a strategy that foresees only selective regulatory measures will not be effective, because digitalisation touches on various areas of regulation including digital identification, big data, automation, codes of conduct, due diligence duties and money laundering.

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