SWISS INDEPENDENT WEALTH MANAGERS: CHALLENGES & OPPORTUNITIES AHEAD

RESEARCH REPORT 2014

In association with

Coutts

WealthBriefing

FROM THE AUTHOR

Switzerland's independent wealth managers represent a highly entrepreneurial and client-centric model of wealth management, and one which continues to remain highly popular among the world's wealthiest individuals and families, despite it only really existing in its particular form in Switzerland and it now being under threat. High and ultra high net worth clients both domestically and from all over the world entrust *very* significant amounts of assets to Switzerland's IWMs; they are estimated to manage around SFr500 billion in assets under management – a figure which amounts to around 14% of all the client monies managed in the Alpine state.

Switzerland's IWMs also offer "Swissness" as part of their proposition and the power of this should not be underestimated, even if the country's supremacy as a global financial centre isn't quite uncontested anymore. The fact that Switzerland has been neutral for almost 500 years and is both economically and politically stable stands in stark contrast to a large proportion of the world and even significant pockets of the European Union today.

The status of Switzerland as a safe haven for HNW individuals' assets may have diminished in recent years to a degree, but the vast majority of those who contributed to this report believe that the qualities the Swiss financial centre possesses far outweigh the concessions the country has made to cooperate on tax transparency internationally. The depth and breadth of expertise on offer in Switzerland's diverse financial and professional services sector, along with its connectedness to leading financial centres internationally, remain among its biggest selling points, not to mention a highly sophisticated understanding of the discretion and service standards HNW individuals expect.

Switzerland's IWMs do face uncertain times as they adjust to a new regulatory environment and refocus their businesses to address a radically altered competitive landscape. A widespread shakeout of the sector is anticipated over the next few years, but the future seems bright for those organisations which are seizing the initiative and using industry disruption as an opportunity to rethink how they operate.

Both Coutts & Co Ltd and *WealthBriefing* are very grateful to both the contributors to this report and all those IWMs who took part in the survey on which this study is based. We hope to have made a useful addition to the body of knowledge available on Swiss IWMs and would be delighted to hear from any industry participants with comments to add.

Wendy Spires
Head of Research
WealthBriefing

A FOREWORD FROM COUTTS & CO LTD

Coutts & Co Ltd has a long history of working with Switzerland's diverse IWM sector and I have personally seen a remarkable evolution in the relationship between these hundreds of often very small institutions and the custodian banks they partner with to serve their shared HNW clients. Both sides have always worked in close collaboration. However, as the survey indicated, many now see an even greater need for IWMs and their custodian bank partners to work together closely - to develop joint value propositions for their shared clients and to maximise the efficiency gains that all types of wealth management organisation are seeking today. While IWMs and banks are competing for the same business in a sense, they each have different strengths which the other side can leverage and which also make it easy to see that they are not always competing directly at all.

Clients are drawn to Switzerland's IWMs for a number of reasons. Many value having a trusted advisor who can serve them through the decades; others want an independent source of investment advice where in-house products and views do not figure; most like the personal attention they get from working with a smaller organisation which is able to offer a choice of investment strategies, products and custodian banks. Yet at the same time, clients require the reassurance of having a custodian which has both a strong balance sheet and a good reputation. It may be six years since the global financial crisis, but heightened risk awareness about the robustness of counter-parties remains. We at Coutts & Co Ltd are proud to offer our IWM partners a safe home for their clients' assets and we look forward to sharing the expertise of our organisation with even greater numbers of IWMs in the years ahead.

The Swiss financial services market will soon start to reconfigure itself dramatically in response to incoming regulatory change. At such a time we believe that there is a lot to be gained from IWMs and custodian banks aligning parts of their operating models for their mutual benefit - and for that of clients who are seeking more choice, transparency and higher service standards at ever-lower prices.

Coutts & Co Ltd has been working with Swiss IWMs for over two decades now, through the boom times of the 1990s to the more challenging times wealth managers face today. We are proud to have supported this study and would be very keen to engage further with the IWM community on any of the issues it raises.

Daniel Furtwängler
Coutts & Co Ltd

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Klaus-Michael Christensen heads Coutts' IWM team in Zurich. He began his career in the finance industry in 1984 before moving into the IT entrepreneurial sector, where he provided financial real-time data to asset managers. From 2000 he recommenced his finance career, working for Rothschild Bank and Lloyds TSB Bank before joining Coutts & Co Ltd in 2012.

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Managing Director, Head of Wealth International, Zurich

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Daniel Furtwängler was appointed Head of Private Banking International and Swiss Onshore in 2009. Starting his career as a lawyer, Daniel went on to join Eidgenössische Bank, a subsidiary of UBS, where he held positions including general legal counsel, senior investment manager and member of the executive committee. He joined Coutts & Co Ltd in 1998 to develop the firm's Swiss onshore private banking activities and later headed various country market teams in International Private Banking.

DANIEL WÜTHRICH

Executive Director, Head of Independent Wealth Managers, Switzerland

Coutts & Co Ltd

Daniel Wüthrich heads up the Swiss Independent Wealth Management division for Coutts & Co Ltd. Daniel has almost three decades of experience in the banking industry and has worked in key financial centres such as Switzerland, the UAE and Hong Kong. He joined Coutts & Co Ltd (previously Bank von Ernst & Cie) in 1999. Prior to this he worked for Credit Suisse and Union Bancaire Privée.

WENDY SPIRES

Head of Research; Report Author

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Wendy Spires has been a wealth management journalist and a research writer for over six years, covering a variety of international markets and sub-sectors over that time. Wendy has written an array of in-depth reports on issues affecting private banks and wealth managers, including technology and operations trends, enhancing the client experience, branding and marketing strategy, and risk-profiling methodologies. As well as speaking at conferences in both the UK and abroad, Wendy has also carried out several research projects among end-clients, for both internal and external purposes.

EDITORIAL PANEL

FABIEN AEPLI

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Fabien Aepli is an attorney at law and partner with the international law firm Eversheds in Switzerland, where he heads the financial institutions sector group. A specialist in banking and finance law, Fabien advises multinational companies, SMEs and individuals on wealth management matters, including management and advisory mandates, service and outsourcing agreements, the management and distribution of collective investment schemes, regulatory requirements and compliance. He has also authored various publications and articles, including on retrocessions and other commissions in the banking sector.

WALTER ARNOLD

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Colin & Cie. Independent Partners AG

Walter is a banker with more than 20 years of experience in the financial services industry. Prior to his role as managing partner of Colin & Cie. Independent Partners AG, he was head of private banking for a private bank in Switzerland. Between 2004 and 2010, he held various executive positions within UBS Wealth Management. The early years of his professional life were spent at Credit Suisse Private Banking, where he gained experience in all business areas of the bank.

BEN BANERJEE

Managing Partner

Birch Caring Families

Since 1997 Ben Banerjee has founded and co-founded pan-European ventures in the areas of consulting, project financing and investments. He has sharpened his banking knowledge and advisory skills by working at major international banks and at the Big Four consulting companies. As a board member at several international companies, Ben's primary responsibility has been business development and the expansion of financial and trading capacities. Ben's expertise lies in joining the dots to solve complex business, trading and financial issues for his clients. He studies random events, finds the "red line" in them and extrapolates this into predictions. He has advised world leaders on this and has been successful in predicting the flow of many international events.

CHRIS HAMBLIN

Editor

Compliance Matters

Chris Hamblin has edited numerous financial publications over the years, primarily in compliance. He ran *Compliance Monitor, Fraud Intelligence* and *Money Laundering Bulletin* between 1997 and 1999 and then covered for the editors of all Complinet's online publications as the one expert who had experience of every sector. In 2001 he set up *Complinet Money Laundering* and ran it until its dissolution in 2009, chairing many compliance conferences, including one for Chatham House, along the way. He is now the editor of *Compliance Matters* and *Offshore Red*, and the compliance editor of *WealthBriefing*.

EDITORIAL PANEL

KURT HAUG

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Before starting his own business in 1987/92, Kurt Haug worked for UBS in Zurich and Chicago in various positions in international lending and portfolio analysis, as well as in wealth management. In 1992 he was elected Member of the Board of the Swiss Association of Asset Managers (VSV/SAAM). Kurt holds a Federal degree in Swiss banking and economics as well as in Financial Analysis and Portfolio Management (AZEK). He is also a Certified Financial Analyst of the EFFAS.

DANILO LARINI

Founder, President and CEO

LP Group

Danilo Larini is responsible for asset raising, enhancing LP Group's global profile and building investor relationships. In May 2007, Danilo established LP Suisse Capital Asset Management AG in Zurich, followed by Cerberus Capital Trust and FACT Family Office. With over 16 years of industry experience, Danilo has a significant track record of success across multiple global markets, such as Eastern Europe (Russian Federation and the Ukraine), Central Europe, the Middle East, Asia and the US. Danilo has extensive experience in real estate investments, having worked with McKinsey & Company, and was also head of investments for the real estate division of Marriott Lodging Group in Atlanta.

MATTHIAS MEMMINGER

Partner and Global Co-Lead for Recovery and Resolution Plans

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Matthias Memminger provides strategic consulting for European-based banks, and has extensive experience in the field of regulation, particularly with regards to the implementation and the impact on business models. He has assisted European private banks and asset managers in reviewing their operating models, sourcing options and capturing deal value post-merger. In addition, Matthias has helped to implement significant operating cost-reduction programmes at several global banks and insurance companies. He has also been responsible for numerous projects to assist senior management in translating strategy into action, covering project prioritisation and control, score-carding, budgeting and controlling.

ELMAR MEYER

Partner

GHM Partners

Elmar Meyer is partner at GHM Partners, a legal and tax advisory firm located in Zug. He advises national and international corporations in corporate legal areas such as mergers and acquisitions, as well as working with banks, asset managers and family offices on regulatory issues. He and his team also advise several HNW individuals on their international wealth structuring. Before joining GHM Partners, Elmar headed the legal and compliance department of Julius Baer in Dubai, where he was responsible for all legal, regulatory and compliance issues in the Middle East. He was also member of the executive board of Julius Baer for the Middle East and acted as member of the board for Julius Baer in Cairo.

EDITORIAL PANEL

RAY SOUDAH

Chairman

MilleniumAssociates

Ray Soudah is the founding partner and chairman of MilleniumAssociates, an independent international corporate finance advisory firm based in Switzerland and the UK. Founded in 2000, MilleniumAssociates specialises in M&A and advisory services for the global financial services industry, with a particular focus on the global wealth and asset management sectors. Before forming MilleniumAssociates, Ray was managing director and member of the private management board for SBC/UBS, where he created and led the global corporate strategic acquisitions and development team in asset/wealth management and private banking. Ray has held senior positions with Cedel Bank, the National Bank of Bahrain, Midland Montagu Investment Banking, Midland Montagu Securities and Citi Group.

STEPHEN WALL

Senior Analyst, Wealth Management

Aite Group

Stephen Wall is a senior analyst with Aite Group, specialising in the international private banking and wealth management sector and its mass-affluent and HNW client segments. His main areas of focus are the sector's business and competitive landscape across onshore and offshore jurisdictions and its evolving demands and influences, among them new markets, competition, client demands, regulation and technology. Stephen has more than 13 years of research experience, with over seven years as a market analyst and consultant in global wealth management. Before joining Aite Group, he was an independent analyst and writer focused on global wealth management. Prior to that, he worked with London-based specialist insight and business strategy consultancy Scorpio Partnership, where he led a wide variety of bespoke client projects and research efforts.

SPECIAL THANKS:

WealthBriefing and Coutts & Co Ltd would like to extend special thanks to the following individuals for contributing to this report. Like those of the panel, their insights were invaluable.

Dr Eelco Fiole	- director, financial services, at PwC Zurich
Christian Nolterieke	- managing director and co-founder of MyPrivateBankingResearch
Tim Orme	- head of the UK office of the Swiss-based outsourcing company BRT
Osmond Plummer	- a Geneva-based trainer, coach and advisor of wealth management professionals, and a professor of finance at the European University in Geneva and Montreux

EXECUTIVE SUMMARY

Swiss IWMs' sentiment buoyant; close to half see their business prospects improving

- Across the sample of Swiss IWMs, there was strong positive sentiment for both business situation and assets under management growth over the coming year, with both showing significant uplifts from already high base scores (looking back over the past 12 months).
- Close to half (44%) of participants said their organisation's competitive position has improved in the past year.
- Profitability seems to have been somewhat subdued over the past 12 months, with it hovering the closest to neutral of all the elements under assessment. However, Swiss IWM sentiment - as measured by this survey - predicts profitability will rise significantly over the coming year. Operating income and operating expenses are expected to increase in line with each other.

Almost half of IWMs are looking to hire; a third have been in business over 15 years

- The Swiss IWMs which participated in this year's study are generally small organisations, with only 15% having 20 or more employees. A third have four staff or fewer and 4% of respondents work alone.
- In the past year, 43% of IWMs have made hires and 40% plan to increase staffing levels in the coming 12 months. Nearly a quarter of the IWMs surveyed believe their staffing levels are currently too low.
- However, 43% of IWMs have made no hires and 14% have scaled down in the past year. Looking ahead into 2015, staffing levels will remain unchanged at 58% of firms (2% are trimming back employee numbers).
- Almost a third of the IWMs surveyed have been in business for 15 years or more, suggesting that retirement may be on the horizon for many founder-owners.

Investment in IT infrastructure and outsourcing on the rise

- 44% of the IWMs surveyed are going to increase their investment in IT infrastructure in the coming year. CRM along with risk and portfolio management systems are key areas of investment.
- 59% of the respondents said that increased regulation, the end of bank secrecy and greater requirements for transparency have forced IWMs to outsource more internal processes to third parties, in order to cut costs and preserve their competitiveness.

IWMs call for closer collaboration with custodian banks

- Almost half (48%) of the IWMs surveyed offer their clients a choice of 2-5 custodian banks, although 23% offer 6-10 and 17% offer 11 or more. There seems to be significant variation in the number of custodians IWMs are offering today.
- Minimum asset thresholds may be limiting some IWMs' choice of custodian: 6% of the IWMs surveyed have less than SFr25 million in assets under management, while 22% manage SFr25-100 million – therefore some may not have the critical mass, in terms of AuM, to offer more than a couple of custodians to clients (25% of participants have SFr100-499 million in AuM and 39% have over SFr500 million).
- 64% of participants agree that Switzerland's IWMs and custodians should work hard to develop joint value propositions for their local and global clients, while 26% feel this very strongly.

Switzerland's safe haven status and competitive edge remain

- Two-thirds of Swiss IWMs believe that Switzerland is a political and economic safe haven for global financial assets. Four out of five participants view the global competitive position of Switzerland's financial services centre as either satisfactory or good. 54% of the Swiss IWM survey participants believe Switzerland's global competitive position is satisfactory, and 27% believe it is good.
- Just under a fifth of those surveyed see Switzerland in a poor competitive position globally, however, and almost a third of respondents believe cross-border regulations are seriously curtailing the number of global markets IWMs can acquire clients in.
- 27% of participants believe that the end of bank secrecy will eventually lead to improved global market access for Switzer land. Around the same proportion think the improvements to investor protection coming in under FIDLEG will improve Switzerland's global competitiveness.
- However, 42% of the survey participants believe that the end of secrecy will not lead to improved market access and 31% are neutral.
- An overwhelming 96% of participants agree that the independent asset management sector and its interests need to be better represented in the Swiss government. Last year, 64% of respondents said they did not think their interests were well represented.

METHODOLOGY

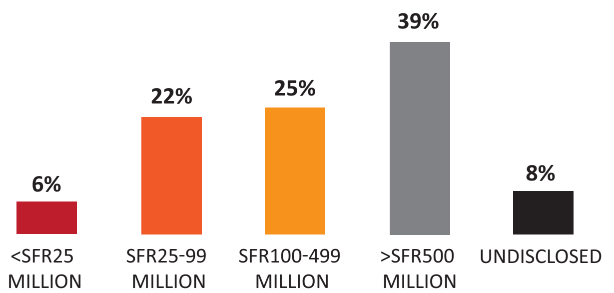
For this research report, 100 Swiss independent wealth managers were interviewed over August and September 2014. In-depth interviews were also carried out with 17 expert contributors, comprising senior executives within the IWM and wider financial services industry, consultants and legal and compliance specialists.

THE SWISS IWM SENTIMENT INDEX

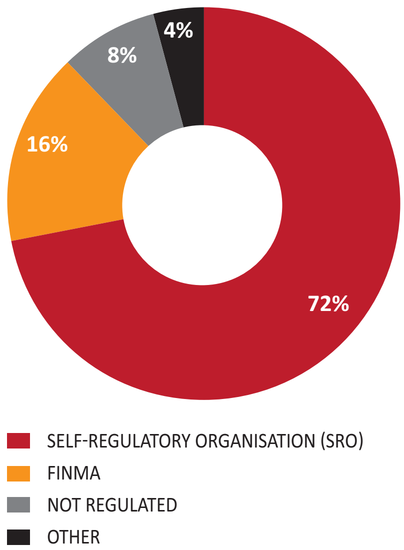
The IWM Sentiment Index (see page 12) is derived by assigning a numerical value to the positive, neutral and negative answers (1, 0, and -1 respectively) in the relevant questions, which generates a score representing the sentiment among the respondents. The indexed number is plotted for the last 12 months and the impending 12 months to show the movement in the sentiment in the period. This number is then expressed as a proportion of the total number of respondents for that question, to allow for comparison across questions with different levels of response.

The composition of the IWM survey sample was as follows:

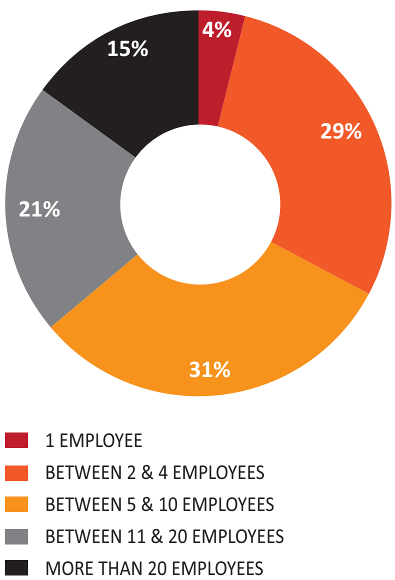
Total amount of assets under management



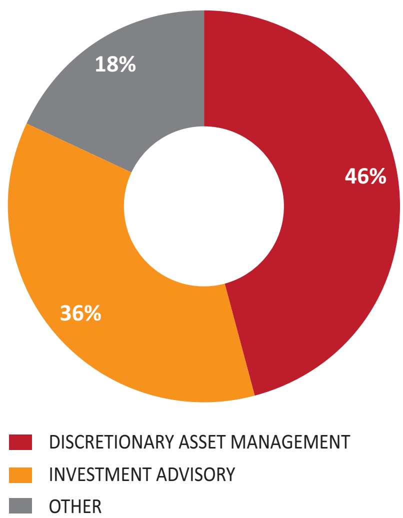
IWM regulatory status



Number of employees



Services offered to clients



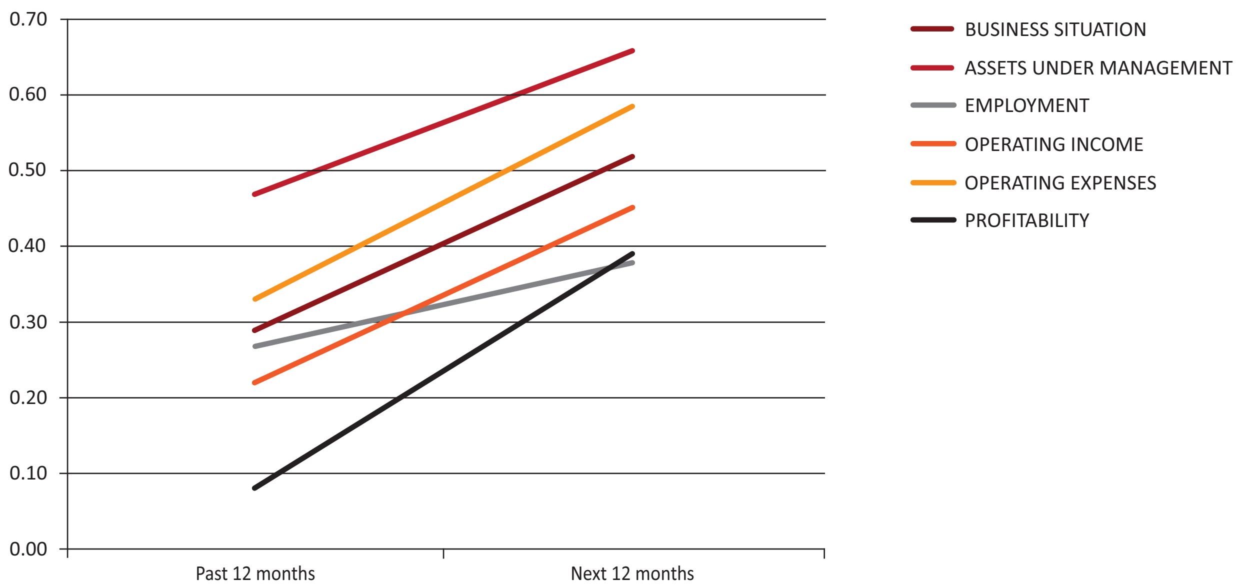
SECTION 1

THE SWISS IWM SENTIMENT INDEX

- Across the sample of Swiss IWMs, there was strong positive sentiment for both business situation and assets under management growth over the coming year, with both showing significant uplifts from already high base scores (looking back over the past 12 months). Close to half (44%) of participants said their organisation's competitive position has improved in the past year.
- Profitability seems to have been somewhat subdued over the past 12 months, with it hovering the closest to neutral of all the elements under assessment. However, Swiss IWM sentiment - as measured by this survey - predicts profitability will rise significantly over the coming year. Operating income and operating expenses are anticipated to increase in lock-step.
- Staffing levels look likely to track up only a small degree over the next 12 months, albeit from a relatively high base. The fact that 43% of participants have hired during the past year and 69% regard their current staffing levels as sufficient suggests that a large proportion of those firms which needed to make hires have already done so. (Staffing levels are discussed in full in Section 3.)

FIGURE 1

IWM Sentiment Index



METHODOLOGY:

The Swiss IWM Sentiment Index is derived by assigning a numerical value to the positive, neutral and negative answers (1, 0, and -1 respectively), which generates a number representing the prevailing sentiment among the respondents. The indexed number is then plotted for the past 12 months and the impending 12 months to show the movement in the sentiment over the period.

FIGURE 2
The Swiss IWM Sentiment Index:

	PAST 12 MONTHS	NEXT 12 MONTHS	SENTIMENT CHANGE
BUSINESS SITUATION	0.3	0.52	+0.22
ASSETS UNDER MANAGEMENT	0.47	0.65	+0.18
PROFITABILITY	0.08	0.39	+0.31
OPERATING INCOME	0.22	0.45	+0.23
OPERATING EXPENSES	0.33	0.59	+0.26
EMPLOYMENT	0.29	0.38	+0.09
AVERAGE	0.282	0.497	+0.215

OPTIMISM STRONG AS ASSETS UNDER MANAGEMENT INCREASE

FIGURE 3
IWM Sentiment Index: Business Situation

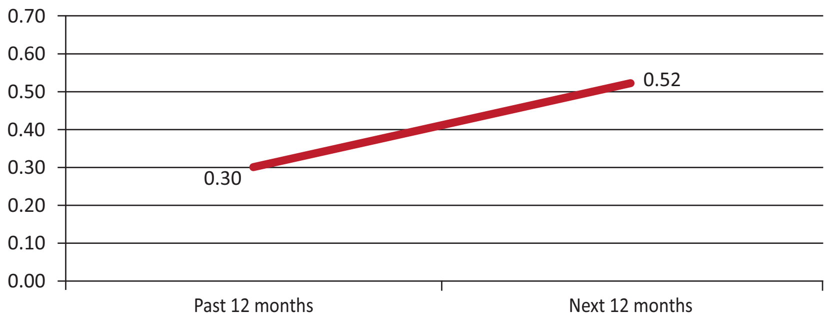


FIGURE 4
We judge our business situation overall as:

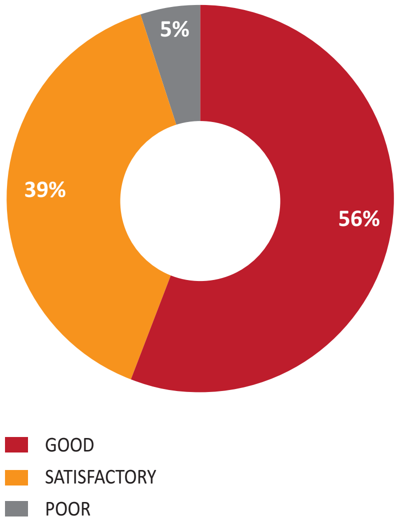


FIGURE 5

Over the past 12 months, our business situation has:

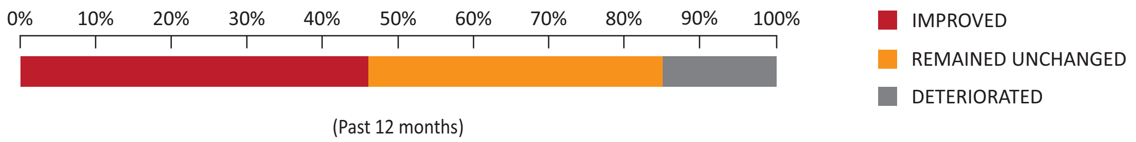
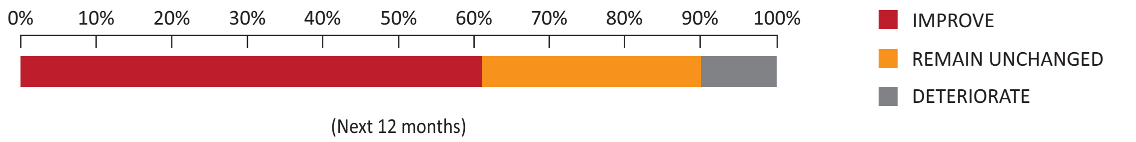


FIGURE 6

Over the next 12 months, our business situation will:



A significant majority of 56% of the IWMs surveyed believe that their current business situation is good, while 39% believe it is satisfactory, leaving just 5% who see it as poor. Looking over the past year, 46% of respondents reported an improvement in their business situation, while 39% saw no changes and 15% saw a deterioration. The participants' view of the coming 12 months was even more positive: twice as many IWMs see improvements to their business situation compared to those who foresee no change (61% versus 29%). The high degree of optimism found may be attributable to sampling bias to a degree, as these questions were not compulsory, but it still seems that half or more of the respondents are feeling *very* positive about the future.

In explaining this optimism, the panel to pointed to market rises as having increased AuM-based fees and created happier, more bullish clients. Markets have certainly been volatile, but gains have been strong in several sectors and markets in the past year. Over the 12 months to 20 October 2014 the SMI rose 3.76%, the Nikkei 225 5.42% and the S&P 500 10.38%, for example.

"I AM VERY PLEASED TO SEE THIS OPTIMISM AMONG IWMS, SINCE THE SECTOR IS VERY IMPORTANT TO THE FUTURE DEVELOPMENT OF THE SWISS FINANCIAL INDUSTRY. NOT ONLY DOES THE SECTOR HAVE 14% OF ASSETS UNDER MANAGEMENT IN SWITZERLAND – AROUND SFR500 BILLION – BUT IT ALSO REPRESENTS ENTREPRENEURIAL INNOVATION, QUALITY CUSTOMER SERVICE AND A LARGE AND DIVERSE RANGE OF INVESTMENT SKILLS."
– KLAUS-MICHAEL CHRISTENSEN, COUTTS & CO LTD

FIGURE 7

IWM Sentiment Index: Assets under management

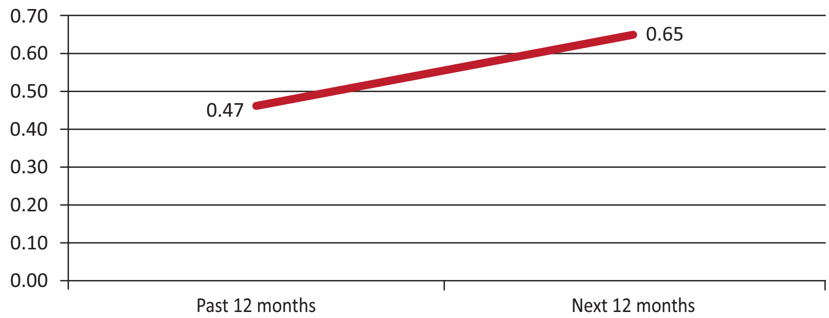


FIGURE 8

Over the past 12 months, assets under management within our business have:

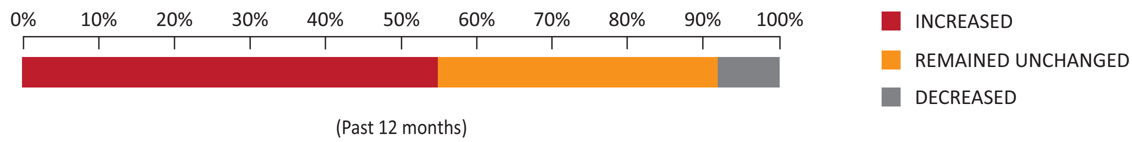
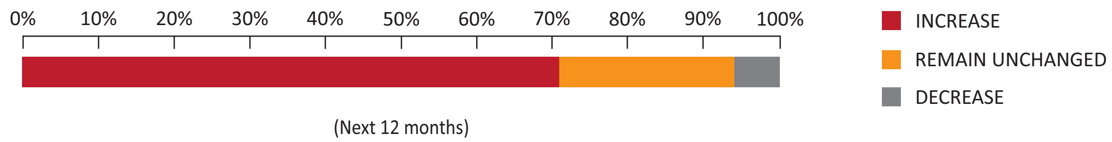


FIGURE 9

Over the next 12 months, we expect our assets under management to:



Over half (55%) of the survey participants said that their firm's assets under management had risen over the preceding twelve months, while 37% saw figures stay flat, leaving only 8% of the sample as having lost ground in AuM terms. The picture revealed for the coming 12 months looks even more optimistic: 71% of IWMs expect to see AuM rising in the next year, while 23% expect assets to remain stable and only 6% foresee a decrease. Although market rises have certainly played a role in AuM increases, the panellists did also note that certain types of IWM have been noticeably winning greater market share on their own merits too.

"From what I have seen, I would say the slightly bigger external asset managers were able to attract more money, and the more specialised ones were able to attract more money, especially institutional assets," said Elmar Meyer. "The market helped, but the winners were the bigger, more organised asset managers, rather than the small ones." Meyer pointed out that, in addition, a number of IWMs may have suffered as a result of governments offering amnesties on undeclared assets, since money was being legitimised and subsequently withdrawn.

Most of the panel seemed to agree that 2014 was unlikely to have been an unmitigated success for all, just as the coming year will probably also be one of mixed fortunes for Switzerland's IWMs. "I think it depends on which side of the fence they fall - those who have adapted to the needs and new expectations of the marketplace, and those that have not," said Stephen Wall. "I just don't see those that either refuse to change or are unable to change as being able to grow other than through short-term investment-related performance."

IWMS REMAIN POSITIVE ON PROFITABILITY AS OPERATING EXPENSES RISE

FIGURE 10
IWM Sentiment Index: Profitability

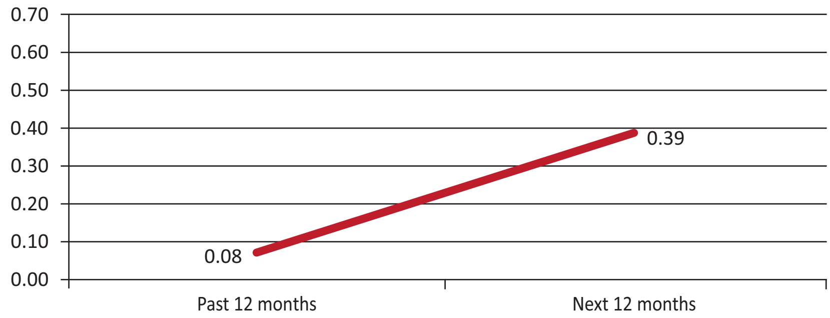


FIGURE 11
Over the past 12 months, our profitability has:

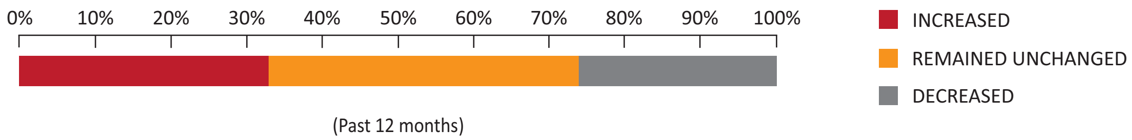
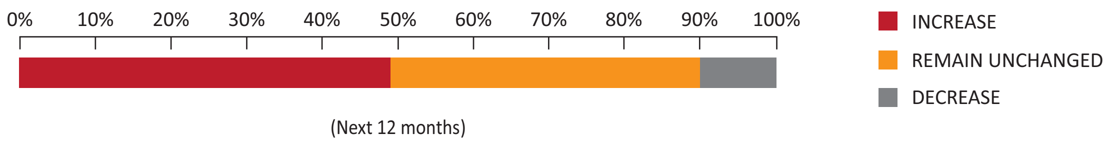


FIGURE 12
Over the next 12 months, our profitability will:



The picture for Swiss IWMs' profitability was also markedly positive. Exactly a third of respondents said that their firm's profitability had improved in the past year, while the majority (41%) saw no change. Looking ahead into 2015, just under half (49%) of IWMs foresee an uptick in profitability, while 41% expect it to remain flat. Just one in ten survey participants predict their firm's profitability will fall in the coming year. Across all the criteria being assessed for sentiment, profitability showed the biggest uptick by far, rising from 0.08 for the past year (the lowest, closest to neutral, score overall) to 0.39 over the coming year.

FIGURE 13

IWM Sentiment Index: Operating Income

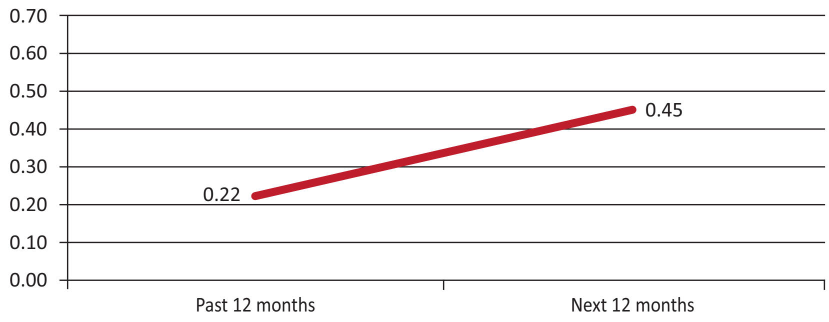


FIGURE 14

Over the past 12 months, our operating income has:

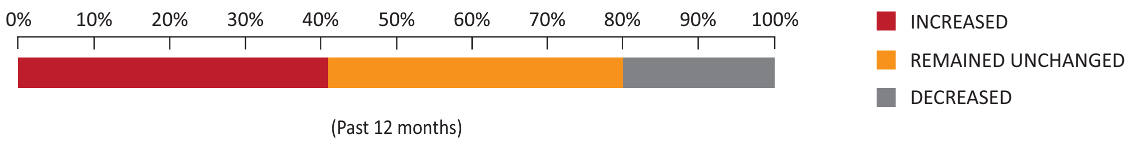
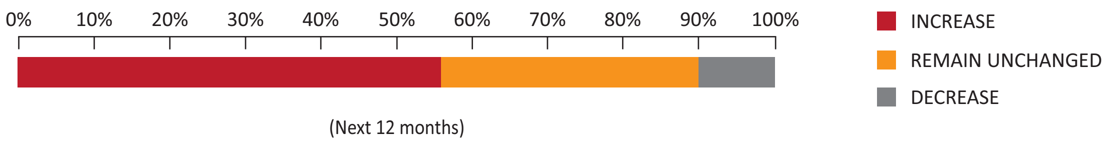


FIGURE 15

Over the next 12 months, our operating income will:



Looking more closely at Swiss IWMs' financial performance, the survey participants were asked to assess their firm's operating income and expenses over the past twelve months, and then to make predictions for the coming year. According to the survey, only 20% of Swiss IWMs saw their operating income fall over the past twelve months; slightly more respondents (41%) achieved increased operating income than those which stayed flat (39%). It seems that the majority of IWMs in Switzerland also foresee accelerating operating income in the next year: 56% predict increased operating income, and 34% expect it to remain stable. Only a tenth are bracing themselves for a fall in income.

FIGURE 16

IWM Sentiment Index: Operating Expenses

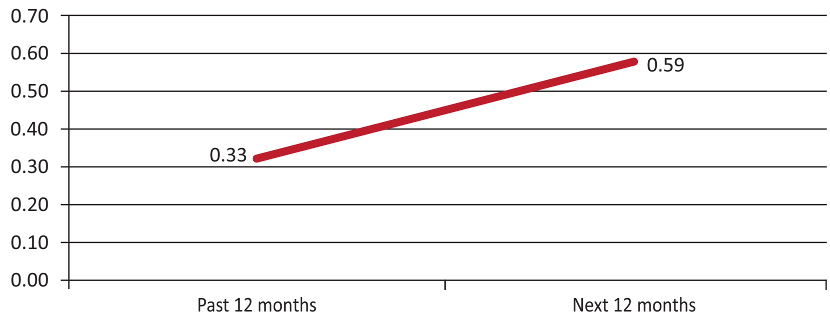


FIGURE 17

Over the past 12 months, our operating expenses have:

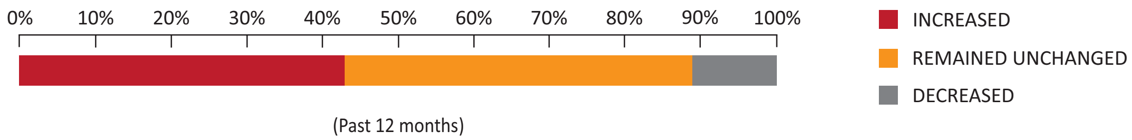
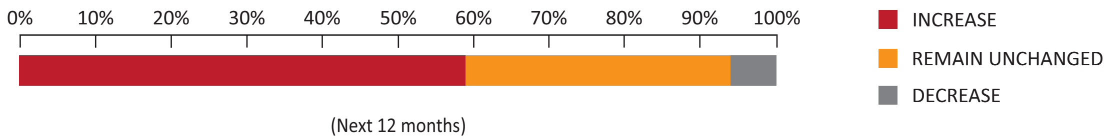


FIGURE 18

Over the next 12 months, our operating expenses will:



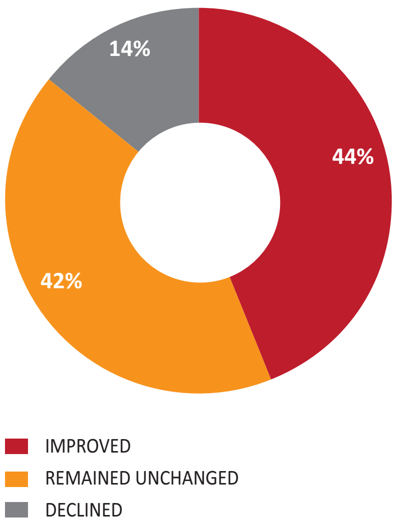
Meanwhile, the IWMs surveyed were fairly evenly split between those which had experienced increased operating expenses over the past 12 months and those where costs had remained the same (43% versus 46%); a fortunate 11% said their firm had managed to reduce its costs. Looking ahead, operating expenses showed the second highest rise in the Index, up from 0.33 for the past year to hit 0.59 for the next twelve months. A significant majority (59%) predict increased expenses in the year ahead, while just over a third are optimistic of keeping costs stable and only 6% foresee reduced costs going forward.

Rising costs are never good news, particularly when Swiss IWMs are already paying a premium (on both staff and premises) for being located in a prestigious jurisdiction which is very well geared up for international wealth management. As Osmond Plummer said: "There's no denying that it's expensive doing business here." The spectre of rising costs, from what is evidently now a higher base for many IWMs, is going to force firms to re-examine their business models quite carefully, the panellists observed. "I think it's going to be a very interesting period where people are going to try out a variety of models, and we'll have to see which survive," Plummer continued. In his view, future success will be driven by cost control and therefore economies of scale need to be front of mind for Switzerland's IWMs. Bulking-up through acquiring client books, mergers and partnership are all very effective ways to achieve scale, but as Plummer pointed out, this cannot erode the qualities which make the IWM model attractive in the first place. "You need to deliver to a larger body of people while still maintaining a personalised service and that's a complicated one to balance," he said.

COMPETITIVENESS RESILIENT, DESPITE REGULATORY AND FINANCIAL CHALLENGES

FIGURE 19

Over the past 12 months, our competitive position has:



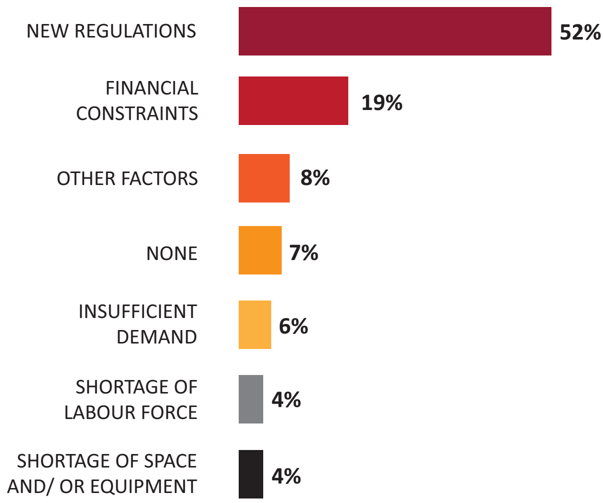
On the subject of their firm's overall competitive position, the Swiss IWMs surveyed were again very positive. In fact, slightly more participants saw their competitive position as having improved in the past year (44%) than saw it remaining unchanged (42%). Only 14% believe their competitive position deteriorated over 2013/14.

Many Swiss IWMs seem to be looking forward to a bright future, however the panellists questioned whether some market participants have taken sufficient heed of the factors which could hold them back – and there seem to be several already taking their toll. While around half of IWMs expect operating income and profitability to rise, a significant proportion anticipate no increases over the next year and a tenth foresee declines. Correspondingly, while new regulations are by far the biggest factor limiting Swiss IWMs businesses (accounting for 52% of the votes), financial constraints also figured highly, representing almost a fifth of responses. As the contributors pointed out, many small IWMs could be in the difficult position of not being able to invest in the staff and technology which will enable them to carry out compliance activities cost-effectively and bulk-up to achieve economies of scale. Partnering with others to share resources and outsourcing is likely to look very appealing to such IWMs.

A message which came through very strongly from the panel discussions was that being a successful IWM in Switzerland requires a great deal more strategic thinking today than previously. This, it was argued, is another, subtler way in which the barriers to entry have risen. "IWMs are experiencing a shift from a largely attractive operating environment to one with significant challenges," said Wall. "Firms that wish to survive in this more demanding environment and thrive in the face of multiple challenges must rethink their infrastructure and technological footprint."

FIGURE 20

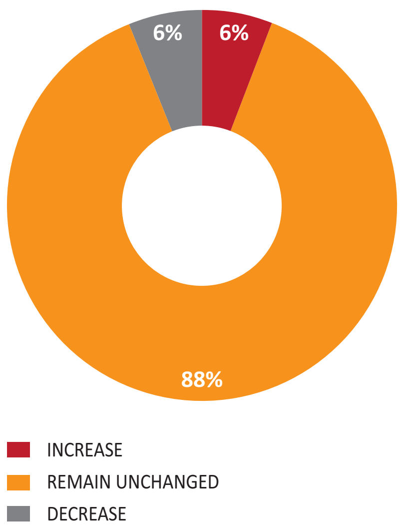
What is the main factor limiting your business?



CAN IWMS' PRICES REMAIN UNCHANGED?

FIGURE 21

Over the next 12 months, our prices will:



Almost nine out of ten (88%) of the IWMs surveyed said their prices will remain unchanged over the next twelve months, with the remaining 12% evenly split between those who will raise prices and those who intend to lower them. This apparent "price freeze" may seem slightly surprising given other survey findings: some 59% of IWMs believe their operating expenses will rise in the coming year, with many planning to take on more staff and increase investment in IT infrastructure over the same period (see pages 27 and 32). Yet while the panellists agreed that some firms may struggle to keep their prices down, they also seemed to feel that the attempt *has* to be made, given the current business environment.

"There is no option but for prices to remain unchanged or, more likely, to drop," said Tim Orme of Swiss-based outsourcing company BRT, citing both heightened scrutiny of fees and increasing pricing pressure from competitors. Given the importance of cross-border business to Swiss IWMs, this also means pricing pressure is non-domestic too. "The IWM is also aware that he is now increasingly in competition with asset managers within the end client's local market, who often offer low prices," said Daniel Furtwängler. This, he explained, means that across the board IWMs booking new clients are looking for very competitive all-in custody fees – another example of how pressures on one type of institution impacts the other in the symbiotic relationship between IWMs and custodians.

The question of whether, and how, most IWMs are going to manage to keep their prices down divided opinion, although the contributors did note that moves to increase operational efficiency will make a price freeze more feasible for some. (For example, Danilo Larini said he is confident that his firm, LP Group, will be able to keep its prices unchanged because investments into IT will help it to become more cost-efficient.) The question of how fee structures will eventually settle - and whether they will have to rise overall - after Switzerland's financial services reforms are implemented caused even more debate.

As things stand, IWMs' revenues are typically comprised of a blend of management and advisory fees, which are then bolstered by retrocessions. While FIDLEG may not ban retrocessions, the panel predicted that many IWMs will still move away from them. The fact that it looks likely that clients are going to have to formally agree - through a signed waiver - for IWMs to keep such payments in the future is a huge factor (see below/overleaf). As such, Daniel Furtwängler said he is already seeing a rapid decline in commission-based revenues because of the incoming new transparency rules and, as a result, he sees some IWMs increasing their management fees to compensate.

"UNDER FIDLEG, FINANCIAL SERVICE PROVIDERS (VALIDLY) KEEPING RETROCESSIONS AND OTHER COMMISSIONS PAID BY THIRD PARTIES WOULD BE PREVENTED FROM BEING QUALIFIED OR PRESENTING THEMSELVES AS 'INDEPENDENT' PROVIDERS."

– FABIEN AEPLI, EVERSHEDS

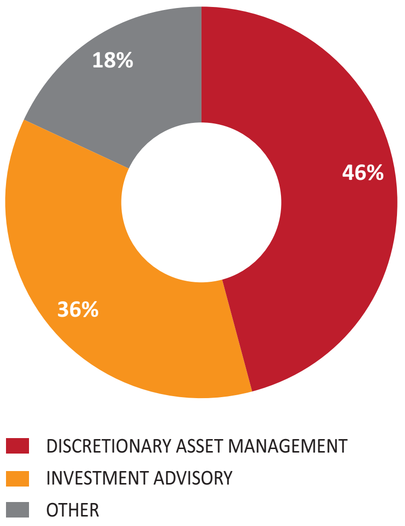
In last year's survey, a negligible proportion of IWMs indicated that pricing was a unique selling point for new clients; predictably, trusted advisor relationships, know-how, investment strategy and performance (in that order) were identified as the model's key attractions. It is probably not the case that pricing will rise dramatically in importance, given that a lot of the attractiveness of the IWM model for clients lies in having a trusted advisor who is seen to be free of conflicts of interest and "sitting on the same side of the table". However, it is still probably unwise to think of high or even ultra high net worth clients as not being price-sensitive, the panellists pointed out. Cost-consciousness will be an ingrained habit for many international entrepreneurs, not to mention the fact that clients tend to have multiple wealth management relationships in place and so plenty of points of reference on both price and performance.

PROFITABILITY CONSIDERATIONS

As a side note to profitability considerations, the panel highlighted that differing cantonal tax rates (and arbitrage between them) may form part of IWMs' strategies to protect profitability. For IWMs, moving back-office functions to a more competitive canton might be an option, although (front-office) proximity to clients is also a big priority. While both Geneva and Zurich are large financial centres, the latter is commonly thought of as the "home" of asset management (in last year's survey, 65% of respondents' businesses were located in German-speaking Switzerland). Most of the big banking groups are headquartered there so it makes sense that former bankers would build up their client book from the city. That said, the shores of Lake Geneva have been shown to have the greatest *concentration* of IWMs.

FIGURE 22

Which services does your firm provide?



ADVISORY FEES

Previous studies have suggested that retrocessions account for around a third of Swiss IWMs' revenues, so it will be interesting to see how they make up this shortfall, if retrocessions are phased out. "Any bank, or any participant for that matter, which received retrocessions should know that that is a business of the past. That stream of revenue is gone," said Eelco Fiole. "The question is, how is this going to be compensated for? The banks are working on new advisory fee models and IWMs will have to do the same."

Upfront advisory fees are the subject of much debate, as to how to apply them and how to communicate the changes to clients positively (some argue that psychologically some clients prefer paying at least partially via commissions). Upfront fees might also represent a culture shock for IWMs which have been used to relying on retrocessions, perhaps for decades. "On one hand IWMs know this is a business model of the past, but on the other they will have difficulty giving it up," Fiole continued.

Working out new pricing models which will be future-proof is no easy undertaking either, since so many things remain in flux for the sector. As well as pricing models which suit their own strategic purposes, the KPMG/University of St. Gallen report discussed adjacently also exhorts institutions to "identify pricing models that best suit clients' profiles and needs by strengthening data collection and analysis". Arguably, however, a really well-thought out pricing model will be very attractive to clients – hence the reticence about revealing new fee models seen among UK institutions before the implementation of the Retail Distribution Review reforms.

IN FOCUS: PRICING MODELS

A 2013 KPMG/University of St. Gallen study* advised Swiss banks to embed client data into their pricing models to promote "client acceptance". It argued that including details of the relationship history and the costs of compliance, custody, transactions and so on will help clients understand the composition of fees and how much they are paying for each part of the value chain. This will both help justify changes to fee schedules and promote transparency and therefore trust. Institutions should also factor compliance risk and behavioural data analysis into pricing models, the report said.

**Success through Innovation: Achieving sustainability and client-centricity in Swiss private banking*

IN FOCUS: RETROCESSIONS AND RDR COMPARISONS

There are many similarities between FINIG/FIDLEG and the UK's Retail Distribution Review, but as Eelco Fiole pointed out, comparable overhauls have occurred or are underway across several jurisdictions internationally. As well as in adherence to OECD tax transparency standards, global regulation has also been converging in areas like suitability, transparency and professional standards very noticeably. Yet there is one crucial area where different regimes are diverging: retrocessions.

Explaining the issue, Fabien Aepli said: "Over recent years, retrocessions have been a hot topic in the Swiss financial sector, owing largely to much-debated court rulings of 2006 and 2012 whereby the Supreme Court found that, as a principle, retrocessions are the property of the IWMs' (or banks') clients." The duty of restitution, he continued, comes from Article 400 of the Swiss Code of Obligations, which covers direct as well as indirect benefits obtained by an agent – such as an IWM. "This states that apart from the receipt of agreed remuneration, the agent should not be enriched or impoverished by the performance of its obligations pursuant to the mandate and must hand over all amounts received in connection with such an agreement," Aepli noted.

However, in line with MiFID II, an outright ban on inducements is not expected under the Swiss reforms (MiFID II almost completely bans third-party payments for advisors labelled as "independent"). As those who have watched the RDR unfold will know, the "independent" label has caused much consternation in the UK since it can only rightly be used by those offering the *entire* spectrum of financial products; in order to focus on their areas of expertise, many firms have had to adopt a "restricted" label, which some feel erroneously implies an inferior advisory offering. There also remains uncertainty around some granular elements of the Swiss retrocession rules, namely their application to advisory investment mandates, what would constitute a valid waiver and the statute of limitations that may apply.

"FIDLEG IS THE SWISS VERSION OF THE RDR AND IT IS COMPARABLY HARSH. IT'S VERY SIMILARLY STRUCTURED AND VERY SIMILAR IN THE EFFECTS IT'S TRYING TO ACHIEVE."
– MATTHIAS MEMMINGER, PWC ZURICH

Several members of the panel predicted that many IWMs will move away from retrocessions regardless of their eventual status in the legislature, entirely revamping their fee structures in the process. Previous studies have suggested that retrocessions account for around a third of Swiss IWMs' revenues, so it will be interesting to see how IWMs attempt to meet this shortfall.

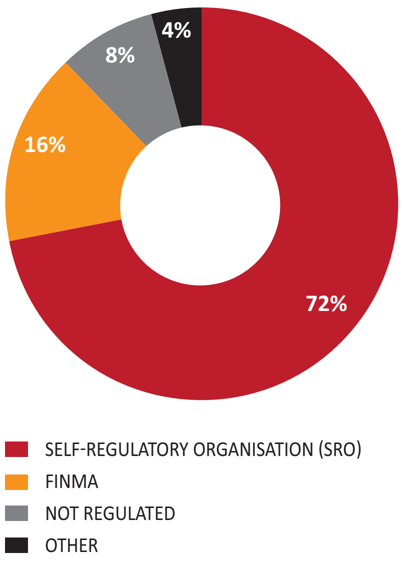
Matthias Memminger observed that the similarities between the RDR and FIDLEG could mean that "the Swiss could end up with a very similar model to the UK". In the UK, several big-name wealth managers have upped their minimum investment thresholds in a bid to maintain profitability, which means that a number of different types of institution are now vying for the business of these smaller clients. Another interesting aside is that the RDR's abolition of commissions in favour of upfront fees has been blamed for having created an "advice gap" among entry-level clients who are unwilling or unable to pay fees and so therefore are opting to forgo advice altogether.

SECTION 2

THE EVOLUTION OF SWITZERLAND'S SRO MODEL

- Almost three-quarters of the Swiss IWMs surveyed are regulated by an SRO, with 16% directly regulated by FINMA and 8% unregulated.
- An overwhelming 96% of participants agree that the independent asset management sector and its interests need to be better represented in the Swiss government.
- Last year, 64% of respondents said they did not think their interests were well represented, suggesting that IWMs are feeling increasingly marginalised as the regulatory reform process accelerates.

FIGURE 23
IWM regulatory status



As Figure 23 shows, at present almost three-quarters of Swiss IWMs are regulated by an SRO, with just 16% being directly supervised by FINMA (a picture which is almost exactly the same compared to 2013's survey findings). The SRO model, while clearly IWMs' preferred mode of regulation, is distinctly Swiss and not very well understood outside the country, however. Moreover, some would question the validity of a fee-funded organisation (with commercial concerns) policing its own members while also representing their interests in the wider market.

That said, the Swiss IWM sector is a special case in many ways and the SRO model works, the panel pointed out. Switzerland's use of the SRO model is largely rooted in practicalities, since FINMA simply doesn't have the resources to police the country's estimated 3,000 IWMs and so has to delegate, it was said. The longevity of the model - in the face of growing international disapproval - can also be seen as part of the "consenting adults" mind-set which has arguably characterised Switzerland's approach to investor protection hitherto. There are many reasons why clients favour IWMs, but a desire for something slightly out of the mainstream is certainly one. Those who want to aggressively chase outperformance with more exotic, riskier investments may well be drawn to a small, nimble organisation with lighter-touch regulation for qualified investors, for example.

Switzerland's regulatory overhaul seems to represent a significant step towards the more paternalistic stance on investor protection being taken by influential regulators internationally. As Matthias Memminger explained, FINMA's focus is shifting away from the security of clients' assets at custody banks and towards ensuring the advisory process is appropriate to their risk and investment profile – which means that the regulator must supervise and endorse the IWM rather than just the bank, "because that's where the advisor sits". Bringing all advisory activities under the same rules is therefore essential, he said, because otherwise "you would be creating regulatory arbitrage, of the IWMs against the banks". "The creation of a 'level playing field' for all market participants in Switzerland is actually a very important element of what FINMA is trying to achieve with FINIG/FIDLEG", said Fabien Aepli, since exempting some players from increases in compliance costs hardly promotes fair competition. Perhaps most important of all, however, is creating a level playing field for Swiss institutions internationally. Equivalence with other jurisdictions – and the market access this brings – is the real issue at stake (see page 43).

Chris Hamblin observed that the SRO model has fallen out of favour internationally, it having faded away in the UK at the start of the millennium, for example. He now sees the UK and US as being "in the driving seat, setting the world agenda for compliance trends", and so views their influence as a big contributing factor towards the possible demise of the current SRO model in Switzerland. But while the panellists agreed that the Swiss SRO model is certainly not loved by the US, Elmar Meyer said this is not the main sorrow of the Swiss. Rather, it is EU legislation which is the issue.

The EU insists that the supervision of providers of investment management services must be by central state authorities. A situation where oversight is effectively being outsourced to a number of fee-funded member organisations, with these in turn being overseen by the Swiss regulator is therefore not acceptable in the eyes of MiFID II. Given the importance of the big European markets (Spain, France, German and Italy) to the IWM sector, Switzerland therefore stands to lose out hugely if EU lawmakers cannot be appeased.

Yet it is not just the views of other regulators which need to be considered. As Meyer pointed out, the SRO concept isn't widely understood by investors outside of Switzerland and, where it is known, it doesn't necessarily have a particularly good reputation. "I'm not sure if the creation of another 'SRO-like' layer under FIDLEG/FINIG would be beneficial as international businesses don't understand what they are," he said. "It would be far better to have everything under FINMA as a one-stop shop for regulation."

WHAT ARE THE OPTIONS?

The first option available to the Swiss authorities is for FINMA to directly supervise all IWMs, but this seems less likely given the already huge task facing the regulator in overseeing a financial services sector that accounts for around 12% of Swiss GDP and includes some of the world's biggest banking groups. The second option is the creation of a new SRO for supervising IWMs under their new compliance obligations, which could be either an entirely new set-up or a strengthened version of one (or more) of the current SROs.

Under this second option, an IWM would have to fulfil the following criteria in order to be granted a licence:

- Sufficient financial assets (or an appropriate level of insurance)
- An operational infrastructure which is "fit for purpose" in terms of controls, appropriately-qualified staff and avoiding conflicts of interest
- Observance of the FIDLEG rules
- Membership of an SRO, which itself is licensed and supervised by FINMA

While SRO, rather than direct, supervision may be seen as a "softer" option, the criteria outlined above underscores that the barriers to gaining a licence would be similarly high.

How precisely FINMA would manage to directly supervise the thousands of IWMs distributed throughout Switzerland was the source of some speculation among the panel, but all agreed that the resources required would be very significant indeed. (This is an important consideration, in fact, since the SRO route could prove popular in terms of limiting the impact on the public purse.) What is also clear is that the IWM space is highly diverse and the level of supervision required will not be equal for all organisations. The most practical solution therefore, according to Kurt Haug, will be based on segregating the IWM market according to size and where the firms do business, and then delegating oversight accordingly. He therefore proposes that the smallest IWMs, where perhaps the principal is looking to retire, are dealt with under the "grandfathering" rules (which would allow them to carry on operating for a limited time with annual audits and minimal educational requirements imposed), while the bigger IWMs, split into two mid (domestic) and top (international) tiers, would have to comply with all the FINIG/FIDLEG requirements. IWMs with over SFr500 million in assets under management and those that are active globally would have to be regulated and audited by FINMA, but elsewhere there is scope for delegation, in Haug's view.

If a new SRO were to be created, the extent of its powers and the range of activities it would carry out remain to be seen. It could be that the delegation Haug spoke of sees the SRO responsible for only certain elements of oversight, for example. Correspondingly, Eelco Fiole believes that if SRO regulation continues its scope will be greatly reduced. "Rather than a prime player to rely on it will be one element out of a couple," he said. Although some members of the expert panel believe that FINMA will form just one SRO if this is the chosen route, others are convinced that several will be created – all driven by the regulator and very close to it, but operating as discrete external concerns. In fact, Walter Arnold predicts that FINMA is likely to grant several regulatory licenses, partly in a bid to keep supervision costs down for the IWMs. "FINMA will probably grant three or four licences so we have a little bit of competition," he said. "But the final number will be closer to five than to ten." For Fabien Aepli, the eventual identity of the supervisory body/bodies is less important than the licensing requirements which will be set out in the implementation guidelines in the final version of FINIG. Among other considerations, higher barriers to entry will have a great impact on the future shape of the sector; they have historically been very low, the panel said, hence the large number of very small independents in Switzerland.

THE IWMS' VIEW

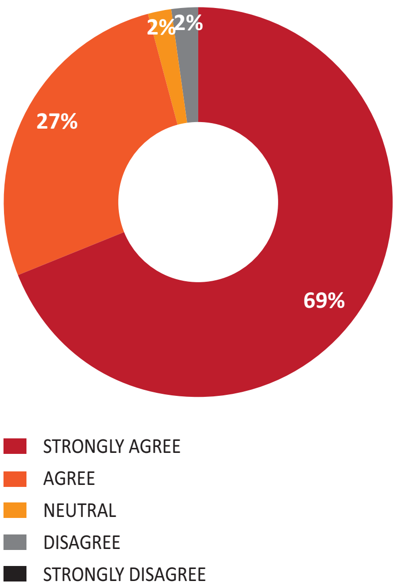
There are a number of reasons why IWMs are likely to favour an SRO model. The apparently widely-held view that this would probably entail lower costs than direct FINMA supervision is doubtlessly one of the biggest. More philosophically, membership of a smaller organisation dedicated to their oversight alone is likely to sit much better with a sector which is being swept up in a regulatory tsunami which can arguably be blamed on the actions of larger players. Swiss IWMs might also hope for an SRO (perhaps born of one or more of the existing ones) with lots of experience of how IWMs work and an in-depth understanding of what they and their clients are typically trying to achieve. As Stephen Wall observed, IWMs are likely to feel that an SRO would be more "in their camp", whereas with FINMA they would be very much on the peripheries.

"I THINK IWMS WOULD STILL FEEL THE SRO WOULD BE IN THEIR CAMP, UNDERSTAND THEM BETTER AND BE BETTER TAILORED TO SERVING THEIR NEEDS – RATHER THAN FINMA WHICH, THE SECTOR WOULD SAY, DOES NOT HAVE THE SCALE, FOCUS OR INTEREST IN DIRECTLY LOOKING AFTER IWMS."
– STEPHEN WALL, AITE GROUP

The argument that a dedicated SRO would be a more "helpful" regulator does have some weight, if regulation can ever be spoken of in such terms. However, several of the contributors argued that any desire IWMs might have to hold FINMA at a distance is based on ill-founded fears or nostalgia. "Generally speaking, we often see IWMs wishing to stay somewhat distant from FINMA when such an option exists - as if the involvement of FINMA would imply deeper supervision, or even intrusion, compared to the activities performed by an SRO, which is not the case," said Aepli. Supervision by an SRO may provide some sense of freedom that IWMs particularly appreciate, in his view, but if they were ever justified in seeing a degree of lassitude in the SRO model that is certainly not the case now. Elmar Meyer, meanwhile, believes that it is more the *flexibility* of the SRO model which will be lamented if lost. "There are different standards on structures and firms can go shopping," he said. "I would be very surprised if a new SRO is as flexible as before."

WHO IS SPEAKING UP FOR IWMS?

FIGURE 24
Should the independent asset management sector and its interests be better represented in the Swiss Government?



In 2014's survey, almost seven in ten IWMs said they strongly agree that the independent asset management sector and its interests need to be better represented in the Swiss government, with a further 27% agreeing with this statement. Last year, 64% of respondents said they did not think their interests were well represented, indicating perhaps that IWMs are feeling increasingly disenfranchised about the changes likely to be imposed on their industry as part of sweeping reforms (from an already very high base). It is no exaggeration to say that the relationship between IWMs and the rest of the Swiss financial services industry is highly complex and politicised. Understanding this goes a long way towards explaining why Swiss IWMs seem to feel somewhat excluded from the discussions which will dictate their fate.

There are certainly many IWMs in Switzerland and collectively they account for a significant chunk of the assets managed in the country (SFr500 billion; for 2012 overall figures see page 44). Yet for several reasons, the IWMs' collective voice is so weak as to be virtually non-existent, the panellists observed. Firstly, the highly-diverse IWM sector encompasses many different models and this makes it difficult to arrive at a consensus view which suits both tiny organisations and larger, perhaps global, ones. Secondly is the practical difficulty of lobbying as a group when IWMs are spread across a number of SROs which all operate very much on their own lines (and in their own preferred languages). Thirdly, and more controversially, several of the contributors suggested that IWMs feel there is little they can really do to fight for their interests in any case.

"IT'S ALL A MATTER OF DEBATE AT THE MOMENT, BUT ONE THING THAT IS CLEAR IS THAT AUDITING UNDER FINMA WILL BE A LOT MORE EXPENSIVE THAN BEING AUDITED BY AN ACCEPTED SRO."
– KURT HAUG, HAUG & PARTNER

"IWMS INDIVIDUALLY, DUE TO THEIR SIZE, OPERATE BELOW THE RADAR AND THEY'RE REALLY NOT SEEING ANYONE STEPPING UP AND LOBBYING ON THEIR BEHALF. YOU DO HEAR SOME VOICES SPEAKING OUT, BUT THIS HASN'T REALLY BEEN EFFECTIVE."
– EELCO FIOLE, PWC ZURICH

"THE SROS ARE APPROACHING THE PROBLEM TOO SOFTLY. THERE IS A LACK OF REPRESENTATION AND THIS EQUATES TO A LACK OF OPPORTUNITY TO PARTICIPATE IN SHAPING UP THE SECTOR. THERE IS LOTS TO BE DONE ON THE POLITICAL LEVEL."
– DANILO LARINI, LP GROUP

Engaging more with FINMA would seem to be the obvious course of action, yet it was suggested that some IWMs view the regulator as more of a threat rather than a friend since its business is overwhelmingly with far larger entities. IWMs therefore fear being "pushed around" while bigger organisations' interests take precedence, it was said (although the regulator is doubtlessly trying to be fair to all market participants). Some contributors even went so far as to suggest that some parties would be very glad to see widespread consolidation in the IWM sector – and not just because of the assets which might then require new homes. A Swiss financial centre with fewer (but bigger and better organised) IWMs, is an outcome which many desire for the sake of the industry's international standing, it was said.

Even taking the least cynical view of the situation, it is clear that IWMs are struggling to mobilise as a group and to speak loudly enough to be sufficiently heard in a group with some *very* big voices indeed. Perhaps IWMs will now be galvanised into action as Switzerland's sweeping reforms come into clearer view, however – after all, some predict that they might literally decimate the sector.

Several of the panellists noted that the SROs have been more vocal recently, yet they still see scope for more to be done. "I see more efforts from SROs in voicing their opinions about the tsunami of new regulation that is flooding the sector, but I do agree with the 96% of IWMs that the sector doesn't have an effective, unified entity in Switzerland, like the Swiss Bankers Association for banks, that can effectively lobby the IWMs' vested interests," said Klaus-Michael Christensen. The creation of such an entity would strengthen the position of the IWM sector in the Swiss financial industry, in his view, and he is encouraged by the launch of several representation-linked initiatives he has seen in the past couple of years. Whether the voice of the IWM sector will be heard in sufficient time to protect its interests as much as possible remains to be seen.

IN FOCUS: HOW MUCH DO CLIENTS CARE ABOUT THE SRO MODEL?

The question of whether clients care about how IWMs are regulated divided opinion to a degree among the panel. Some argued that private clients tend not to pay too much attention to regulation, until such point that they themselves have a problem, while others argued that after the financial crisis most investors are seeking greater protections and guarantees. In Meyer's view, the size and type of client will largely determine how concerned they are, with professional and institutional investors definitely having a clear preference for working with IWMs that are directly regulated by FINMA "because of the brand". "FINMA is still the regulator here and I think that makes a difference in the context of international business. Small ones no, but the larger ones will be interested in FINMA," he said.

Matthias Memminger, meanwhile, believes the additional rights to recourse provided by central supervision should make choosing a FINMA regulated asset manager an easy decision for *all* clients. Where advice is regulated and suitability enforced clients have a better basis to seek redress if an investment goes wrong, he explained, meaning that they would need a compelling reason to go with a more lightly-regulated (or even non-regulated) choice. "You would only do that if you think your advisor or the products you get there are substantially superior… and that's a tough thing to prove," he said.

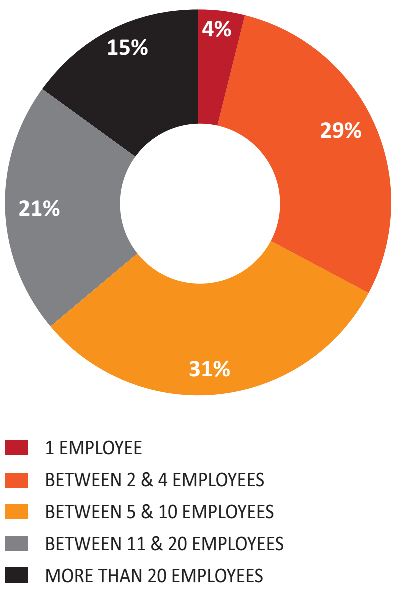
SECTION 3

STAFFING, SUCCESSION AND CONSOLIDATION AMONG SWISS IWMS

- All but 15% of the survey sample have 20 or fewer staff. Comparing 2014's findings to last year's, the number of IWMs with over 20 members of staff has remained broadly stable (2013: 17%).
- In the past year, 43% of IWMs have made hires and almost the same proportion plan to increase staffing levels in the coming 12 months. Nearly a quarter of the IWMs surveyed believe their staffing levels are currently too low.
- Almost a third of the IWMs surveyed have been in business for 15 years or more, suggesting that retirement either via winding down, passing on or selling off their client books may be on the horizon for a large proportion of participants. These could account for many of the 58% of IWMs who said they won't be hiring in the coming year.

STAFFING LEVELS AND SUCCESSION PLANS

FIGURE 25
Current IWM staffing levels:



The IWMs which participated in this year's study are still generally fairly small organisations, with only 15% having 20 or more employees while a third have four staff or fewer (4% work alone). However, looking across the entire Swiss IWM sector, the panellists said that the prevalence of very small organisations with just a few employees would probably be even higher. In fact, some estimated that these account for up to 70% of the Swiss IWMs currently in business. Clearly, even adding just one full-time compliance officer to such an operation represents a very large leap in fixed costs.

IN SWITZERLAND, SEVERAL VERY LARGE IWM AND MULTI– FAMILY OFFICE TYPE BUSINESSES ANTICIPATED THE NEW ENVIRONMENT. THEY HAVE ALREADY INVESTED HEAVILY IN COMPLIANCE IT INFRASTRUCTURE AND PEOPLE TO MANAGE IT."
– KLAUS-MICHAEL CHRISTENSEN, COUTTS & CO LTD

HEADCOUNT RISING

FIGURE 26
IWM Sentiment Index: Employment

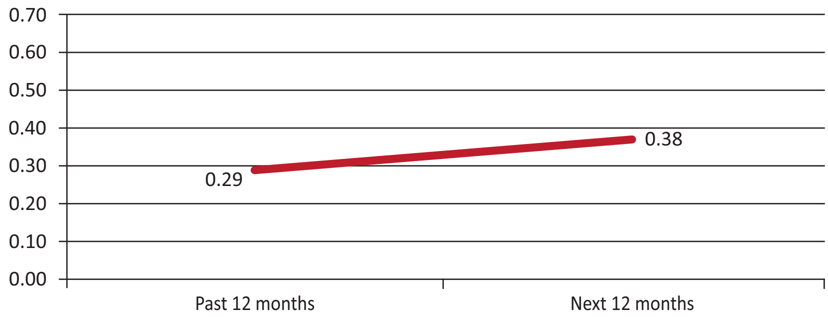


FIGURE 27
Over the past 12 months, employment at my organisation has:

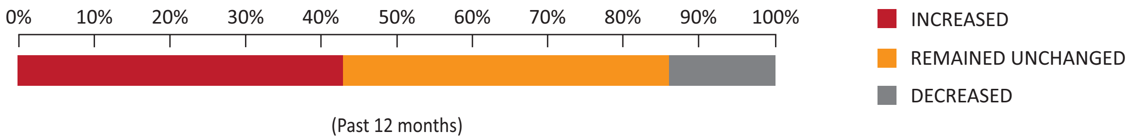
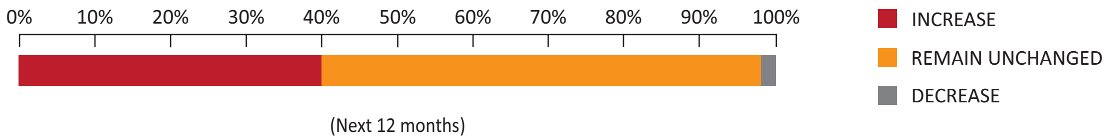


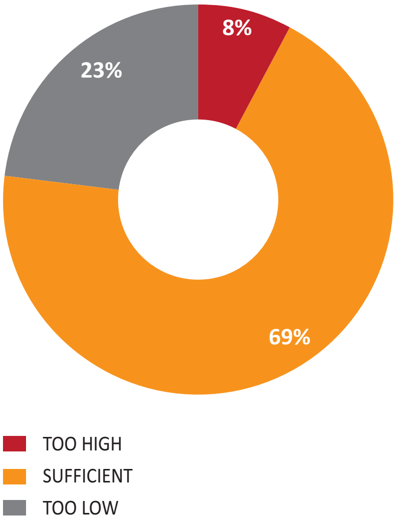
FIGURE 28
Over the next 12 months, employment at my organisation will:



According to this year's survey, over the past twelve months, 43% of IWMs have increased their headcount, the same proportion have made no changes and 14% have scaled down. This is as 2013's study predicted, when 40% said they expected to hire more staff in the year ahead. Similarly, looking ahead into 2015, 40% of wealth managers plan to increase their staffing levels (with 58% set to remain unchanged and just 2% trimming back employee numbers). Almost a quarter of the IWMs surveyed believe their staffing level is currently too low.

FIGURE 29

A present, we regard our staffing level as:



HIRING NEEDS

Hiring needs across the highly-diverse IWM sector will of course differ. As Klaus-Michael Christensen noted, the functions that IWMs will have to strengthen (or indeed create) will be dependent on their business models, and where they are in their own lifecycle - whether additional hires are really about "catching up" with regulatory change or if they are actively trying to use the disruption in the market as an opportunity to differentiate and grow.

At one end of the spectrum, Christensen sees many IWMs currently feeling overburdened by increasing administration and hiring office and legal staff so that they can focus on portfolio management and business development. At the other are those organisations which have already tackled the compliance challenge head on. "In Switzerland, several very large IWM and multi-family office type businesses anticipated the new environment. They have already invested heavily in compliance IT infrastructure and people to manage it," Christensen said. "But most IWMs are or will soon feel overburdened by the increase in administration. They will predominantly hire office and legal staff to fulfil the emerging compliance requirements."

It is interesting to note that while the IWMs surveyed overwhelmingly said that new regulation was the biggest factor holding their business back, financial constraints came second (see Figure 32). For a small firm, adding just one compliance or risk officer would represent a big increase in operating expenses, let alone adding specialist IT personnel. It may well also be that smaller IWMs would like to make hires geared towards marketing and business development to position for growth, but investment is earmarked and limited to essential recruitment.

IN FOCUS: RECRUITMENT ISSUES AND EUROPE

Relations between the EU and Switzerland over labour movement have become strained since the Swiss voted to curb immigration in a February 2014 referendum. The issue, which is highly-sensitive politically, has serious implications for the Swiss financial services industry and is bound up with the ongoing negotiations over cross-border business between Switzerland and the EU.

Swiss institutions face the threat, under EU laws, that those serving EU-based clients will have to set up local branch offices, either hiring in the target country or relocating Swiss staff. The need to hurdle EU market barriers is already transforming the workforces of Swiss institutions. Since 2008, the number of workers employed in European subsidiaries of the SBA's ten member banks has risen by 67%, against a 6% domestic rise.

Christian Nolterieke, of MyPrivateBanking Research, believes that Switzerland already faces a recruitment issue domestically, since the Swiss aren't as drawn to financial services careers as much as previously, and he predicts that the Swiss recruitment challenge will be greatly exacerbated by the issue with foreign workers. "The 'brightest' no longer wish to work in the financial sector to such an extent, which reduces the national pool for recruits significantly. The open issues concerning immigration will cause difficulties in luring international candidates to Switzerland," he said, explaining that workers are unlikely to want to relocate if they fear the work and living permits provided for them (and their families) may be rescinded.

For its part, the SBA has urged Switzerland's lawmakers to "quickly identify" solutions with key EU countries in order to secure cross-border business, arguing that jobs in the Alpine state can only be safeguarded if banks are able to continue providing cross-border services for their foreign clients.

THE ENDURING APPEAL OF THE IWM MODEL

The transition from being a private banker at a big brand to setting up as an independent is a well-worn path, but with the barriers to entry becoming so much higher it remains to be seen how many new launches the coming years will bring. The panellists said that the shake-out of the banking industry means that experienced bankers are seeking alternatives, but they expect that most bankers choosing to go independent will opt to join an existing IWM rather than set up on their own.

"THERE IS CURRENTLY MUCH FLUCTUATION IN THE JOB MARKET. THE CONSOLIDATION WITHIN THE BANKING SECTOR IS ESPECIALLY DRIVING BANKERS TO BECOME INDEPENDENT, BUT MOST BANKERS ARE JOINING ESTABLISHED IWM PLATFORMS TODAY BECAUSE MARKET ENTRY IS BECOMING INCREASINGLY EXPENSIVE."
– KLAUS-MICHAEL CHRISTENSEN, COUTTS & CO LTD

Despite the changes facing IWMs, the experts believe that the main attractions of working in an independent set-up remain largely undiminished. Most IWMs would cite being able to devote more time and personal attention to clients, however it is the greater freedom the independent model affords that really attracts those of an entrepreneurial mindset, it was said. "Access to more dynamic and bespoke systems and protocols can produce clear competitive advantage over shorter time spans, with shorter implementations, less disruption and fewer projects competing for the same resources," said Tim Orme. "Often this manifests in easier day-to-day life for the private banker, with less internal red tape and faster decision-making."

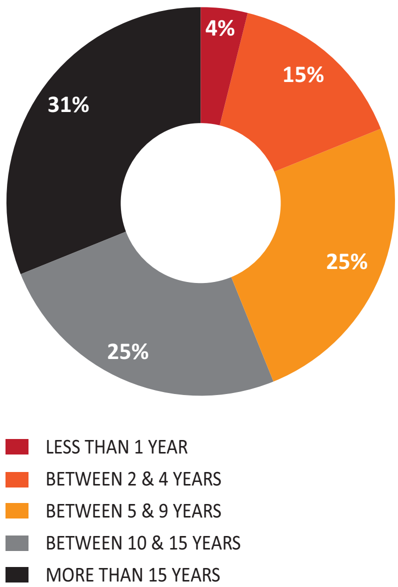
SUCCESSION AND CONSOLIDATION

While a big proportion of IWMs are looking to add more staff in the coming year, it should also be remembered that many principals are likely to be of an age where they will be looking to retire soon. As Figure 30 shows, almost a third of the IWMs surveyed have been in business for 15 years or more. The fact that bankers tend to go independent after having spent a substantial period of time at big institutions indicates that retirement may not be far off for many. That higher qualification standards are likely to accompany a generally more onerous regulatory regime is also likely to make a slightly earlier retirement attractive to those able to take this option. Therefore, within the 58% of IWMs who won't be hiring in the coming year there may be a big contingent of business owners who are simply going to sell or wind down their businesses under the grandfathering rules.

The issue of succession is of course of great interest to custodians because in this scenario they have a good chance of converting custodial assets (back) into managed ones. Even if a client book is sold, the familiarity of the bank (and perhaps its personnel) could mean that the client prefers to become integrated as a full client rather than transfer to a new IWM. Indeed, in many cases these assets may have been "owned" by the bank in the first instance, before the advisor struck out on their own, taking the client with them.

As Ray Soudah remarked, at this point in the sector's development, IWMs are "either getting ready to be regulated, or getting ready to sell". There is probably a big wave of exits coming, the panel said, but deal flow has yet to really manifest (in fact some said they haven't seen any sales at all). "Succession remains an important priority for many IWMs, but we have not yet seen too many businesses changing ownership, only a few asset transfers," said Daniel Wüthrich. "I personally believe that a number of IWMs will be taking the grandfathering route to extend the lifecycle of their businesses before taking the final step."

FIGURE 30
How many years has your firm been operating for?



It seems probable that many IWMs are going to "run down the clock" before finally selling up once the grandfathering provision expires. In the interim, some may be mentoring juniors to eventually take over, which might also partly explain their reluctance to seek a buyer. However, it is also hard to discount the fact that the highly-personal nature of the IWM business can make it hard for business-owners to let go before circumstances really force their hand. Psychologically, draft legislation is one thing, while ratified acts are quite another. Again, a "wait and see" attitude seems to be prevalent.

"THERE IS A LOT OF TALK AND EVERYONE IS WILLING TO BUY, BUT APPARENTLY NO ONE IS WILLING TO SELL. MANY ARE JUST WAITING TO SEE WHAT HAPPENS WITH THE REGULATORY ENVIRONMENT AND THEN THEY WILL DECIDE." – ELMAR MEYER, GHM PARTNERS

PARTNERING-UP

The expert panel identified a degree of passivity among at least some IWMs, in terms of them not having started to prepare for new ways of working. However, they also pointed out that for many organisations this isn't just about having not accepted that change is coming; rather it's about working out ways to move forward when there isn't necessarily a great deal of money available to invest in staff or new technology. "It's a question of costs as well. The new regulation will perhaps triple costs, maybe even up to the SFr100,000 range a year – and you've still got to be profitable after that," said Kurt Haug. To his mind, small IWMs that can't afford to hire to fulfil their new compliance obligations will have to choose between two options: either outsource these functions or "get together with other small companies to survive".

The "partnering-up" option was put forward by the experts as an option *all* small firms (which aren't consciously winding down) need to be investigating. "These companies need to think about how they can change in terms of teaming up, partnering and working together," said Matthias Memminger, adding that understanding where each party really adds value has to be the foundation of any eventual partnering strategy. While joining forces with another firm may pose challenges initially, the panel were optimistic that with the right approach combined IWMs could be greater than the sum of their parts; indeed, the process of merging can be beneficial in itself. "While many Swiss IWMs are consolidating to grow AuM and market share quickly, the operational systems driving these firms are combining and filtering to produce best-of-breed hybrids, bringing tangible gains in operational capacities," said Tim Orme.

CURRENT CONSOLIDATION TRENDS

While it seems clear that a great deal of consolidation is coming, the panellists predicted that this will only have fully manifested in around four to five years' time. That said, some firms are already making proactive moves rather than become forced sellers when 2017's planned reforms may start to bite for the under-prepared. Walter Arnold, whose company is bringing IWMs under its umbrella, said that IWMs are now proactively coming to him wishing to collaborate and that his competitors are saying the same. "There is movement in the industry because IWMs are realising they are going to need more than one and a half to two years to re-write their business case," he said [2017 being when the final version of FIDLEG is planned to come into force]. "It's started already, the earlier ones have come in and the big crowd will start coming in the end of 2014 or the beginning of 2015."

The option that Colin & Cie. Independent Partners AG provides allows IWMs to run their front office, while back office elements like compliance and investment office are taken care of by the partner. For some, he believes this may be a more appealing path than merging with another firm. If an IWM has been working independently for 20 years, then changing working practices to align with another organisation's way of doing business is going to be a real challenge, he said, adding that practicalities like agreeing on a new business name can pose big problems. As such, while he has seen a lot of discussions going on between IWMs looking to partner up, nothing much seems to have come to fruition in his view. "They've been talking to each other for the past 18 months, but I've only seen one or two successful instances of IWMs coming together and founding a new company," Arnold said.

"THERE HAVE BEEN SOME BIGGER DEALS, AMONG ALREADY BIG FIRMS. BUT IN THE SMALLER PART OF THE MARKET, THERE IS PERHAPS A LOT OF NOISE BUT NOT TOO MUCH REAL ACTION"
– STEPHEN WALL, AITE GROUP

It is probable that ongoing discussions between IWMs are going to take a more serious turn now that FINIG and FIDLEG are moving ever closer to being finalised. On this point, the panel made an interesting observation: that custodian banks are actually acting as a driving force in the consolidation and partnering-up process, by bringing IWMs together and coaching them to find solutions together. As was pointed out, the custodian banks definitely don't want the IWMs they work with to go out of business and so they will be trying to help them navigate the new environment as much as possible.

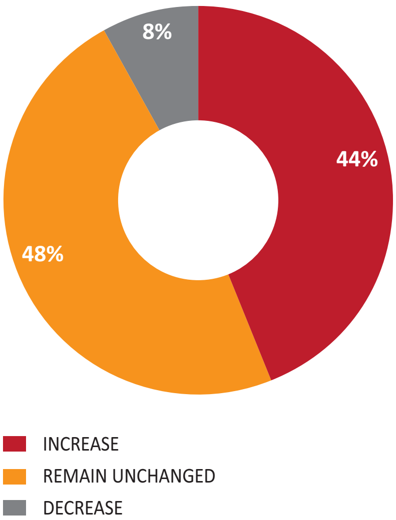
SECTION 4

INVESTMENT IN IT INFRASTRUCTURE AND OUTSOURCING ON THE RISE

- Almost half (44%) of the Swiss IWMs surveyed are to ramp up their investment in IT infrastructure in the coming year. CRM along with risk and portfolio management systems are key areas of investment.
- In last year's study, 63% of respondents said they had been thinking about investing in IT, with portfolio management and CRM systems top of their shopping lists, with 21% and 18% of the votes respectively.
- In 2014, nearly two-thirds of Swiss IWMs said that increased regulation, the end of bank secrecy and greater requirements for transparency have forced independent asset managers to outsource more internal processes, in order to cut costs and preserve their competitiveness.

FIGURE 31

Over the next 12 months, our investments in IT infrastructure will:



IT INVESTMENT INCREASING AT CLOSE TO HALF OF IWMS

One result of the sweeping regulatory reforms which have already hit the Swiss financial services sector, along with those which stand on the horizon, is a fairly urgent need for smaller IWMs to hire/share compliance officers or outsource the function in some way. Another is having to focus on a narrower range of markets; having the right degree of specialist tax and compliance expertise in place for every attractive market may be the preserve of only the largest (or most intelligently partnered) firms going forward. The pressure to keep operating costs, and costs to end-clients, down is only going to intensify as the industry goes through its expected consolidation.

In last year's study, 63% of respondents said they had been considering investing in IT, with portfolio management and CRM systems top of their shopping lists (with 21% and 18% of the votes respectively). Although it is possible to run a small business with neither in place, those firms which are looking for growth will find increasing volumes of business difficult to deal with without investment in these kinds of systems, the panellists observed. This year, 44% of respondents said they will increase their investment in IT infrastructure over the coming twelve months.

THE 2014 ADVENT/WEALTHBRIEFING TECHNOLOGY & OPERATIONS TRENDS REPORT CLEARLY SHOWED THAT WEALTH MANAGERS INTERNATIONALLY SEE TECHNOLOGY AS THEIR SAVIOUR AMID RISING REGULATION: 83% OF RESPONDENTS SAID THAT TECHNOLOGY PLAYS A VERY IMPORTANT OR *CRITICAL* ROLE IN HELPING THEIR FIRM MEET ITS REGULATORY OBLIGATIONS. STRIKINGLY, 86% SAID THAT TECHNOLOGY COULD PLAY AN *EVEN GREATER* ROLE.

COMPLIANCE AND OPERATIONAL EFFICIENCY

Swiss IWMs, like most wealth managers globally, are having more and more of their time eaten up by the need to comply with a barrage of new national, regional and supranational regulations. First, they must understand how all the rules impact the firm's current way of doing business, and their implications for its current and target client base; then come the practicalities of meeting ever-increasing regulatory obligations while in all likelihood being a small (if not very small) organisation. Keeping abreast of all the new requirements coming from so many quarters is an ongoing task in itself, it was said.

As Klaus-Michael Christensen observed, there are documentation requirements on everything from simple transactions through to KYC profiles for both new and longstanding clients. "FIDLEG/FINIG, CAG, AIFMD, FATCA and a range of cross-border risk issues need now to be taken into consideration in the daily management of clients," he said. "When you start to implement procedures to deal with the new regulations then it can become a financial constraint if it involves investment in people and technology."

Regulation and reporting requirements having been so much lighter meant that a low-tech approach was more feasible in the past. But with the current (and coming) level of compliance complexity, it is hard to imagine how IWMs could deal with any real volume of business without some kind of dedicated technology resource (and, as Figure 9 shows, many of the survey respondents foresee significant AuM growth). At an IWM with fewer than five employees – which seems to be a good proportion of them – everyone is likely to be familiar with the firm's whole client book, but a low-tech, predominantly manual approach to compliance activities becomes less workable with any significant growth. Internationally, the requirements for taking on new clients have increased significantly due to new/tighter rules on KYC/AML due diligence and tax reporting; ensuring compliant onboarding (and client reviews) has to be wealth managers' number one risk management priority, given the massive fines being regularly doled out by regulators.

ACCORDING TO THE 2014 WEALTHBRIEFING/APPWAY STUDY, *CONVERTING COMPLIANCE CHALLENGES INTO BUSINESS BENEFITS: OPTIMISING CLIENT ONBOARDING IN WEALTH MANAGEMENT*, 52% OF WEALTH MANAGERS INTERNATIONALLY BELIEVE THE TIME TO CONVERT PROSPECTS INTO CLIENTS HAS BEEN SLOWED SIGNIFICANTLY/VERY SIGNIFICANTLY BY ADDITIONAL REGULATION OVER THE PAST FIVE YEARS.

EFFICIENCY AND DIFFERENTIATION

Investing in technology isn't just about having immaculate audit trails and being able to implement a more robust investment suitability process for regulators, although both are going to be essential. It is also about improving operational efficiency and helping staff to "do more with less". IWMs are often very small and their highly-skilled employees' time is expensive. In fact, one contributor argued that when it comes to leveraging technology to improve operational efficiency, Switzerland in particular should be far further ahead than it actually is – simply because of the high labour costs in the jurisdiction. Freeing up advisors' time for revenue-generating activities and "face time" with clients, rather than them being embroiled in compliance-related paperwork, is a virtually universal aim for wealth managers globally at present.

Tim Orme believes that technology investment among Swiss IWMs will ultimately focus on three core areas: risk and portfolio management; CRM and client communications; and trading. "Better risk and portfolio management facilitates better trading decisions, and simultaneously better enables performance and mandates to be analysed and communicated with clients," he said. Orme's comment touches on another key element of the technology investment issue: client demand. Technology used to figure far lower in clients' priorities. Yet while today the IWM proposition still rests on having intimate knowledge of the client and trusted advisor status, clients across the board are increasingly demanding cutting-edge technology provision as part of a tailored (and transparent) service. Tax-transparent clients are likely to be more active investors, it was said, and they may well have developed a taste for transparency in performance reporting, for example, which can only be catered for with modern tools.

"TECHNOLOGY PLATFORMS IN GENERAL ARE A COST FACTOR AND THEREFORE I HAVE NOT SEEN THE SMALLER WEALTH MANAGERS INVEST A LOT OF MONEY IN PORTFOLIO MANAGEMENT SOFTWARE, BUT I HAVE SEEN SOME INVESTMENTS ON A SIZEABLE SCALE FOR BIGGER ASSET MANAGERS. I DON'T THINK THE SMALLER ONES WILL INVEST TOO MUCH IN THE FUTURE; THEY'D RATHER TRY TO FIND A PARTNER."
– CHRISTIAN NOLTREIKE, MYPRIVATEBANKING RESEARCH

IN FOCUS: TECHNOLOGY INNOVATION AND IWMS

Christian Nolterieke is managing director of MyPrivateBanking Research, a Zurich-based organisation which has a keen eye on the client-facing technology side of wealth management and which ranks the world's leading firms on their websites, apps and social media provision annually. When it comes to the digital presence of Swiss IWMs, at present good is "an exception", in his view. While he has seen a few firms with high-quality, multi-lingual websites he sees the majority of wealth managers as missing out on the digital revolution and mobile in particular. "The big players are making progress, but medium and smaller players are still mostly sitting on the fence," he said. "Overall, we do not see any signs that IWMs in Switzerland have been shaken out of their complacency over technology yet."

Nolterieke notes that many IWMs are struggling with the basics when it comes to technology, let alone state-of-the-art websites and comprehensive mobile offerings. He argues that while clients who actively demand the latest technologies might now be in the minority, this will change as the younger generation comes through. An interesting point related to this is the enthusiastic take-up of social media by US RIAs, compared to the relative immaturity of this communication channel among Switzerland's IWMs (perhaps the centre's culture of ultimate discretion is a factor here). Looking ahead, the younger generations just won't take a wealth manager seriously if they cannot communicate through their chosen digital channels and if they offer only unsophisticated features and functions, the panellists argued.

In Switzerland, as in so many jurisdictions, tech-led challenger brands are emerging. Nolterieke pointed to the growth of so-called "robo-advisors", advising traditional players to shake off any complacency and evolve with these disruptors in mind. "There are several areas where robo-advisors already seem to have clear advantages in attracting clients. These include low fees, attractive self-assessment tools, rapid enrolment processes and the widespread availability of portfolio rebalancing," he said. "We think the robo phenomenon is here to stay. It will cause no problem in the short term, but has the potential for mega disruptions in the long term. Wealth managers should see them as an opportunity they can benefit from and learn from them."

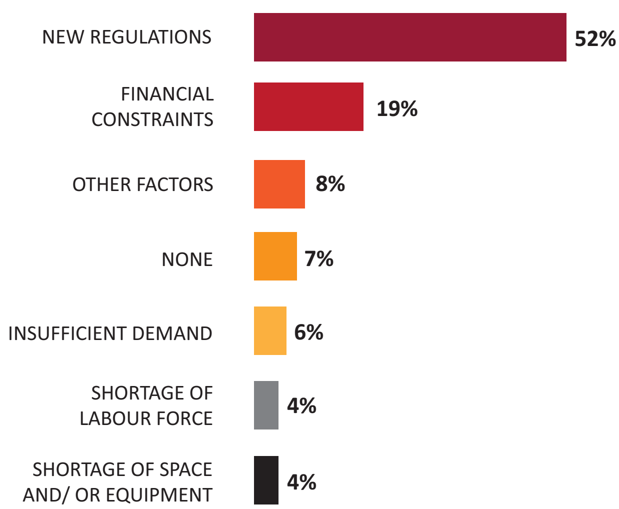
Client facing-technology enhancements might seem superfluous in the ultra-personal, very small scale IWM space, but it is also the case that technology improvements can have a huge impact on the selling points all modern wealth managers should be looking to evince: expertise, performance and trusted relationships. Portfolio management systems are invaluable for delivering and demonstrating the former two; sophisticated CRM systems (which could also perhaps be linked to compliance review schedules and sales cycles) can be a great boost to forging the latter.

BARRIERS TO INVESTMENT

The panel noted, however, that investment in technology infrastructure is likely to be a function of an IWM's size. Buying in the manpower/IT tools that create sufficient compliance controls represents a big cost to a small firm, and many of the Swiss IWMs surveyed are just that: exactly a third have four or fewer employees. "Small organisations often don't make technology investment a priority; the larger ones do because they know it can reduce costs and add value," said Osmond Plummer. "They have a vested interest in having the systems that can do the job." Moreover, it's not just a matter of wanting to spend the required amount. As Figure 32 shows, a fifth of IWMs see their business being held back by financial constraints. "I think most of them are much too small to even think about that because they don't have the money to invest in it," said Matthias Memminger. "There are only a few that are big enough to really shoulder the investment into their systems."

FIGURE 32

What is the main factor limiting your business?



Several of the panellists observed that the need for IT investment will vary according to business model and current/target client base as well as size, yet they also singled out key areas where most IWMs will need to invest if they have not yet:

- Document management and CRM systems to collate more granular KYC records and contact notes
- Tools to provide an immaculate audit trail for evidencing investment advice/product suitability
- Risk management and portfolio management/monitoring systems to systematise the investment process

Daniel Furtwängler believes that those IWMs with sufficient assets under management will invest in proprietary technology systems, but most of the smaller ones will join a platform to share resources. As he points out, custodian banks are going to be increasingly keen to work with such platforms (or to develop their own) to offer their services to Switzerland's IWMs – as well they might be considering the explosive growth of Independent Financial Advisor platforms seen in the UK caused by the RDR. "Custodian banks with dedicated IT platforms as a USP for IWMs, either through third-party platforms or their own, will become the future winners for the custodial business of IWM clients," said Christensen, adding that interfaces with custodian banks for portfolio consolidation and risk management purposes are in high demand already.

"THE IWM SECTOR IS A VERY HETEROGENEOUS GROUP OF ENTREPRENEURS. THEIR DIFFERENT BUSINESS MODELS DICTATE THEIR NEEDS."
– KLAUS-MICHAEL CHRISTENSEN, COUTTS & CO LTD

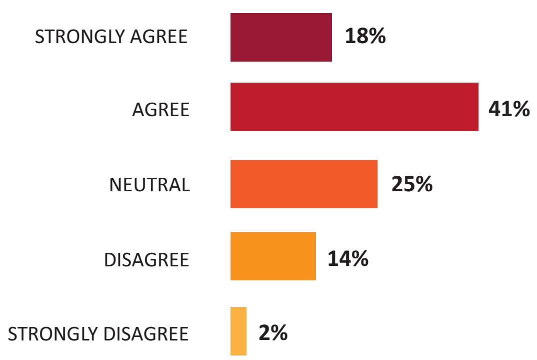
Although asset thresholds and the need to offer multiple custodians might pose a challenge for IWMs in terms of finding bank partners, it should also be remembered that banks are competing for IWMs' business too and that technological capabilities are a key selling point. To assist IWMs operationally, banks are going well beyond the basics of dealing, asset administration and reporting when developing dedicated IT systems for IWMs. Big brands have offered IWMs and their clients online account access for several years now; some platforms include marketing modules to help IWMs grow their businesses, while other banks have launched social networks for them. As the 2013 KPMG/University of St. Gallen report, *Success through Innovation: Achieving sustainability and client-centricity in Swiss private banking*, says: "Banks' heavy investments in operational systems, processes and service offerings can be hugely attractive differentiators to independent asset managers."

On the interfaces subject, Stephen Wall emphasised that IWMs, custodian banks and technology vendors all have a role to play in improving the technology capability of Switzerland's IWM sector and observed that IT solutions are now all about flexible and partnership-oriented approaches. "Tech vendors are adding more capability and trying to make themselves easier to use and access," he said. "This could be through more flexible pricing and Software-as-a-Service enabled offerings, for instance."

Wall added that, for their part, the leading banks need to work with the technology firms serving the wealth management sector to drive all industry participants towards a data standard – a sentiment that was echoed by Christensen, who highlighted that forces within the banking industry are engaged in defining standards that will make the interplay with IWMs more efficient for both them and the banks. ''We are trying to define an industry-wide Swiss Interface Standard for IWMs called SISI," he said. Such a standard would attract asset managers to Switzerland and strengthen the sector, by making it more efficient for IWMs to promote their independence by working with several banks. The challenges of managing multiple custodial relationship when each might have very different ways of working are clear. "While large IWMs that allow their clients to freely choose the custodian bank will have logistical problems to deal with, they are seen as truly independent," said Daniel Furtwängler. "These large IWMs usually use portfolio management systems that consolidate clients' portfolios at different banks. But each bank has a different IT interface. This can be cumbersome at times."

A SURGE IN OUTSOURCING

FIGURE 33
How do you view the following statement? "The intensifying regulatory environment, the end of bank secrecy and the transition to an era of transparency, are forcing independent asset managers to outsource parts of their internal processes to third parties, in order to reduce costs and remain competitive."



Swiss IWMs are subject to a range of pressures which threaten the very existence of some organisations; indeed, some would say many organisations. Coping with intensifying regulatory scrutiny, the end of Swiss bank secrecy and the transition to an era of transparency is simply beyond the current capabilities of many IWMs. As a result there has been a surge in outsourcing which will only gather momentum, the panel said. This assertion was certainly reflected among the survey participants: 59% agreed that tax/regulatory pressures had forced IWMs to outsource parts of their internal processes to third parties to reduce costs and remain competitive.

According to Elmar Meyer, there has been an undeniable surge in the outsourcing of risk and compliance functions among IWMs, yet he believes that attitudes towards this are polarised. "For some it is a necessary evil, while for others it is a means to an improved management of the company since an independent third party can better identify the risk," he said. "So, depending on how good you are as a CEO and how you use your management capabilities, you will see it as being either a good thing or a bad thing. But no matter how you see it, you need to do it." Meyer noted that firms which work with institutional investors have been leaning heavily on outsourcing to fulfil more onerous compliance and risk management requirements - yet forward-thinking IWMs of all kinds are using it as a cost-control strategy already as well.

According to Eelco Fiole, IWMs need to totally rethink their business model to be able to stay competitive while complying with new regulations. Deciding which functions to outsource and which to keep is a key decision, as is where to get each extra "piece", like reporting or statements. The panellists highlighted apparent increases in outsourced legal and compliance services, in particular, but investment advice and risk-profiling also came up as candidates.

"SMALLER IWMS ARE INTERESTED IN RETAINING THEIR USUALLY VERY GOOD RELATIONSHIPS WITH THEIR CLIENTS AND THEREFORE TO OUTSOURCE ADMINISTRATIVE AND COMPLIANCE PROCESSES TO INDEPENDENT PLATFORMS OR BANKS."
– KLAUS-MICHAEL CHRISTENSEN, COUTTS & CO LTD

The wealth management industry is generally thought of as being slightly behind the curve on outsourcing, as compared to other sectors. This is unsurprising, given that wealth management is predicated on safeguarding clients' assets and privacy, and what is at stake with processes like risk management and regulatory reporting. There is also the deleterious effect slipping client service standards would have when service quality is one of the main draws to the wealth management proposition. The prospect of losing control of data and decisions has been the basis of conceptual opposition to outsourcing among Swiss IWMs, said Tim Orme. Yet, in his view, it is difficult to resist the compelling cost *and* quality arguments which will become apparent when the issue is more deeply examined.

Furthermore, the outsourcing providers serving the wealth management industry have matured significantly in recent years. Rather than look askance at outsourcing, wealth managers are increasingly seeing good reasons to outsource to specialists in certain areas, so that they can focus on their core competencies, cut costs and sharpen up their operational efficiency. Outsourcing to third parties (and entering partnerships, it should also be said) can allow firms to do things they wouldn't be able to otherwise, such as entering new markets where they lack the necessary local regulatory expertise. More significantly in the IWM context, outsourcing helps smaller businesses keep up with their larger peers.

While Switzerland's smallest IWMs are certainly under threat, Daniel Wüthrich observed that size is only one factor when assessing the prospects of an IWM. In his eyes, success comes from a willingness to embrace change and adapt their business models clear-sightedly. "I have seen small firms emerging with the right setups, good IT, sensible outsourcing arrangements and other systems. Companies might be very small, but have a good future," said Wüthrich.

What constitutes "sensible" outsourcing arrangements will depend on the needs of each IWM and each one's choice will have to be based on a rigorous cost-benefit analysis, the panellists pointed out. How much to outsource, in which areas and to which providers are all complex questions. The discussions around the "trigger points" for out/in-sourcing in terms of assets under management thresholds were particularly interesting. The general feeling seemed to be that it is difficult to give hard and fast figures, since so much is down to the firm's business model, existing capacity and ability to adapt to the new environment. However, Danilo Larini did argue that a firm has to have a minimum AuM of SFr200-300 million for in-sourcing to make sense.

When it comes to candidates for outsourcing at IWMs, Tim Orme pointed out that while technology, IT and operations remain the "chosen outsourced disciplines", he is increasingly seeing services like billing, risk analysis and client reporting being given over to third parties too. Interestingly, he also highlighted how those IWMs which do go down the outsourcing route are thinking about it in transformational terms. "Where it happens isn't just to gain access to specialist services like regulation or legal," he said. "Increasingly, outsourcing is seen by many as the 'golden bullet' for their operational and IT issues, providing both a higher level of service and at a lower overall cost to the firm."

It seems that those IWMs still with outsourcing decisions to make should be thinking about it as a quality play as much as cost play. They should also not forget the scalability advantages it holds. “Once the initial implementation disturbance has been passed, and the procedural and logistical operations have been clarified, the BPO model is also incredibly scalable,” Orme continued. “This allows IWMs to expand far quicker, on a platform with proven success, and at sizes above and beyond their near-term horizons.”

The panel discussions revealed a need for outsourcing providers to better market themselves to IWMs, since they may still need convincing of the benefits of BPO. The concept may still be a little new to some smaller IWMs, it was said, since in the past firms could simply rely very heavily on the operational support provided by custodian banks. This seems to be less viable amid more stringent regulation, greater requirements for transparency and the end of bank secrecy, meaning that IWMs need to in- or outsource the right degree of specialist compliance expertise quite urgently if they have not already done so. Outsourcing is likely to look attractive to those firms reluctant to add to their fixed costs by adding permanent full time roles. As well as compliance capabilities, additional administrative capacity will also probably be needed under the new regulatory regime and obtaining this through business process outsourcing is likely to seem increasingly attractive for forward-thinking IWMs which are looking to ramp up growth and keep costs down.

SECTION 5

CONTINUED COLLABORATION BETWEEN SWISS IWMS AND CUSTODIAN BANKS

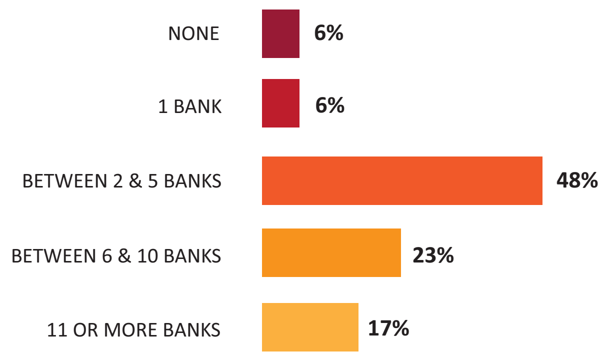
- Almost half of the Swiss IWMs surveyed offer their clients a choice of 2-5 custodians, although close to a quarter of participants offer 6-10 and nearly a fifth offer 11 or more.
- Minimum asset thresholds may be limiting some IWMs' choice of custodian bank: 6% of the IWMs surveyed have less than SFr25 million in assets under management, meaning that they may not have the critical mass in terms of AuM to offer more than a couple of custodians to clients. That said, many of the panellists recommended that smaller firms rationalise their number of bank relationships in any case for reasons of efficiency.
- Over two-thirds of participants agree that Switzerland's IWMs and custodians should work hard to develop joint value propositions for their local and global clients, while just over a quarter feel this very strongly.

The relationship between IWMs and the custodian banks they use to hold their clients' assets is complex and continues to evolve. While it cannot be denied that both sides are competing for the same pool of private client assets in one sense, they also exist in a symbiotic relationship which makes collaboration essential. Furthermore, IWMs and banks are arguably sufficiently different (the two propositions having very different strengths), that they can work together for their mutual advantage – and that of clients. The relationship between banks and IWMs in Switzerland is changing, however, as cost and compliance pressures mount. One big change, which came up repeatedly in the panel discussions, is that banks are being more choosey about the IWMs (and end-clients) on their books. As a result many smaller IWMs are struggling to offer clients the level of choice over custodians they might wish to.

LEVEL OF CHOICE

FIGURE 34

How many custodian banks does your firm offer to clients?

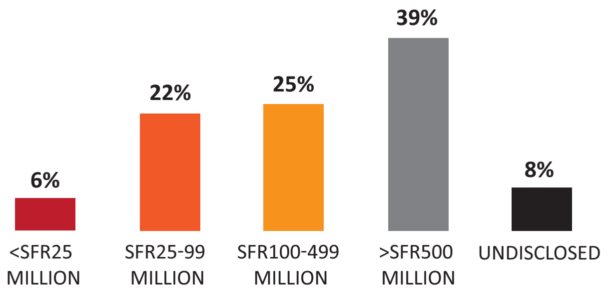


As Figure 34 shows, the majority (almost half) of Swiss IWMs offer their clients a choice of 2-5 custodian banks, although 23% offer 6-10 and 17% offer 11 or more. The panel confirmed that, from their observations, there is significant variation in the number of custodians IWMs are offering today. While some of the largest organisations are known to work with 30 or even more banks, the smallest IWMs today may only have a choice of one or two, it was said. The reason is simple: scale. "Today, you have to have a certain critical mass of assets under management to get a partner or custodian who is willing to work with you," said Kurt Haug, while Osmond Plummer added that "custodians only want independents' business if they can provide enough". What constitutes critical mass will of course vary from custodian to custodian, but what came through very strongly is that asset thresholds are going up.

The situation facing smaller IWMs is complicated by the fact that by having given clients the very thing they want – choice – they may have paradoxically limited the banks they can work with going forward. As Haug pointed out, a small player might have SFr25 million in assets, but these might be distributed between three or four banks. If banks are asking for at least SFr10 million in assets under management (which was a figure mentioned several times) then it is easy to see IWMs being turned away. As Figure 35 shows, 6% of the IWMs surveyed managed SFr25 million in assets or less, while almost a quarter manage less than SFr100 million, so asset thresholds could be posing problems for many firms.

FIGURE 35

Total amount of assets under management



Yet custodian banks aren't just getting choosier about the size of IWM they want to work with, they are also getting a lot more stringent about the underlying assets they represent. The first reason for this is compliance, since custodians are being asked to fulfill more onerous requirements for reporting on the assets they hold. While custodians should certainly have the up-to-date regulatory and tax expertise to do this (and indeed this is a big part of their offering for IWMs), banks still have to protect their own margins. They will therefore seek assets which are in their "comfort zone" over and above the money simply being clean, although this of course is their number one concern.

In fact, the panellists pointed out that custodians are taking a far more strategic approach to building their asset bases with IWMs today and predicted that this trend will only grow. According to Eelco Fiole, we can expect to see banks thinking a lot more about how custodial assets fit in with their existing client base and capabilities, along with their future plans. "An IWM may have SFr500 million in total assets with SFr50 million of that being German. If the bank hasn't got anyone with specific knowledge of that jurisdiction then that's going to be very costly," he said. To his mind, the question banks are asking themselves is whether they can put a cohort of clients on their books and reach scale, because they will only want to implement infrastructure serving specific jurisdictions if they can do this through having dedicated processes for certain groups of clients. "Banks want to add clients at a low incremental cost. That's why certain types of clients and certain jurisdictions are preferred over others," Fiole said.

"THE FUTURE IS ALL ABOUT PARTNERSHIP FOR THE MUTUAL BENEFIT OF THE CLIENT: IWM, CUSTODIAN BANK AND WHOEVER ELSE IS RELEVANT TO THE RELATIONSHIP."
– STEPHEN WALL, AITE GROUP

While custodian banks and IWMs do focus on working together for mutual advantage, the picture is complicated by the fact that Swiss wealth managers of all kinds are focusing on the domestic market today because of the cross-border issues with the EU. Several of the experts therefore feel that some banks aren't quite as supportive as they once were. As Kurt Haug noted, it used to be the case that if a banker wanted to set up independently then their (former) employer bank would be quite helpful, so that the assets would at least stay in the bank's custody, if not under its management. Today, he sees this as far less likely and as a result he believes that far fewer bankers are looking to strike out on their own (see page 29 for the attractions of the independent model for bankers).

PRICE WARS

There is no doubt that IWMs (or at least certain types of them) are still being vigorously courted by custodian banks and that they are very keen to gather the assets of independents. Indeed, in a study published at the end of 2013, KPMG and The University of St. Gallen found that two-thirds of banks in Switzerland see growth via IWMs as a "strategic agenda point for the next decade". But while gaining IWM assets is a key growth strategy, maintaining profitability from this business has become more difficult, the panel observed. While banks have been putting pressure on IWMs as regards asset minimums, they in turn have been subject to pricing pressure exerted by the independents.

As the experts observed, in a world of greater transparency and competition, IWMs have been even more focused on obtaining the best possible value for clients. Custodians have therefore been engaged in an aggressive price war which has reduced fee income considerably - and all while many IWMs are needing increasing support from their partner banks. This, according to Klaus-Michael Christensen, means that "custody has been driven down to an unsustainable level for many banks, mostly fuelled by IWMs' desire to achieve the lowest-possible price for their clients". "Banks are meant to offer IT infrastructure, good personal service, advice, research, efficient trade execution and error-free custody service at ever lower prices," he said, adding that there needs to be more recognition that both sides are needed to serve their mutual clients, and that banks can be a useful resource to help IWMs manage their new regulatory challenges when they are cooperating with each other. “It is important that the IWM sector work with the banking sector to define pricing models that are sustainable for both,” said Christensen.

HOW MANY IS *TOO* MANY?

The issue of how many custodians IWMs can and *should* offer to clients is a thorny one. As Christensen pointed out, the greatest attraction IWMs hold is their independence – the fact that they are well-placed to choose investments that are in the best interests of investors and are not dependent on any in-house products or opinions; there is also the “valuable USP” of being able to choose the custodian bank best suited to the client, he said. It therefore follows that the IWMs that are most “open architecture” in their approach to custodian banks might be seen as the most truly independent.

However, managing too many relationships with custodian banks can carry a cost, several of the contributors pointed out, since the different ways in which banks work can cause logistical problems. “Banks have different onboarding requirements, KYC procedures, cross-border rules and core markets. They also have different service levels and technology on offer,” said Christensen. “Consolidation activities in the banking industry can then also change these offerings from time to time.” Because of these difficulties, the panellists suggested that some wealth managers would like to rationalise the number of custodians they work with (although, as discussed, providing adequate choice to meet clients demand for it has to be the priority). Working with fewer banks, but having deeper relationships with them, is also likely to be more productive, it was said. To become more efficient, IWMs and banks need to find ways to eliminate duplications in client servicing and administration, and this depends on having an intimate knowledge of each other’s working practices (and the formulation of some form of common plan for serving mutual clients perhaps). Things also work best when the two parties have a shared understanding of how clients should be served, it was pointed out. It seems that consolidating custodians could be beneficial for at least some IWMs, and indeed several of the experts asserted that a small organisation working in just one or two markets should only really look to work with the same number of banks. However, as discussed below, those taking such a high-conviction approach need to use their choices wisely.

CLIENT CONCERNS AND CUSTODIAN BRAND

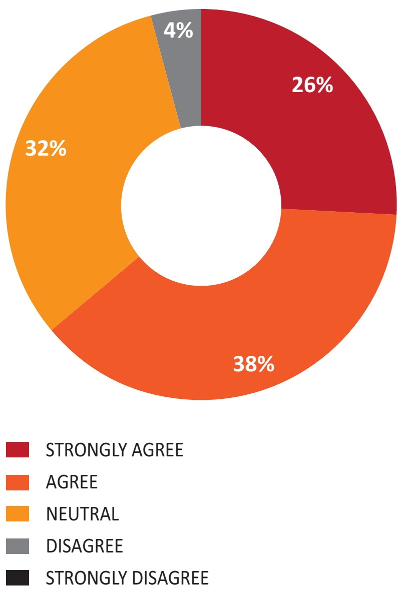
The events surrounding the financial crisis awakened a level of concern over the safety of assets which shows no sign of abating, the panellists said, and offshore centres are a particular concern. For Chris Hamblin, the way that institutions have been bailed out - or not – in recent years has made clients hyper-aware of the importance of financial strength, particularly in an offshore context. “If you have a custodian in an offshore centre and there is another worldwide crash then there’s a very good chance you could lose all your assets – unless it is a very big lender which can use its worldwide capital to underwrite failures in offshore centres,” he said. Therefore, many clients want the assurance of knowing that there is an onshore bank standing behind offshore entities, which is ready to step in and cover their obligations.

“WE FEEL THAT FOR BOTH GLOBAL AND LOCAL CLIENTS THERE ARE MANY BENEFITS IN WORKING TOGETHER. WE BELIEVE IN PARTNERSHIPS.”
– DANILO LARINI, LP GROUP

The safety and security of a bank remains a top concern for private banking clients today. The strength of a bank’s brand – and balance sheet - will therefore continue to be a key consideration for IWMs, as it of course always has been. While IWMs are typically thought of in terms of nimbleness, entrepreneurship and getting things done in the way the client wants, a solid custodian brand arguably provides a reassuring counterpoint to this. The sense that an IWM is endorsed by a respected bank – as it surely is if a custodian chooses to work with it – might be very powerful indeed.

JOINT VALUE PROPOSITIONS

FIGURE 36
Should IWMs and banks work harder to develop joint value propositions for their local and global clients?



As Figure 36 shows, over two-thirds of IWMs agree that Switzerland's IWMs and custodians should work hard to develop joint value propositions for their local and global clients, while just over a quarter feel this very strongly. While the relationship between IWMs and custodian can entail some negotiation and concessions on both sides, it seems that most independents would like to be more firmly embedded in their custodians' strategic visions. Banks have a lot to offer IWMs in terms of expertise, infrastructure and reach. On the flipside, IWMs are an efficient way for banks to scale up their asset base and ultimately gain new clients. The benefits to clients can be just as great since they can access the best of both the big brand and the trusted, independent advisor.

A WIN-WIN SITUATION

While there is naturally a degree of competition between IWMs and custodian banks for private client assets, there do seem to be a variety of benefits both sides can gain via greater collaboration.

IWMs stand to:

- Obtain access to tax and compliance specialists covering a variety of target markets, and have the chance to consult with investment experts in specialist asset classes/markets.
- Be able to use cutting-edge operating platforms, both those used by the bank itself and those which it may provide for IWM partners.
- The ability to reassure clients with a custodian's brand strength and reputation.

For their part, custodian banks stand to:

- Scale up faster by reaching out to more end-clients; arguably accessing clients who would arguably be otherwise relatively inaccessible, due to their attachment to independent advisory models.
- Eventually acquire (or more accurately in many cases, regain) clients through IWMs' succession plans and through showcasing their broader offerings through the course of providing custodial (and other, value-added) services.

SECTION 6

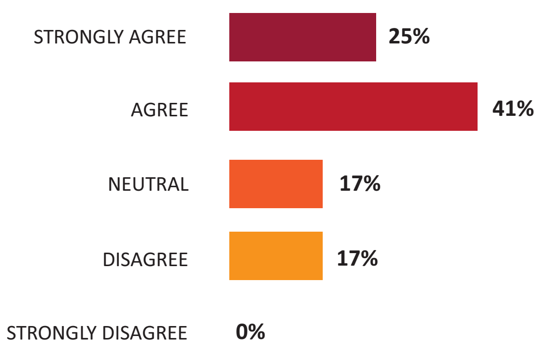
ASSESSING SWITZERLAND'S GLOBAL COMPETITIVE POSITION

- Two-thirds of Swiss IWMs believe Switzerland is a political and economic safe haven for global financial assets. Four out of five participants view the global competitive position of Switzerland's financial services centre as either satisfactory or good.
- Just under a fifth of those surveyed see Switzerland in a poor competitive position globally, however, and almost a third of respondents believe cross-border regulations are seriously curtailing the number of global markets IWMs can acquire clients in.
- Over a quarter of participants believe that the end of bank secrecy will eventually lead to improved global market access for Switzerland. Around the same proportion think the improvements to investor protection coming in under FIDLEG will improve Switzerland's global competitiveness.

SWITZERLAND AS A "SAFE HAVEN"

FIGURE 37

Do you believe Switzerland is a political and economic safe haven for global financial assets?

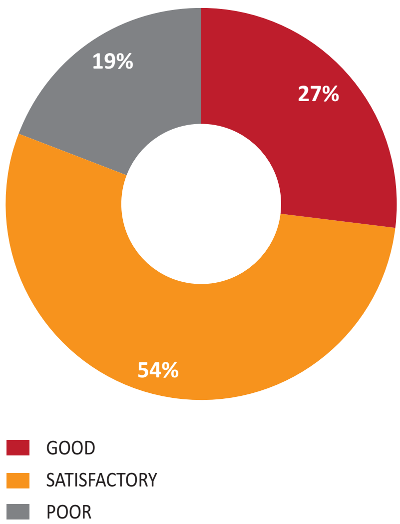


Switzerland is very stable both politically and economically, while also being neutral. This has always been one of the reasons that the world's wealthy have flocked to Switzerland, so that they can shield their wealth from the effects of domestic strife and perhaps the prying eyes of governments prone to asset seizures (not to mention all the other reasons discretion might be necessary to protect a high net worth individual). The rising geopolitical tensions seen throughout 2014 will have further convinced the wealthy just how important finding a safe home for their assets is.

According to the majority of survey participants, Switzerland is certainly such a place: two-thirds see the jurisdiction as a political and economic safe haven for global financial assets, with a quarter believing this very strongly. Yet it is also easy to see why a third of participants did not agree. International pressure has forced Switzerland to make a number of concessions on the exchange of client data which not so long ago would have been unthinkable, starting with handing over client names in their thousands to the US. Additionally, in May 2014, Switzerland promised to exchange tax information automatically with other countries, joining at least 44 nations in signing the agreement, which include other members of the OECD, the G20 and offshore centres such as the Cayman Islands and Jersey.

FIGURE 38

How do you judge the current global competitive position of the Swiss financial industry?



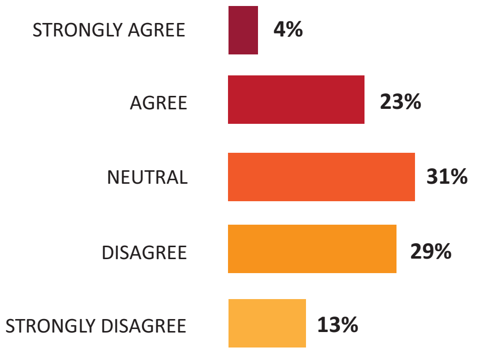
The pressure put on Switzerland to exchange information with other nations' tax authorities has been intense, with the US tax evasion case against UBS marking the beginning of the end of bank secrecy in its historic form. But while the US led the charge, other nations have also acted very aggressively to identify undeclared offshore assets and Switzerland has even been pulled into helping with the search beyond its own borders. A 2011 UK/Swiss tax treaty gave those with undeclared assets in Switzerland the opportunity to regularise their affairs under relatively forgiving penalty terms through the Liechtenstein Disclosure Facility. Acting in the belief that four out of five UK residents with a Swiss account were tax evaders, Her Majesty's Revenue and Customs also prevailed on the Swiss to provide a list of the countries most UK assets were being transferred to at that time, to help track down the recalcitrant remainder of account holders who were determined not to legitimise their money.

There is no doubt that Switzerland has seen large outflows of foreign money since the financial crisis prompted governments around the world to become very interested in the repatriation of offshore assets. According to PwC, since 2008 Switzerland has lost SFr350 billion from foreign clients. Revenues have been hit hard and as a result the Swiss private banking sector has already consolidated to quite a significant degree. According to the previously mentioned study by KPMG and The University of St. Gallen, the number of private banks in Switzerland fell from 182 in 2005 to 139 in 2013.

These kinds of trends are reflected in the mostly negative view of the end of bank secrecy which came through in the IWM survey findings. As Figure 39 shows, 42% of the survey participants believe that the end of secrecy *will not* lead to improved market access. However, almost 31% are neutral while 27% of IWMs believe that bowing to international pressure and lifting bank secrecy will eventually pay off for the Swiss financial centre. A Swiss bank account may not be as secret as it once was, but experts were of the view that clients today realise that hiding assets is not really an option in anywhere but the riskiest jurisdictions in any case. "I think people realise that all the information exchange agreements between the countries leads to full transparency on the tax side, so there is just no way round that anymore," said Elmar Meyer, adding that most of the IWMs he encounters have already regularised their clients' assets from a tax perspective, or are in the final stages of doing so.

FIGURE 39

Will the lifting of bank secrecy eventually lead to improved global market access for Switzerland?



Switzerland's appeal as a wealth management hub goes far beyond secrecy, however. Amid the high-profile conflict between Switzerland and the US over tax evasion, and the (first stage) implementation of FATCA at the start of July of this year, a number of Swiss institutions have ceased to serve US taxpayers. However, it would be wrong to assume that these issues have completely staunched the flow of US money to Switzerland. A website called Where Americans are Welcome recently launched to list all the SEC-registered institutions and advisors in the Alpine state which are keen to manage US money, for example. In Switzerland, as in other jurisdictions, certain institutions are making tax-compliant wealth management for American taxpayers something of a speciality. The challenges presented by FATCA also represent opportunities for those geared up for the additional complexity around regulatory reporting.

COMPETITION FOR OFFSHORE WEALTH

Switzerland remains the world's single largest offshore financial centre, currently holding $2.3 trillion in assets, or 26% of all offshore money, according to Boston Consulting Group. However, its pre-eminence is not uncontested and Asia's wealth management powerhouses are starting to look like serious competition. Together, Singapore and Hong Kong now account for about 16% of global offshore wealth, but BCG expects assets booked in the two centres to rise at CAGRs of 10.2% and 11.3%, respectively, through to 2018, with them together accounting for 20% of offshore money by that year.

Singapore is generally considered Switzerland's closest rival, and the question of if and when the Alpine state will be overtaken as a wealth hub is hotly debated. Asia is growing faster than any region in the world, a factor that is driving huge wealth creation in the region. Singapore is also said to have benefited significantly from the international pressure being put on Switzerland to combat tax evasion, although this should not be taken to indicate illicit funds are welcome in Singapore, due to strong warnings its officials have made against money laundering and undeclared money in recent years.

FIGURE 40

Global offshore wealth (2013)

SWITZERLAND	$2.3 TRILLION
HONG KONG & SINGAPORE	$1.4 TRILLION
CARIBBEAN & PANAMA	$1.2 TRILLION
CHANNEL ISLANDS & DUBLIN	$1.1 TRILLION
UNITED KINGDOM	$1.0 TRILLION
UNITED STATES	$700 BILLION
LUXEMBOURG	$600 BILLION
OTHER	$700 BILLION

(Source: Boston Consulting Group)

Switzerland's financial centre faces headwinds, with ever-higher compliance hurdles from a growing number of quarters, competition from fast-growing jurisdictions and rising costs hurting its financial institutions. However, 54% of the Swiss IWM survey participants believe Switzerland's global competitive position is satisfactory, and significantly more believe it is good rather than poor (27% versus 19%). Arguably, the Swiss proposition is built on such strong foundations that its prospects remain good despite the various challenges it faces.

"TAX TRANSFORMATION IS GOING ON IN VARIOUS COUNTRIES. THE US IS ONE, GERMANY IS ANOTHER AND FRANCE. THIS HAS BEEN KEEPING ASSET MANAGERS VERY BUSY"
– ELMAR MEYER, GHM PARTNERS

THE COMPOSITION OF SWITZERLAND'S ASSETS UNDER MANAGEMENT

According to the Swiss Bankers Association, banks in Switzerland managed SFr 5,565 billion in 2012, 51% of which came from abroad and 49% of which was domestic in origin. Swiss asset managers accounted for SFr2,500 billion at the end of 2012, of which SFr1,500 billion represented institutional assets; SFr450 billion was attributable to the assets of investment funds managed in Switzerland; and a further SFr280 billion was invested in investment funds managed in other countries but distributed in Switzerland.

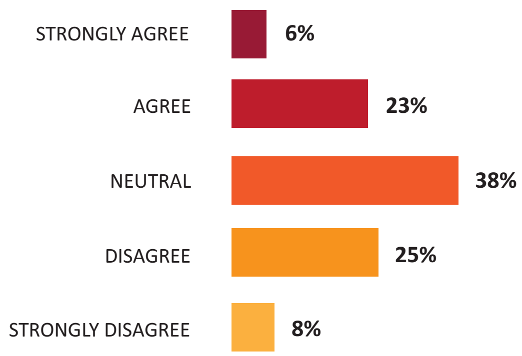
TARGET MARKETS FOR WEALTH MANAGERS

With its explosive growth in HNW individuals, Asia is obviously a significant area of interest for the international wealth management community. Despite this, Europe (and in particular the largest economies) are actually where the majority of Swiss IWMs will be looking for growth, the panel said. According to Daniel Wüthrich, the number of dollar millionaires in Western Europe is expected to have risen by only 7% between 2011 and 2016, while the number in Asia is predicted to *double*, and yet Western Europe's HNW population should still be double that of Asia at the end of the period. This, its proximity, and three shared languages mean that Europe will remain very interesting for Swiss wealth managers; additionally, the further away potential clients are, the more specialist tax law and compliance expertise is required. "Asia is not that easy a market because of the geographic distance and differences in clients' expectations. Europe is less interesting than in the past, but it is still a huge market," said Wüthrich. Even Swiss banks, among which are the largest international players, still rely on Europe for about 35% of foreign client money, according to an *Economist* report.

"WE SEE A UNIQUE OPPORTUNITY FOR SWITZERLAND TO ATTRACT WEALTH FROM EMERGING MARKETS IN GENERAL – THEY REPRESENT A BIG OPPORTUNITY FOR GROWTH."
– DANILO LARINI, LP GROUP

FINIG AND FIDLEG LOOM LARGE

FIGURE 41
Will improvements to investor protection through FIDLEG strengthen Switzerland's global competitiveness?



The panel warned that IWMs really need to get on top of the regulatory changes they have already seen (like Collective Investment Schemes and Anti-Money Laundering Acts), as well as the overhaul due under FINIG and FIDLEG in 2017. As they explained, IWMs might have less leeway than they think to understand the rules, make strategic decisions to cope with them and build in sufficient time to implement those plans. "That's quite a journey and time is running out," said Fabien Aepli, adding that keeping up with regulatory change while also remaining efficient and profitable is even more of a challenge. Aepli, and others, believe that it is predominantly the smaller firms that are still considering their options, since the larger, more organised (and possibly FINMA-regulated) ones will have already made their plans. According to Daniel Wüthrich, the October closure of the consultation period on the FINIG and FIDLEG drafts should have been a watershed moment in focusing the minds of these IWMs on their plans for the future.

"IWMS HAVE TO MAKE DECISIONS RIGHT NOW, TO FORM CORPORATIONS, TO MAKE INVESTMENTS AND TO GET THEMSELVES FIT FOR THE CHALLENGES WHICH WILL DEFINITELY ARRIVE, SOONER RATHER THAN LATER."
– WALTER ARNOLD, COLIN & CIE.
INDEPENDENT PARTNERS AG

With so many IWMs apparently taking a "wait and see" attitude towards dealing with incoming regulation, Walter Arnold believes that those who do now seize the initiative will be "ahead of the curve and at a significant competitive advantage". The winners of the future will be those IWMs which are thinking outside of the box and challenging their business models today, he said. The need for Swiss IWMs to think about their business models far more broadly came through very strongly in the panel discussions, particularly when it comes to the impact of new regulations. Fiole pointed out that as well as FINIG and FIDLEG, IWMs will also have to pay heed to new rules on financial markets infrastructure and supervision [a new Financial Institutions Act is planned]. "Even if legislation is not necessarily aimed at IWMs specifically, it will still put pressure on," he said, explaining that any requirements placed on market participants like custodian banks has a knock-on effect on others, including IWMs. "In a nutshell, there is going to be a lot more supervision, a lot more reporting, and a lot more scrutiny all the way round," Fiole concluded.

"CERTAINLY, SWITZERLAND HAS BEEN DAMAGED BY ITS LEGACY ISSUES; HOWEVER ITS APPEAL AS A SAFE HAVEN, EVEN OVER SINGAPORE, REMAINS IN FORCE."
– RAY SOUDAH, MILLENIUMASSOCIATES

IN FOCUS: WHAT DO FINIG AND FIDLEG MEAN FOR SWISS IWMS?

Consultation on the draft proposals of Switzerland's Financial Institutions Act (FINIG) and Financial Services Act (FIDLEG) was drawing to a close at the time this report was produced. The two Acts, which are designed to improve investor protection, promote fair competition in the financial services industry and ensure MiFID II equivalence, are expected to come into force at some point in 2017.

The Swiss Federal Council, FINMA and other stakeholders must now tackle the finer points of detail (such as capital requirements) and any points brought up following the publication of the draft proposals. In draft form, FINIG, for example, had a "grandfathering" clause (which would exempt asset managers from supervision if they had at least 15 years of experience and took on no new clients) which some believe may be struck out. It is also expected that the proposed reversal of the burden of proof as regards information and disclosure duties may not make it into the statute book.

The key points of each Act as they pertain to IWMs can be briefly summarised as follows.

FINIG

Independent asset managers (not investment advisors) will be subject to licensing requirements and prudential supervision.

The main licensing requirements proposed are:

- Adequate organisation and infrastructure for the firm's risks and transaction complexity
- Sound business conduct
- Client tax conformity (a rule which was not expected)
- Compliance with outsourcing rules
- Registration with the relevant bodies
- Financial guarantees or adequate professional insurance

Two categories of asset manager are envisaged:

Qualified asset managers (subject to licensing requirements pursuant to another legislation) which will be supervised by FINMA – no material changes are expected for these qualified asset managers.

Other asset managers which will be supervised either by FINMA or by another supervisory organisation, which could be new or a strengthened version of previous bodies.

FIDLEG

This sweeping act will apply to *all* financial services firms, covering:

Rules of conduct:

- Information distribution (supervisory status and independence, offered services, disclosure of relevant commercial ties, and related risks and costs)
- Suitability profiling and documentation (client profile; justification for strategy/product)
- Accountability and transparency

Organisational requirements:

- Skilled employees (with client advisors being specifically registered)
- Avoiding conflicts of interest
- Observing outsourcing rules
- Clients to be categorised as institutional, professional or private (with opt-in and opt-out possibilities)
- Retrocessions and other such payments disclosed fully to clients (who must sign a waiver authorising their payment); this will preclude "independent" status
- Legal enforcement via an ombudsman service, special arbitration tribunals and proceedings (or special fund for litigation costs), with the possibility of group settlement proceedings

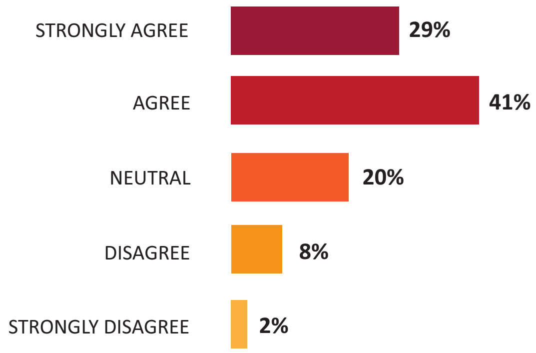
Increased regulatory oversight will certainly have a significant impact on Switzerland's IWM sector, with the associated rise in the cost of doing business casting the future of some firms into doubt. However, there are also those who see operating in a more tightly-regulated environment as an opportunity because clients will feel safer and standards in general will improve.

"The new regulations can be seen as an opportunity to create a more professional and healthy environment," said Danilo Larini. "It's about offering a better level of service and being more in control." In his view, the new regulations will create a more competitive environment in which clients can also feel more secure. The process of signing up with a wealth manager is likely to be slowed quite significantly, but clients will be compensated with greater protections, Larini observed.

EQUIVALENCE: THE PRICE FOR MARKET ACCESS

FIGURE 42

How do you judge the following statement? "Cross-border regulations reduce the number of global markets in which independent asset managers can acquire clients."



Seven in ten survey participants believe that cross-border regulations are reducing the number of global markets Swiss IWMs can acquire clients in; almost a third believe this very strongly. Cross-border business in Switzerland now has to be compliant not only with Swiss regulations, but also in line with the domicile country of the client in question. Yet while the Swiss have been coming to terms with this for the past couple of years, 2014 has seen pressures mounting on IWMs specifically, the panellists pointed out. "This year the regulator has put more pressure directly and indirectly on the IWMs to demonstrate that cross-border frameworks are in place, country-specific guidelines are available and the procedures are being followed," said Daniel Wüthrich.

Putting the right tax and regulatory expertise in place to meet country-specific compliance requirements is clearly an expensive business; labour costs are high in Switzerland. It should also be said that, for obvious reasons, compliance officers have generally risen up the pay scale in recent years. Sharing compliance functions with third-parties or outsourcing certain risk management or compliance functions may well represent a more cost-effective option than adding to permanent headcount, but boutiques will probably still need to trim the number of markets they are scouting for business in. Having in-house, dedicated capabilities for every attractive market is likely to be the preserve of only the largest firms. "With all the cross-border rules, it has become much more difficult to generate new business in European countries," said Wüthrich. "Because of the country-specific compliance requirements an IWM has to focus more on selected markets."

From the client's point of view, there is a lot to recommend in new regulations like MiFID II, in terms of protecting investors from sharp practices and making it easier for them to assess the true value of the investment management services they receive. However, the fact that additional compliance costs are probably going to be reflected in those very same fee schedules may mean that clients end up with mixed feelings about the reforms. As discussed on page 22, regulation is often subject to the law of unforeseen circumstances and investor protection can sometimes lead to seriously restrictedaccess to financial products and services in practice.

Furthermore, from the point of view of jurisdictions like Switzerland, it is also difficult not to see at least a degree of protectionism in the stance taken by other regulatory bodies. As Walter Arnold observed, FIDLEG is really about Swiss access to EU markets, but there is still a lack of clarity over what will be required. "Why? Because everyone wants to cover their market and help their own market to survive. That is why this question is not decided yet," he said. The panel even pointed to the possibility that Switzerland's access to European markets will never be as easy as the Swiss would hope, regardless of how onerous FIDLEG eventually is. Equivalence (let alone super-equivalence through the application of a "Swiss finish") with European legislation could therefore prove to be a counterproductive - and even naïve - move on the part of the Swiss authorities, it was suggested.

The panellists confirmed that there has been a lot of talk about a "Swiss finish", meaning that the Alpine state would take everything from MiFID II and put an extra layer of Swiss standards on top. This seems highly unpopular and threatens regulatory overkill, however, the panellists said. "I think the majority of the industry is hoping that we will put away this notion of a Swiss finish, of making it even harder than it is already," said Arnold. "This kind of hope is justified because FIDLEG is nothing other than an answer to MIFID II."

Speaking in September 2014, Patrick Odier, chairman of the Swiss Bankers Association, said that Swiss financial institutions would adopt international rules in exchange for market access, but rejected the notion of going even further out of hand. "In terms of regulation, my message is simple and clear: yes to equivalence, especially so we can claim better market access, but no to a systematic Swiss finish," he said.

"RECIPROCITY WITH REGARDS TO THE ACCESS TO THE FINANCIAL MARKETS OF THE EU IS FAR FROM BEING GUARANTEED FOR A PRETTY CLEAR PRACTICAL REASON: SWITZERLAND IS MUCH MORE INTERESTED IN EXPORTING ITS FINANCIAL SERVICES INTO EU MARKETS THAN EU COUNTRIES ARE INTERESTED IN EXPORTING THEIR FINANCIAL SERVICES INTO THE HIGHLY-SATURATED SWISS MARKET." - FABIEN AEPLI, EVERSHEDS

THE SWISS “BRAND” STAYS STRONG

Tax information exchange is certainly a game-changer for Switzerland and cannot be discounted from any assessment of the country’s global competitive position in financial services. Yet clients have gravitated to Switzerland for a whole host of qualities which remain undiminished, the panel said. As might be expected then, less than a fifth of the survey participants believe that Switzerland’s competitive position on the world stage is poor. Correspondingly, the panel foresaw that Switzerland might experience a dip in assets under management over the next five years or so, but that business would recover pretty rapidly after that point.

Switzerland is regarded as the birthplace of wealth management. This, combined with the upscale connotations the country has as a home to the super-wealthy, means that there is still some cachet in having a Swiss bank account. However, the contributors warned against an over-reliance on this alone as global competition heats up. “If your differentiating factor is just sitting in Switzerland, then it’s not going to be sustainable,” said Memminger. Rather, Swiss institutions should be focusing on promoting the *professional* qualities which have made and sustained the jurisdiction’s popularity internationally. The fact that Switzerland is the “home” of wealth management is actually far more about the depth and breadth of expertise on offer, and the service standards the financial centre is known for, the panel observed. “Switzerland still has that reputation of being a very good place for wealth management and that’s not going to change that dramatically,” said Matthias Memminger.

It could be said, then, that Switzerland’s competitive position depends on a different kind of “Swiss finish” – the polish given to services and expertise when serving very wealthy clients from all corners of the globe has been a specialism for such a long time. “I think it’s about the history of the wealth management industry in Switzerland… It’s an industry that has been growing for the last one hundred years or so. You really have the culture of asset management here,” said Elmar Meyer.

“WE FEEL VERY POSITIVE ABOUT SWITZERLAND AND THE SERVICES IT HAS TO OFFER. SWITZERLAND IS A UNIQUE HUB AND A WORLD LEADER IN THE FINANCIAL SERVICES INDUSTRY”
– DANILO LARINI, LP GROUP

The perception seems to be that Swiss wealth managers are more geared towards wealth preservation than chasing stellar returns, adding another facet to the quality and reliability Switzerland’s financial centre projects. That said, there is also a lot for those looking for a more aggressive investment strategy too. In last year’s survey, a fifth of IWMs said investment strategy/performance was their unique selling point, over and above providing a trusted advisor relationship.

Additionally, as the world’s number one destination for offshore assets, Switzerland is ideally placed to serve clients whose lives and financial affairs are complex and defined by internationality. The centre boasts an abundance of wealth structuring and legal capabilities on the ground with significant geographic reach. “Switzerland is very well connected to other jurisdictions and so there are specialists all over,” said Eelco Fiole. “It’s a neutral place to do business and reach into the whole world, for any specialist if need be. It’s still attractive.” Banking secrecy may be coming to an end, but the panellists still see a lot of value in Switzerland’s long-held habit of absolute discretion. Fiole observed that the Swiss understanding of the client’s wish for privacy has permeated all the business processes in the financial centre, which is not necessarily something found in banks in other jurisdictions.

WHY SWITZERLAND, AND HOW?

Ben Banerjee, managing partner at Birch Caring Families, explores Switzerland's strengths and argues passionately for the preservation of its financial centre's traditional values in the face of international pressure to change.

The world in which Switzerland is operating is in turmoil at the moment. A severe lack of courage and vision among Western leaders and policymakers, together with the implementation of "wrong" policies, are catalysing the next major financial and social crisis.

The Netherlands is a good example. It has embraced the EU to the extent that more than half of its legislation is EU-initiated and it is a net payer into the Union. The government has all the "best intentions" and has been busy over the last decade with severe budget cuts. But still foreign debt is rising every second by significant amounts, while living standards are going down – and to whose advantage?

"Nations have no permanent friends or allies, they only have permanent interests." - Lord Palmerston

World events are moving fast and Orwellian-style alliances are being changed and/or created rapidly. The common identity of the EU and its effectiveness in the world arena is being seriously questioned from its handling of present world crises.

The actions of the leaders of Germany, France, the UK, Hungary and so on are confirming the general impression that most EU countries are dealing with Russia and Ukraine separately and not as one, thus proving that national interests are of paramount priority in an internationally tense situation. Switzerland clearly should question the worth of dealing with the EU as one identity, and should rethink its short and long-term goals.

Lack of unity and common purpose between EU countries are visible in their handling of various events. In my opinion, the pillars that prop democracy up in EU countries are being hollowed out. The Netherlands, for example, just passed a new law called SyRI without parliamentary debate. This law allows government organisations to make a risk profile of every citizen by gathering all possible data on him or her. Furthermore, Dutch citizens have no access to this data or control over its usage. There are more of these sorts of draconic laws being implemented in other EU countries. It is time for Switzerland to consider whether this is the direction in which it wants to travel.

Some further questions to be considered are: What are the real costs of this EU-Switzerland relationship to the Swiss economy as a whole, tax payers and the Central Bank? Has a long-term analysis been carried out on the relationship between the EU and Switzerland? What is the long-term realistic scenario? The Swiss government should consult the whole financial sector, and especially wealth managers, for all the possible impacts before making its financial and legal policies.

This analysis should include overall real cost calculation and impact analysis for crises such as the conflict in Ukraine and the "War against Terror". All variables and expenses should be taken into consideration so as not to underestimate the direct and indirect cost to Switzerland. In the future there are going to be more and larger conflicts. Switzerland can offer safety and security to the financial assets of people from all over the world, especially those people who stand to lose everything in these conflicts.

"Never do anything against conscience, even if the state demands it." – Albert Einstein

Wealth management is a long-term business, where asset owners entrust their wealth to providers. It is about long-term relationships, services and security. The changing laws and policies in Switzerland are weakening the services offered by Swiss wealth managers and damaging the reputation of the Swiss financial industry in the international market, especially in growing economies like the BRIC countries.

The purpose and potential gain of imitating MiFID II with FIDLEG should be reassessed. These changes are causing considerable economic damage and lowering the attractiveness of Switzerland for financial institutions (which are major taxpayers) and encouraging their stagnation or exit. Asset owners have been negatively impacted. Consider the impact of the implementation of new Controlled Foreign Corporation laws on the personal security of Russian citizens, for example.

Recently, an economist said that, "there is a new era of feudalism and slavery established and spreading within the EU Countries". Laws like SyRI and transparency laws are impacting the financial assets of all ordinary people and there exists hardly any control on what the government is planning to do with this information. In many EU countries, the feeling of lack of control over governmental policies and spending is feeding social despair and impacting social cohesion. Switzerland can choose to stand up for these ordinary people and help them protect their assets for their future generations.

WHY SWITZERLAND, AND HOW? *continued...*

"You have to learn the rules of the game. And then you have to play better than anyone else." - Einstein

Swiss wealth managers should explore the extent to which Switzerland can make its own banking laws compatible with those of the EU, while still putting its own interests first. They should then tell the government what they think, instead of copying and following these laws blindly.

Switzerland has carved out a dominant position for itself in the wealth management market in the last century. It offers world-class service, tradition, stability, efficiency and discretion. It also offers excellent access to top-quality custodian banks, specialised wealth managers and highly-skilled and experienced service providers. It is a multi-lingual country outside the EU and has bilateral treaties with most nations. Historically, Switzerland has been a well-respected place for international business, having well-developed corporate and asset protection laws, which are complemented by a large double tax treaty network and an effective legal system. Wealth managers, supported by the Swiss government, should advertise these facts on the international market and offer Swiss financial services and products to the world.

"SWITZERLAND HAS CARVED OUT A DOMINANT POSITION FOR ITSELF IN THE WEALTH MANAGEMENT MARKET IN THE LAST CENTURY. IT OFFERS WORLD-CLASS SERVICE, TRADITION, STABILITY, EFFICIENCY AND DISCRETION. IT ALSO OFFERS EXCELLENT ACCESS TO TOP-QUALITY CUSTODIAN BANKS, SPECIALISED WEALTH MANAGERS AND HIGHLY-SKILLED AND EXPERIENCED SERVICE PROVIDERS. IT IS A MULTI-LINGUAL COUNTRY OUTSIDE THE EU AND HAS BILATERAL TREATIES WITH MOST NATIONS."

"When the final result is expected to be a compromise, it is often prudent to start from an extreme position." - Keynes

The way for Switzerland to survive these crises and protect its citizens and economy is to firmly stand for its old traditions and core values; Switzerland should stay neutral and avoid taking sides. One good idea would be to accept policy changes towards other nations only when they are supported and approved by the United Nations. For this reason, Switzerland should stand strong, citing its own history of neutrality and foundation of grass roots democracy.

The unique selling points of Swiss wealth managers can only be offered if the Swiss government stands strong on its old traditions and actively supports its wealth managers – in their positioning, marketing and selling of their services and products. Switzerland can project itself as a country with a strong currency, stable economy and a government with strong democratic pillars. In the present world wherein Switzerland lies, these characteristics cannot be attributed to most of the EU countries.

Swiss wealth managers should start focusing strongly on markets outside of the EU and the US. They can specialise in offering services to international clients which minimise risks (financial, economic, political and familial); offer robust asset protection; make various tax-efficient and legal structures available; and offer discretion and privacy. To conclude, Switzerland has the right - and arguably also a duty - to preserve the time-honoured traditions of its financial centre. It must stand firm against the pressures on its safe haven status and stand up for those individuals whose assets are in need of a more secure home.

CONCLUSION

This report was produced just as the consultation period on the draft versions of FINIG and FIDLEG was coming to an end. Both pieces of legislation are anticipated to come into force at some point in 2017, leaving Swiss financial services institutions only one and a half to two years to implement all the changes necessary to comply with the new regulations, and to be able to compete effectively in the new business environment they produce.

As the expert contributors to this report pointed out, up until now Swiss IWMs have been *relatively* untouched by the tsunami of new regulations to emerge in recent years. This year, however, IWMs have started to feel pressure to demonstrate that they have cross-border frameworks in place and that they are following country-specific guidelines, for example. Looking ahead, the implementation of FINIG and FIDLEG is likely to fundamentally change how IWMs operate in Switzerland – and, indeed, the implications of the Acts could mean that some independent firms can no longer go on operating at all.

The evolution of Switzerland's SRO model was naturally a big focus of this study, since this time-honoured, distinctly Swiss method of regulation is now under threat as the Alpine state moves towards regulatory equivalence with other jurisdictions. As the comments contributed to this report illustrate, there is a great deal of uncertainty over how Switzerland's IWM sector will be eventually overseen. Switzerland is thought to boast up to 3,000 IWMs. This is a testament to the popularity of the independent model among end-clients, but also to the relatively low barriers to entry bankers wishing to go independent previously enjoyed. The number of often very small organisations in Switzerland also makes overseeing them directly a mammoth task. It will be very interesting to see how FINMA arrives at a workable solution which will both appease international regulators and which is practicable and cost-effective (in terms of the costs to both the public purse and IWMs themselves). The formation of a new SRO comprised of one or several predecessor bodies seems likely, but this will be no easy solution.

According to the survey, IWMs' profitability appears to have been fairly subdued in the past year, so the prospect of even greater compliance costs (which many predict will be the result of a new regulatory regime for IWMs) will be a highly unwelcome development for many firms. The cost of doing business is already high in Switzerland and a large proportion of IWMs are having to make significant investments in new staff and IT infrastructure to cope with their new regulatory obligations – and that's before firms try to position themselves for growth.

A large proportion of Swiss IWMs *are* looking forward to significant growth in the year ahead, however, and many of the survey respondents are very positive indeed when it comes to their organisation's near-term business prospects. The participants are also confident in the main that the allure of the Swiss financial centre remains intact for sophisticated HNW clients, despite the many concessions on information exchange the jurisdiction has had to make in recent years. The message which came through very strongly, in both the survey and panel interviews, is that Switzerland's appeal has always been about far more than bank secrecy. Therefore, while all the changes being wrought on the Swiss financial centre may lead to a decrease in assets under management in the next five years or so, the panellists predict a swift recovery for the centre after this point.

There is no doubt that Switzerland's IWMs, and indeed all wealth managers operating in the jurisdiction and internationally, face heightened competitive pressures. They are having to focus on a narrower range of markets and are also under pressure to keep costs, to both themselves and to end-clients, down. Amid these pressures, it would be easy to assume that IWMs and custodians would be less willing to cooperate now than previously. Yet in fact the survey revealed a very strong will for IWMs and custodian banks to work ever more closely for the good of their mutual clients. The Swiss IWM model remains very attractive for clients from all over the world and the partnership between IWMs and custodians is an extremely important part of the independent offering. Each side has very different strengths which they can leverage for their mutual advantage, and for the ultimate benefit of the clients they serve.

Both *WealthBriefing* and Coutts & Co Ltd look forward to continuing to add to the debate around the development of the IWM sector in Switzerland. As ever, further comments on the issues explored in this report would be most welcome and should be directed to wendy.spires@wealthbriefing.com.

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