SWISS INDEPENDENT WEALTH MANAGERS: CHALLENGES & OPPORTUNITIES AHEAD

RESEARCH REPORT 2013

In association with

Coutts

WealthBriefing

FROM THE AUTHOR

The wealth management industry is known for its diversity and nowhere is this more in evidence than among Switzerland's independent wealth managers. To the uninitiated, it may seem incredible that almost 13% of Switzerland's total assets under management are run by a group of thousands of small (and often tiny) wealth managers. But that is indeed the case, and high net worth clients from all over the world continue to entrust very significant portfolios to Switzerland's IWMs.

It is easy to understand the enduring appeal of the independent model for both sides. Clients enjoy a stable, trusted relationship with an independent advisor, while the wealth manager is free to be truly entrepreneurial and service their valued clients as they see fit. Add to this historically low barriers to entry and the reasons behind the IWM boom are clear. But while striking out for themselves remains an attractive option for bankers with a well-developed book of loyal clients, being an independent today is undeniably harder than it once was.

Heightened regulation is without doubt the biggest challenge now facing Swiss wealth managers. Switzerland, by signing information exchange agreements with nations including the US, has made admirable steps towards the greater transparency the world now demands. And although such moves have fundamentally altered the Swiss wealth management model they are far from the only reforms being made by the Alpine state. Switzerland, like several other countries, is looking to overhaul its financial services industry in a range of areas, and it seems likely that upping the independence and transparency of financial advice will be a priority. There are also new pieces of supranational legislation like FATCA and MiFID II on the horizon, meaning that Switzerland - like its peers - has a long way to go before reaching its ultimate regulatory destination.

Much of this report is necessarily concerned with the manifold challenges affecting Swiss wealth managers. Indeed, one of the main aims of this study was to identify the major pain points the sector needs to address. Yet testing times often uncover new opportunities; they also force businesses to hone their activities and look for ways to do more with less. A shake-out of the Swiss IWM sector may be imminent, but many players have proactively positioned themselves, not only to survive but to *thrive* in the new business environment.

The hallmarks of the Swiss IWM sector are entrepreneurialism and heterogeneity. Most businesses will have been set up to align with the expertise of the founder and the specific needs of their client base; by virtue of their size and flat business structure IWMs can continue to rapidly evolve in line with clients' needs and the changing business environment. So although Switzerland's smaller independents may feel that they are being buffeted by forces out of their control, they can take heart from the fact that they enjoy a nimbleness few larger firms can lay claim to. They should also be comforted that there are so many stakeholders invested in their future success. Banks, consultancies, outsourcing providers, the SROs and ultimately FINMA – they are all as committed to the independent sector as clients evidently are.

It would be unrealistic to predict an easy road ahead for Switzerland's independent wealth managers. Exits are going to be inevitable, while those left behind will probably have to get used to a greater degree of collaboration and sharing of resources than has previously been the case. The enhanced range of services being provided by custodian banks will also be really important in helping IWMs through this transformative period. Banks are vital for giving IWMs bandwidth and it will be very interesting to see how the relationship between the two continues to evolve - and which institutions will become true innovators in this area.

I hope that this study proves to be a valuable resource for readers from both within the IWM space and the broader wealth management industry. It is intended to shed further light on what is a notoriously opaque part of the industry by drawing together the thoughts of some of the most experienced professionals within it. This study is, however, by no means exhaustive and further feedback and comments would be most welcome.

Finally, I would like to offer my sincere thanks to all those involved in the production of this report – both the expert contributors and survey participants. This report would not have been possible without them giving so generously of their time and expertise. As ever, their candour has also been an invaluable aid to discovering how things really stand.

Wendy Spires
Editorial Consultant

A FOREWORD FROM COUTTS

Coutts has been working with Switzerland's independent wealth managers for over two decades now. From the boom times of the 1990s to the more challenging times of today, we have been with our IWM clients through it all.

What we have seen over the past twenty years has been a remarkable evolution in the relationship between independent wealth managers and the custodian banks serving them. By necessity the two have always been closely linked, but new regulatory requirements and operational challenges have fostered far greater collaboration. We now like to think of ourselves as working in partnership with the wealth managers who come to us for safe custodianship and access to the financial markets.

As this report details, Swiss IWMs face challenges on many fronts. But while some are pessimistic about the sector's future, Coutts remains highly committed to it. Consolidation may be coming, but this is a trend happening right across the industry as higher standards have raised the cost of doing business. Wealth managers of all sizes are having to rationalise their activities to focus on their real strengths, and a fitter, leaner industry will be the result. So while there may be fewer Swiss banks and IWMs in the future, those which remain will be in a position of real strength.

Streamlining and the drive for greater efficiency might be key, however as an industry we must ensure that this is never to the detriment of the client experience and the high-touch service the proposition is built on. Similarly, while Coutts is investing in the technological capabilities it offers to IWMs, we want to continue delivering a relationship-driven service because we recognise the value of having dedicated partners to talk to and build up affinities with over time.

Of course, striking the right balance between efficiency and the personal touch, between customisation and standardisation is a challenge wealth managers continue to grapple with across the board. As they try to work through these issues firms are placing much more emphasis on client research and feedback, and Coutts commissioned this research in the same spirit. Our IWM desk is the result of years of close collaboration and we want to continue evolving our proposition so it is precisely aligned with wealth managers' current and future needs.

Coutts is proud to have supported this study and hopes that it will be well received in the market – not only as a barometer of where the IWM sector currently stands, but also to signpost where it is likely to be heading in the years to come. We also hope to have added to the dialogue on how the interests of Switzerland's IWMs can be better represented going forward; they are a hugely important part of the Swiss financial services industry and now, more than ever, they need a voice.

Our belief is that by combining their strengths IWMs and banks can further enhance the image of the Swiss financial centre, and make it even more appealing to today's international high net worth client base. Switzerland is, after all, the birthplace of wealth management and through working together cleverly banks and IWMs can ensure that its reputation for world-class service continues to go from strength to strength.

Daniel Furtwängler
Coutts & Co Ltd

SPECIAL THANKS:

In addition to the editorial panel, special thanks also go to the following contributors.
Their thoughts were invaluable in the production of this report.

Douglas Marston - Co-Founder, Marston Capital Partners
Christian Nolterieke - Managing Director, MyPrivateBanking
Daryl Roxburgh - Global Head, BITA Risk
Max Thowless-Reeves - Partner, Sorbus Partners
Bruce Weatherill - CEO, Weatherill Consulting; Chairman, ClearView Financial Media

PUBLISHED BY

WealthBriefing
Heathman's House
19 Heathman's Road
London, SW6 4TJ
United Kingdom

PRODUCED IN ASSOCIATION WITH

Coutts & Co Ltd
Stauffacherstrasse 1
PO Box 8022
Zurich
Switzerland

PRINTED BY

iPrint Group
245a Burlington Road
New Malden
Surrey, KT3 4NE
United Kingdom

Author: **Wendy Spires** - PR and Communications Consultant, Bulletin
Production: **Jackie Bosman** - Graphic Designer, *WealthBriefing*

TABLE OF CONTENTS

EDITORIAL BOARD

AUTHOR

WENDY SPIRES

PR and Communications Consultant

Bulletin

Wendy Spires is a PR and communications consultant at Bulletin, specialising in the wealth and asset management sector. Wendy is part of a team of well-respected former financial services journalists who count a number of prestigious brands among their clients. Formerly head of research at *WealthBriefing*, Wendy has written an array of in-depth research reports on issues affecting the wealth management industry, including client experience, branding and marketing, risk-profiling methodologies and technology and operations. She spent five years covering the wealth management industry internationally for a range of print and online publications, and has spoken at high-profile conferences both in the UK and abroad.

PHILIPPE BONGRAND

Partner, Wealth Management

Oliver Wyman Zurich

Philippe Bongrand is a partner at Oliver Wyman Zurich, where he focuses on growth and transformation issues for wealth managers and private banks. Some of his projects have covered market entry and growth strategy for various onshore markets as well as pre-and post-merger integration. He has also been involved in the sales force effectiveness improvement programme and the identification and leveraging of relationship manager best practices. Philippe has 20 years of both industry and consulting experience for wealth managers. Prior to joining Oliver Wyman, he was at UBS Wealth Management in Zurich for seven years, where he focused on strategy, business development, sales force effectiveness and marketing. He started his career at Paribas in the internal risk audit department and he has also worked at Booz-Allen & Hamilton and The Boston Consulting Group, where he was principal.

KLAUS-MICHAEL CHRISTENSEN

Director, Head of Independent Wealth Managers for Zurich

Coutts & Co Ltd

Klaus-Michael Christensen heads Coutts' IWM team in Zurich. He began his career with Zuger Kantonalbank in 1989, before becoming an entrepreneur in different fields of business. He founded a company providing real-time financial exchange data via satellite to assets managers in 1991 and he was a partner in a private equity company focusing on IT and biotech company transactions. Additionally, he has been involved in start-ups in the fields of consumer and health products. With his entrepreneurial background he re-entered banking with Rothschild Bank AG in 2001. After this, he joined Lloyds's TSB Bank, where he launched the IWM business in Zurich. In 2012, he joined Coutts & Co Ltd.

PROF TEODORO COCCA

Professor, Asset Management

Johannes Kepler University

Professor Teodoro Cocca is Professor of asset management at the Johannes Kepler University in Linz. Before this, he worked for several years at Citibank in investment and private banking. He was also research fellow at the Stern School of Business in New York and taught at the Swiss Banking Institute in Zurich. Teodoro is an adjunct professor at the Swiss Finance Institute in Zurich and a lecturer in banking and finance at the University of Zurich. He also advises financial companies in Switzerland and abroad on strategic issues and investment funds on their investment strategies. In March 2010, he was elected as a banking expert to the board of directors of of Zurich-based Geneva Group International and since April 2011 he has been a member of the board of directors of Verwaltungs-und Privat-Bank Aktiengesellschaft, headquartered in Vaduz. In October 2011, he was appointed Dean of Social and Economic Sciences at the Johannes Kepler University Linz until the end of September 2013.

EDITORIAL BOARD

SEB DOVEY

Managing Partner

Scorpio Partnership

Seb Dovey manages the development and execution of strategic recommendations for clients including private and global banks, asset managers, family offices, technology firms, aggregators and start-up wealth managers. He is also currently involved in creating and building education-based solutions for a number of clients. Seb is a regular commentator on the wealth management industry in the press and at conferences and academies, and has chaired and presented leading industry events in Asia, Europe and the US. He has also served as a lecturer for the Swiss Finance Institute's executive MBA programme, and is chairman of the advisory board of B-Hive, a network for global private client investors.

DR EELCO FIOLE

Founder

XRGY Capital & Frontier Advisory

Dr Eelco Fiole is founding partner of XRGY Capital & Frontier Advisory, a Zurich and Singapore-based consulting firm focusing on the governance and operating models of wealth and asset managers in developed and emerging markets. Besides advisory services, XRGY also provides governance services to alternative funds, foundations and product-issuing platforms. Projects typically include design and implementation of regulatory, risk, financial and operational strategies and board advisory roles. Previously, Eelco has held COO and CFO roles in alternative investments and wealth management in Zurich, London and Vaduz, and has worked with Credit Suisse, UBS and ABN AMRO. He also lectures on risk management and alternative investments with Euromoney and on finance ethics at the University of Lausanne. He has been a volunteer with the CFA Institute and the CAIA Association since 2007.

DANIEL FURTWÄNGLER

Managing Director, Head of Wealth International, Zurich

Coutts & Co Ltd

Daniel Furtwängler was appointed Head of Private Banking International and Swiss Onshore in November 2009 and joined the general management committee in August 2010. Daniel began his career as a lawyer in Zurich in 1988. He went on to join Eidgenössische Bank, a subsidiary of UBS handling and arranging private equity holdings, where he held positions including general legal counsel, senior investment manager and member of the executive committee. He joined Coutts in 1998 and his first assignment was to re-launch and develop the firm's Swiss onshore private banking activities. He later headed various country market teams in International Private Banking.

ROBERT HEMMI

Managing Partner

TCP The Consulting Partnership AG, Zurich

Robert Hemmi is managing partner at financial consulting firm TCP (The Consulting Partnership), AG Zurich, which he founded in Zurich in 2001. From 2006 to 2008 Robert was head of strategic resourcing at Bank Julius Baer – a function he built and managed while holding responsibility for all global hiring processes as well as the selection, recruitment and compensation of private bankers. In 2009, he rejoined The Consulting Partnership as managing partner, focusing on executive search, management consulting, performance-based compensation modelling and competitive strategy reviews. Robert started his career with Credit Suisse and had senior postings in Switzerland and Singapore, where he was CFO for South-East Asia.

EDITORIAL BOARD

MATTHIAS MEMMINGER

Partner

PricewaterhouseCoopers

Matthias Memminger is partner at PricewaterhouseCoopers and has worked as a management consultant since 1995 for firms including Mitchell Madison Group, Accenture and B & M Management. Matthias provides strategic consulting for European-based banks and has extensive experience in the field of regulation, particularly with regards implementation and the impact on business models. In addition to his partner role within PwC, he is the global co-lead for Recovery and Resolution Plans. He has assisted European private banks and asset managers in reviewing their operating modes, 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 several 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 (formerly Giger Tax), a legal and tax advisory firm located in Zurich. 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 high net worth individuals with regard to 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.

DR GABRIELA MARIA PAYER

Head of Education

Swiss Finance Institute

Dr Gabriela Maria Payer joined the Swiss Finance Institute in 2012 as head of education and a member of the management board. In the same year she established PayerPartner, a consultancy that provides advisory services and project management on how to develop businesses. Gabriela has almost three decades of experience in business development and banking, specifically in the wealth management industry. She joined UBS in 1993 as head of marketing for retail banking. While at UBS she had a number of roles, including global head of human resources for the wealth management arm and global head of UBS Business University. Before this, she worked at American Express and Scheller Informatik Gruppe. The Swiss Finance Institute is a private foundation created by Switzerland's banking and finance community in cooperation with leading Swiss universities.

OSMOND PLUMMER

Wealth management consultant and trainer

Osmond Plummer currently trains and consults in wealth management internationally, as well as being Swiss correspondent for *WealthBriefing*. He is also a faculty member at the European University in Geneva and a visiting lecturer at other universities. Osmond is a veteran wealth management specialist, having held various senior positions at the world's leading institutions. His former roles include: head of private banking market development and head of compliance for Bank of New York – Inter Maritime Bank, Geneva, and deputy manager of the international private banking office of Lloyds TSB, serving clients in the UAE, Oman, Pakistan, Bahrain and Qatar, based in Dubai.

EDITORIAL BOARD

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 acquisition and development team in asset/wealth management and private banking. Ray has had a long and varied financial services career, which has taken him all over the world, including to the US, the Middle East, Asia and Europe. He has held senior positions with Cedel Bank, the National Bank of Bahrain, Midland Montagu Investment Banking, Midland Montagu Securities and Citigroup.

CÉCILE CIVIALE VUILLIER

Director

Corpag Services

Cécile Civiale Vuillier is director for Corpag Services in Switzerland, a corporate management and professional trust company providing management and fiduciary services within the financial, fiscal and legal fields. Cécile is responsible for business development, functional performance and global orchestration of Corpag Switzerland. She has over 12 years of experience helping individuals, entrepreneurs, multi-generational families and non-profit organisations with their wealth and estate planning, trust and corporate needs. Cécile previously worked at Alpadis, where she was a managing director. Before this, she spent two years at Bedell Trust Suisse as director and then managing director, and before that worked in a management company in Switzerland for eight years, providing international trust and corporate services to clients worldwide. She is a member of several significant professional bodies, including the Association of International Business Lawyers, Career Woman Forum and International Tax Planning Association. She is also a former chair of STEP in Geneva.

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 as a market analyst and consultant in global wealth management. His topic knowledge and project experience cover a wide range of areas such as market analysis, sizing and gap analysis, competitive intelligence and benchmarking, market entry strategy, client and advisor insight, proposition and segmentation development, partnership strategy and strategic due diligence. 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.

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 worked in key financial centres such as Switzerland, the UAE and Hong Kong. He joined Coutts (previously Bank von Ernst & Cie) in 1999. Prior to this, he worked for Credit Suisse and Union Bancaire Privée.

EXECUTIVE SUMMARY

- The survey sample of 109 was comprised mainly of businesses located in German-speaking Switzerland (65% of respondents), with the French and Italian-speaking regions representing 29% and 6% of the sample respectively.

- The respondents were asked to select all the activities their business carries out and on average respondents selected around three each. 28% of responses indicated discretionary mandates, with 25% for advisory services. Almost a fifth of the responses selected family office services and a tenth wealth structuring services. Fiduciary services got 8% of the votes, while fund management got 9%.

- Close to half (45%) of respondents reported that their business has 3-10 employees, but nearly a quarter (22%) operate with two or fewer. Meanwhile, 16% have 11-20 staff members and 17% have over 21.

- Most respondents (42%) said their current business has been in operation for 2-10 years, although 26% have been operating for 10-20 years. A fifth (20%) are very mature businesses, having operated for over 20 years, while 12% have existed for less than two years.

- Respondents were asked to select all the regions their clients come from and on average they selected two regions each. On aggregate, Switzerland and Western Europe accounted for nearly two-thirds of the votes (32% and 31% respectively). Central and South America (including the Caribbean) accounted for 8% of the responses and the Middle East for 7%. Eastern Europe, Russia and Asia each got 5-6% of the votes, while Africa or North America received 2%. Oceania got less than 1%.

- The respondents to the survey were upbeat about AuM growth, with 58% predicting that they will manage more assets in 2014. Just over a third (36%) expect their AuM to remain stable next year, while 6% foresee managing fewer assets.

- A majority of 67% of participants expect to garner more clients next year, while just over a quarter (27%) expect their client base to remain stable. Only 5% expect to serve fewer clients in 2014.

- The participants were asked to predict their primary sources of growth for 2014 and broadly they each selected just one. Gaining new clients accounted for 51% of the responses, with 27% indicating increasing share of wallet with existing clients. Almost a fifth (18%) of the votes were for acquiring other wealth managers and 1% indicated plans to sell their business. The remaining 3% expect no growth.

- Just over half of respondents (51%) expect to keep staffing levels stable in 2014, however 40% foresee taking on new employees. Almost a tenth of firms expect to have fewer employees in 2014.

- The participants were asked to select all the geographic areas they think are most likely to drive business growth in the next two years and on average they selected two each. Switzerland accounted for 27% of the responses and Western Europe for 22%. Next highest were Asia (11%), Eastern Europe and the Middle East (both at 8%). North America, Russia, Central and South America and Africa each accounted for 5-6% of the responses. 1% of responses indicated “no growth anticipated”.

- When asked if they plan to increase or decrease their products and services offering in 2014, the sample was roughly split between those who expect to make additions (46%) and those keeping things the same (49%). The remaining 4% said they will trim back their offering.

- The respondents were almost evenly split on whether they feel the need to add more services to their offering in order to stay competitive or interesting to clients: 52% feel that they do, but 48% do not.

- A majority of 63% of respondents do not plan to alter their investment offering in the next two years, leaving 37% who do.

- Of those surveyed, 70% have been given limited powers of attorney for investment purposes by their clients.

- When asked to select what their business’ unique selling point to new clients is, approaching half (45%) of respondents selected the trusted relationship they offer. Know-how (21%), investment strategy (14%) and performance (12%) were the nearest followers. Products, pricing, the “safe haven” image of Switzerland, technology and reporting were cited by only 1-2% of respondents each. None opted for compliance.

- When asked to assess the future business climate for wealth managers in Switzerland, only 2% of respondents see it as excellent and just 1% as very poor. 15% of those surveyed opted for “poor”, and 21% for “insufficient”. Meanwhile, 32% see the future business environment as sufficient and 29% see it as being good.

- A slight majority of 40% of respondents see the erosion of banking secrecy as an opportunity for their business, while 36% see it as a challenge. Almost a quarter (24%) are indifferent.

- Nearly half (47%) of those surveyed view increased requirements on transparency for investments and wealth management as an opportunity, while 29% see a challenge. Close to a quarter (24%) are ambivalent.

- For a third of respondents, Swiss banks’ increased focus on risk management and compliance is doing more harm than good for the country’s wealth management industry. Meanwhile, 32% believe it is necessary but doing harm and 31% believe simply that it is good for the industry. Just 3% think the increased focus on risk management and compliance is having no effect.

- When asked how prepared their business is for the future, 1% admitted being poorly prepared, while 15% view themselves as insufficiently prepared. 28% were more slightly more sanguine, reporting that they are sufficiently ready. The majority (42%) believe their level of preparation is good, while 13% said they have made excellent preparations for the future.

- In terms of driving business growth, the survey identified several areas in which wealth managers will be focusing their investment in the next two years. Making business acquisitions was cited by 16%, closely followed by marketing and spending on staff with 15% each. Legal and compliance, and IT were cited by 13% and 12% respectively, while back office and administration, research and office space all hovered at around 5-6% each. 9% said they will be investing in products and services and 4% will be spending on outsourcing.

EXECUTIVE SUMMARY

- When asked where they need to focus their attention for their business to succeed, a majority of 38% of wealth managers said quality management and process efficiency. Next came working on a new market positioning strategy at 20%, with new sales channels and risk management both being cited by 12% of the sample. Marketing received 8% of the votes, and M&A and succession planning 5%. Interestingly, none of the respondents selected IT or process outsourcing and 5% said that no area needs their special attention.

- A majority of 59% of respondents are bracing themselves for their operational costs to increase next year, but 34% expect them to stay the same. A fortunate 7% foresee their operational costs falling in 2014.

- 31% of respondents believe it is very important for Switzerland to get an EU Passport for Swiss Collective Investment Schemes, while a third see it as somewhat important. Meanwhile, 23% are indifferent to the issue and 13% view it as unimportant.

- When asked to rate the quality of service delivered by the wealth management industry in Switzerland, over half (58%) said they believe it is good. Just over a fifth (22%) believe that a sufficient level of service quality is delivered, but 16% believe it to be insufficient. Just 4% of respondents believe the Swiss wealth management industry delivers excellent service.

- When asked to predict how the quality of service delivered by the Swiss wealth management industry will develop in relation to other financial centres, almost half of respondents (49%) foresee it improving in the near future. Meanwhile, 40% believe it will remain the same and a tenth predict a deterioration.

- The respondents were asked to select all the fee models which their business currently applies and on average they selected two each. AuM-based fees accounted for 37% of the responses and performance-based fees for 20%. Fixed mandate fees (15%) and hourly-based fees (13%) came next. Just over a tenth (11%) of responses indicated transaction-based fees.

- While over half (53%) of respondents have no plans to change their pricing model, 30% report constantly adjusting it. Meanwhile, 9% have changed their pricing model in the past year and the same proportion plan to in the coming 12 months.

- The respondents who do intend to change their pricing model were asked to select all the aims they would be trying to fulfil by doing so (24% of responses indicated no change). Accounting for 21% of the responses was making the pricing model more transparent. Making it MiFID-compliant received 15% of the votes and making pricing more clearly based on performance 14%. Lower down were reflecting value-added performance (10%), affordability (7%) and fairness (3%).

- 63% of respondents said they have recently considered investing in IT improvements, while 37% have not.

- A slight majority of 55% of respondents report that their business does use portfolio management software, leaving 45% which do not.

- When asked to identify the area of IT most in need of improvement at their firm, most cited were portfolio management and CRM systems, with 21% and 18% of the votes respectively. Next came bank interfaces (15%), back office (8%) and third-party financial data platforms (7%). A further 8% opted for "other" while 24% see no technology area in need of particular investment.

- When asked how well custodian banks meet the business requirements of those surveyed, almost half (49%) said their needs were met sufficiently and 26% said they were well met. 3% said very poorly, 5% said poorly and 12% said their needs are insufficiently met. Just 4% feel custodian banks are excellent at meeting their needs.

- When asked if they would prefer a flexible or process-orientated custodian service, almost three-quarters (74%) said they prefer a focus on flexibility.

- When asked whether they would prefer to work with highly-skilled investment advisors or have access to extensive digital research, 60% chose the former (40% chose digital research).

- In terms of their preferences for placing orders, 58% of wealth managers prefer the human interaction they get from an intermediaries desk, while the remaining 42% said they prefer to place orders directly via an online trading solution.

- Given a choice between predominantly working with bank employees who are highly technically skilled and those with excellent interpersonal skills, 57% prefer technical skill, while 43% said they prefer interpersonal skills.

- A majority of 38% of respondents are regulated by SAAM/VSV/ASG. The next most common regulators were FINMA (at 17%) and VQF (at 16%). ARIF, PolyReg, OAR-G each regulate 5-6% of those surveyed, while a further 5% cited another unlisted self-regulatory organisation. A tenth of respondents are unregulated.

- For a significant majority of participants (68%), FINMA is viewed as the Swiss wealth management industry's primary point of regulation while 26% said this of the SROs.

- While 36% of those surveyed feel that their interests as a wealth manager are well represented in Switzerland, 64% do not feel this is the case.

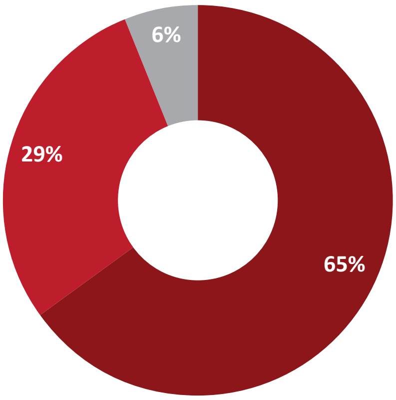
- When asked what they feel a sector lobbying organisation should focus on, 41% said influencing the Swiss regulatory authority while 29% said representing the interests of the wider Swiss wealth management industry. Influencing international bodies and governments was cited by 12% and a tenth selected creating and enforcing industry standards. For 8% of wealth managers a lobbying organisation should focus on providing education, training and accreditation.

SECTION 1

THE CURRENT SWISS IWM LANDSCAPE: LOCATION, SIZE AND BUSINESS ACTIVITIES

FIGURE 1

In which region in Switzerland is your business located?



GERMAN SPEAKING REGION 65%
FRENCH SPEAKING REGION 29%
ITALIAN SPEAKING REGION 6%

"98% OF INDEPENDENT WEALTH MANAGERS WERE FORMERLY PRIVATE OR INVESTMENT BANKERS IN THE LARGE INSTITUTIONS AND OFTEN THEY MAINTAIN A CLOSE RELATIONSHIP WITH THOSE SO THE LINKS ARE ALWAYS THERE. IF YOU ARE A ZURICH-BASED BANKER AND YOU GO INDEPENDENT, YOU ARE GOING TO REMAIN IN THE REGION" - STEPHEN WALL

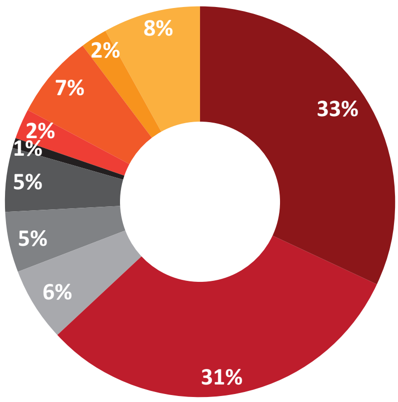
The survey found that 65% of respondents' businesses are located in German-speaking Switzerland, with the French region being home to 29% and the Italian-speaking region 6%. It is well-known (and predictable) that Swiss IWMs are clustered around the country's two biggest financial centres, Zurich and Geneva, but the reasons why so many more are based in Zurich warrants further investigation.

It is important to note that most of the big wealth management and banking brands have their (Swiss) headquarters in Zurich. This means that many of the experienced private bankers who go on to set up their own businesses will have been based in the city and built up a book of clients from there. Going further, several contributors suggested that the predominance of the big banks in Zurich means it is likelier that bankers - and clients - based in the city are looking for a different model. Cécile Civiale Vuillier said that Zurich has always been seen as the hub of asset management in Switzerland while Geneva is associated more with trust/fiduciary business. Interestingly, while Zurich has the highest number of IWMs, the greatest concentration is to be found around Lake Geneva, according to a 2012 study by The Consulting Partnership.

THE REGIONS CLIENTS COME FROM

FIGURE 2

In which regions are the majority of your clients based?



SWITZERLAND 33%
WESTERN EUROPE 31%
EASTERN EUROPE 6%
RUSSIA 5%
ASIA 5%
OCEANIA 1%
AFRICA 2%
MIDDLE EAST 7%
NORTH AMERICA 2%
CENTRAL AND SOUTH AMERICA, CARIBBEAN 8%

Respondents were asked to select all the regions their clients come from and on average they selected two regions each. On aggregate, Switzerland and Western Europe accounted for nearly two-thirds of the votes (32% and 31% respectively). This chimes with various other studies which have found that the majority of Swiss independents run money for Western European and Swiss clients. But of course that isn't to say that there isn't a lot of foreign money in Switzerland. According to the Swiss Bankers Association, at the end of 2011 domestic clients accounted for 49% (or SFr2.6 trillion) of Switzerland's SFr 5.3 trillion total assets under management. Switzerland is a time-honoured safe haven for clients who fear instability or corruption in their home country, but these figures seem to suggest that they might prefer the additional comfort of engaging an internationally-recognised banking brand. IWMs' ability to "borrow" brand strength from custodians is discussed more fully in Section 13, while the international hunt for new clients is the subject of Section 3.

"EXISTING WEALTH MANAGERS ARE GETTING BEYOND THE RETIREMENT AGE, SO THEY REALISE THEY NEED TO GET OUT. THE FIGURES POINT TOWARDS CONSOLIDATION IN THE INDUSTRY, IF NOT IN THE NEXT 12 MONTHS, IN THE NEXT TWO TO THREE YEARS"
– MATTHIAS MEMMINGER

CHOICE OF LEGAL ENTITY:

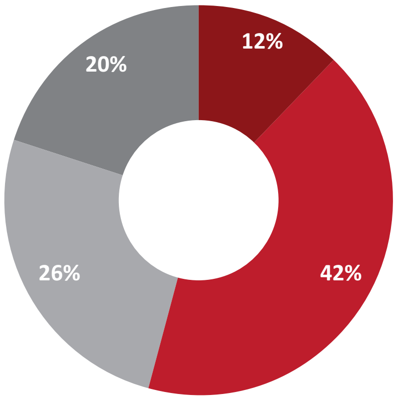
According to The Consulting Partnership (which carried out a study representing around 80% of the sector), almost 4 out of 5 firms have opted for a shareholding company as their legal entity.

Legal Entity	Proportion of the sector
Shareholding Company (AG)	78%
Owner-registered Company	10%
Limited Liability (GmbH)	10%
Personal Liability (Kommandit)	1%
Unknown	1%
Total	**100%**

LONGEVITY OF BUSINESS

FIGURE 3

How many years has your current business been in operation?



UP TO TWO YEARS 12%
OVER TWO YEARS BUT UNDER 10 YEARS 42%
OVER TEN YEARS BUT BELOW 20 YEARS 26%
OVER 20 YEARS 20%

A majority of 42% of respondents' current businesses have been in operation for over two years but under ten. However, on aggregate 46% of the firms surveyed have been in existence for over 10 years (26% have been operating for 10-20 years and 20% for over 20 years).

That there are so many very mature businesses is a testament to the boom that the Swiss IWM sector went through in the 1990s, but it is also indicative of a coming wave of succession issues (which are discussed in depth in Section 10). If we assume that most IWMs were started by individuals in their late thirties or early forties then we can infer that - although most businesses are thought to be run by those in their 50s - around a fifth of Swiss IWMs are headed by people approaching 60 years of age. What such business founders are going to decide to do when their business when they reach retirement age is going to have a big effect on the shape of the sector – possibly even in the very near term, the panellists said.

It is interesting to see that - even amid the tough market conditions of recent years and the fierce competition across the wealth management sector - 12% of the Swiss IWMs surveyed are two years old or less. The hangover from the financial crisis has led to widespread banking layoffs in Switzerland (as elsewhere) and this may have pushed bankers to strike out for themselves; others may have seen an opportunity to win over clients disillusioned with the big institutions. They may also have been encouraged by the (at present) lighter regulatory requirements imposed on IWMs compared to big institutions.

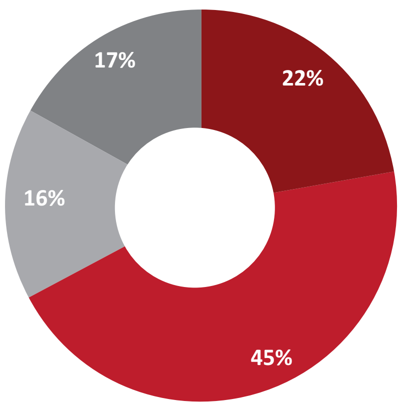
Regardless of the reasons why these start-ups came into being, their number shows that not only is the IWM model well-established in Switzerland but that it still has momentum. It will be interesting to see whether IWMs continue to be launched at a similar rate in the coming years if, as seems likely, the sector goes through a very significant round of consolidation (also discussed in Section 10). The case for going independent has clearly been compelling in years gone by, but how attractive an option it is now relative to the past was the subject of some debate. "It was easy to do. The regulatory environment and expectations were light and people wanted to be independent," said Wall. "It wasn't difficult to enter the market and ease of access made independence a relatively simple choice."

The barriers to entry may now be higher, but of course one big driver of the continued new launches has been the widespread headcount reductions at banks. While Wall concedes that some new firms have entered the market with a real strategic focus, he believes that "a majority of those new starters are individuals who have been forced out of a bank because of downsizing or refocusing". He cautioned that the long-term survival of all these start-ups is "highly questionable" and will depend on their strategy, asset base and focus, but he also emphasised the potential of this sector – for all stakeholders. "There is a young profile to this market and it's an attractive business to enter if you have got the mechanism and the clients right," he said. "The independent model is attractive to clients. It is attractive to wealth managers themselves and potentially, if the bank is set up correctly with a good independent wealth managers desk, it is attractive for the banks too."

SIZE, NUMBER OF EMPLOYEES

FIGURE 4

How many employees work in your business?



- 2 OR FEWER EMPLOYEES 22%
- BETWEEN 3 AND 10 EMPLOYEES 45%
- BETWEEN 11 AND 20 EMPLOYEES 16%
- 21 OR MORE EMPLOYEES 17%

Just over a fifth (22%) of the IWMs surveyed are operating with two or fewer employees. At the other end of the scale, 16% of firms have 11-20 staff and 17% have 21 or more employees. However, a majority of 45% of respondents reported that their business has 3-10 staff. This finding is in line with estimates from Aite Group that 76% of independent wealth managers in Switzerland have five or fewer staffers.

The fact that IWMs largely operate with fewer than five staff aligns with the independent model of providing highly-personal service through a stable, trusted advisor relationship (likely to be one-on-one). But there are serious limitations to operating with just a handful of staff. These go beyond capacity issues, although that is certainly a concern considering almost 70% of IWMs expect to gain more clients next year. As discussed in Section 7, not having a person on the ground makes marketing in foreign markets like Asia very difficult.

Wall also observed that MiFID will bring an element of defined responsibility which will mean that wealth managers won't be able to fulfil all the roles of compliance officer, legal officer and accountant and so on themselves any more. This requirement for more clearly defined roles may in part account for the fact that over 40% of respondents plan to hire next year – although others firms will be looking to outsource or partner with other wealth managers to share human resources costs.

ASSET LEVELS AND REVENUES:

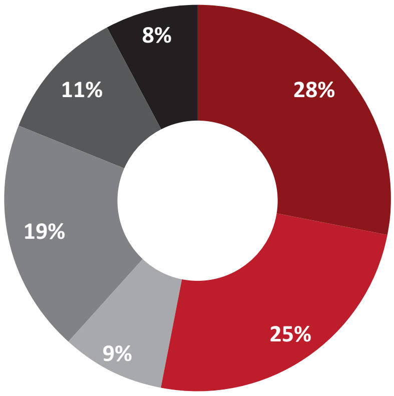
According to Aite Group, at end-2011 up to 3,600 independents managed total client assets of up to SFr650 billion (or 12.3% of the Swiss total of SFr5.3 trillion). Almost 80% of these firms managed less than SFr250 million in assets.

The Consulting Partnership notes that (according to 2011 figures from the Swiss Registry of Commerce) 62% of independent wealth managers generate less than SFr1 million in gross revenues per year and 91% generate less than SFr1.5 million.

BUSINESS ACTIVITIES

FIGURE 5

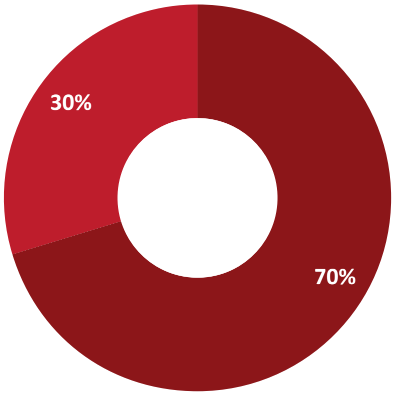
What are your business activities?



- DISCRETIONARY PORTFOLIO MANAGEMENT 28%
- INVESTMENT ADVISORY 25%
- FUND MANAGEMENT 9%
- FAMILY OFFICE SERVICES 19%
- WEALTH STRUCTURING SERVICES 11%
- FIDUCIARY SERVICES 8%

FIGURE 6

Do you hold limited powers of attorney for investment purposes from your clients?



- YES 70%
- NO 30%

The respondents to the survey were asked to select all the activities their business carries out and on average respondents selected around three activities. A total of 53% of the total responses indicated discretionary portfolio management and investment advisory services – with the former slightly higher (28% versus 25%). This is as expected since the blueprint for an IWM relationship is for the client to have a direct relationship with the bank to hold their portfolios and then to mandate the IWM to run that money with a limited power of attorney over the account (70% of the survey participants said that they had an LPA for investment purposes from their clients). Arguably, discretionary mandates are the hallmark of a model predicated on trusted relationships which are free from conflicts of interest. Additionally, IWMs tend to headline their investment expertise and that they are not constrained by a house view when it comes to strategy or making contrarian calls. Discretionary mandates are clearly good for IWMs as they allow them to charge higher fees and (hopefully) demonstrate more fully the value that their skill adds.

It is interesting to see that almost a fifth of the responses indicated family office services now form part of their business. Several of the contributors noted that many Swiss IWMs are now adapting their service models to more of a family office-style offering (see Section 8). Related to this is the fact that 11% of the responses indicated wealth structuring services – although the extent to which the legal side of implementing wealth transfer mechanisms is performed in-house remains to be seen. We also see that a relatively small proportion (8%) of responses were for fiduciary services, while 9% were for fund management. The service mix is discussed more fully in Section 8.

"I STRONGLY BELIEVE THAT SWITZERLAND IS A VERY GOOD PLACE TO START A FAMILY OFFICE AS PEOPLE LIKE SWITZERLAND BECAUSE IT IS HIGHLY REGARDED, BUSINESS-FRIENDLY AND THE PEOPLE THAT WORK IN FINANCIAL SERVICES THERE ARE HIGHLY SKILLED" – CÉCILE CIVIALE VUILLIER

SECTION 2

GROWTH PROSPECTS: IWMS BULLISH ON 2014

FIGURE 7

Do you expect to manage greater or fewer assets in 2014?

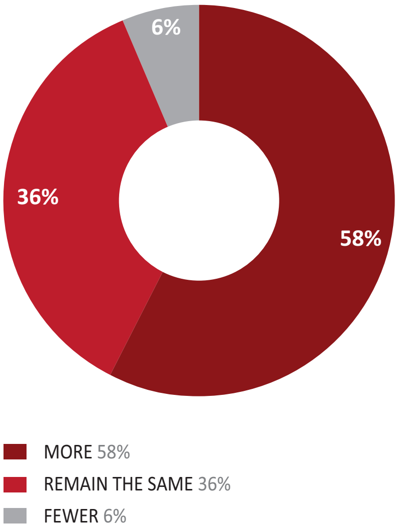
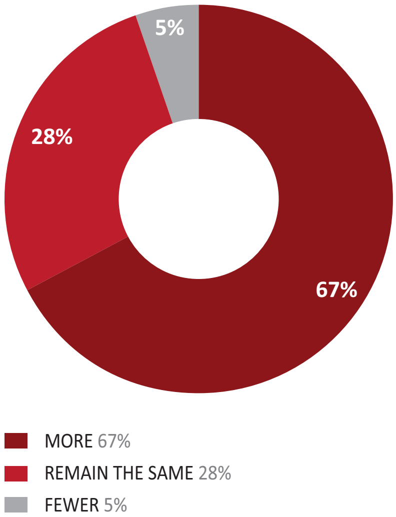


FIGURE 8

Do you expect to serve more or fewer clients in 2014?



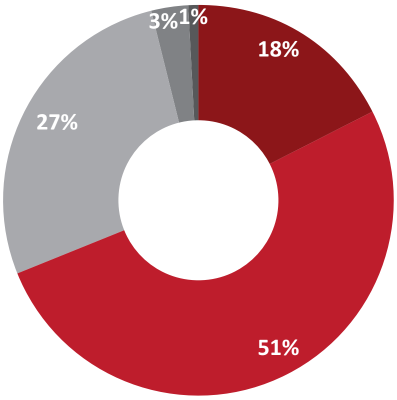
The survey participants were upbeat about AuM growth, with 58% predicting that they will manage more assets in 2014. Just over a third (36%) expect their assets under management to remain stable next year, while just 6% foresee managing less money.

It would be easy to ascribe this bullishness solely to anticipated market rises, but the respondents actually seem very confident of gaining net new business as well. A majority of 67% expect to garner more clients next year, while just over a quarter (27%) expect their client base to remain stable and only 5% foresee a fall. What is more, the survey participants clearly see gaining new clients as their main engine of growth for next year. With 51% of the votes, gaining new clients far outstripped the next most popular sources of growth: 27% selected gaining additional wallet share from existing clients while 18% chose acquiring other wealth managers.

"CLIENTS ARE NOW COMING TO SWITZERLAND WITH A REAL OBJECTIVE: THAT EVERYTHING IS TAXABLE, OPEN AND TRANSPARENT. IWMS WHICH EMBRACE THIS OPPORTUNITY AND THE CHANGE IN INVESTOR BEHAVIOUR WILL HAVE THE OPPORTUNITY TO TAKE THEIR BUSINESS FORWARD" – DANIEL WÜTHRICH

FIGURE 9

What will be the primary source of growth in your business in 2014?



ACQUISITION OF OTHER WEALTH MANAGERS 18%
INCREASE CLIENT BASE 51%
INCREASE "SHARE OF WALLET" WITH EXISTING CLIENTS 27%
WILL NOT GROW 3%
I INTEND TO SELL MY BUSINESS 1%

Based on these figures, Swiss IWMs do seem very upbeat indeed about winning new clients and this caused a good deal of debate among the panel. Some suggested that as entrepreneurial people the respondents might be taking an overly optimistic view, while others shared their hopes except with a few caveats. Philippe Bongrand, for example, sees offshore jurisdictions rising in popularity because of an ongoing mistrust of governments. He predicts that because more people are keen to invest offshore in a tax-compliant way that Switzerland's "white money" policy will boost its fortunes. However, he sees this as a long-term trend and was surprised by the participants' upbeat sentiment for the short term.

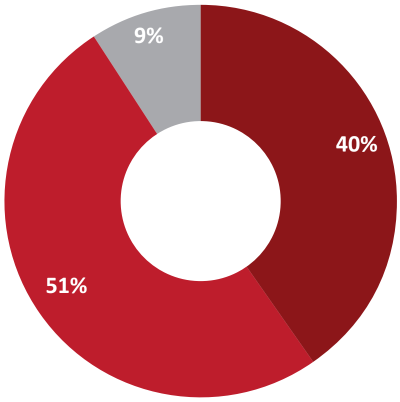
The extent to which IWMs are justified in being so positive remains to be seen, but the survey indicated that they are poised to make investments in a range of areas to support their future growth.

"THERE WILL LIKELY BE A CAPACITY ISSUE WITH THE REALLY GOOD ASSET MANAGERS IF THEY ARE CONTINUING TO ATTRACT NEW BUSINESS THROUGH REFERRALS BY EXISTING CLIENTS"
– SEB DOVEY

BOOSTING HEADCOUNT

FIGURE 10

Do you expect to employ more or fewer employees in 2014?



MORE 40%
REMAIN THE SAME 51%
FEWER 9%

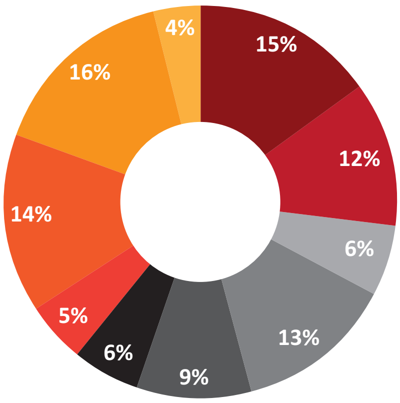
Headcount looks set to be a big area of investment as 40% of respondents said they expect to take on additional employees next year. There are many possible reasons behind this, but one which came up repeatedly was the shift towards tax compliance. This leads to additional staffing requirements and costs in itself, but the contributors also highlighted the fact that compliant clients tend to be more demanding. As Professor Cocca pointed out, a client who is mainly looking to hide assets will be low maintenance, whereas a compliant one will likely be far more active in checking up on their investments. IWMs will have to be really on top of their game performance-wise, which may require additional personnel, and satisfying clients who are more performance-focused will probably also call for enhanced reporting capabilities.

As discussed throughout this report, the independent model has an enduring appeal for wealth managers who are looking to leave the big banks to have greater control over their own destinies and more flexibility over how they service clients. Furthermore, the big banking brands continue to trim headcount across most business divisions. But while independents are likely to enjoy a continued supply of defectors with substantial client books, IWMs are right to be circumspect about who they take on. "The problem is that there are client advisors who are part of the old world and ones who are part of the new world," said Professor Cocca. "There are many client advisors on the market who have substantial 'old money' portfolios. Wealth managers are hesitant about employing these clients as they don't want to take risks."

INVESTING FOR GROWTH

FIGURE 11

Select the areas where you will invest in the next two years to drive your business forward



- MARKETING 15%
- IT 12%
- BACK OFFICE & ADMINISTRATION 6%
- LEGAL & COMPLIANCE 13%
- PRODUCTS & SERVICES 9%
- RESEARCH 6%
- OFFICE SPACE 5%
- EMPLOYEES 14%
- BUSINESS ACQUISITION 16%
- OUTSOURCING 4%

A large proportion of Swiss IWMs are gearing up to aggressively chase growth in the short term, and the survey identified several areas where they will be investing to help achieve this. Over the next two years, 16% of respondents said they will focus their investment on making business acquisitions while spending on staff came a close second at 15%. Improving their legal and compliance capabilities will be the focus of 13% of wealth managers and IT investment is the priority of 12% of respondents. Product and service enhancements (discussed further in Section 4) were cited by 9%, while back-office and administration, research and office space trailed at 5-6% each. Just 4% of participants said they will be focusing their investment on outsourcing in the coming few years.

The panel took issue with these investment priorities on several counts. They observed that outsourcing seems to be chronically under-deployed by IWMs (and arguably by the wealth management sector as a whole). However, some of the possible reasons behind this reluctance to outsource – like concerns over client data security – are arguably valid. It was also noted that opting to outsource is often a function of size and so the anticipated consolidation of the IWM sector might help independents overcome the associated cultural and cost barriers. Of course, historically IWMs have relied on the support capabilities of custodian banks and this might negate their desire – and need – to outsource in some areas. The inter-relationship between custodian banks and IWMs is discussed more fully in Sections 11 and 12.

What the panel were more critical of was the relatively low billing given to IT investment, particularly given technology's role in alleviating capacity issues. As they look to grow their businesses, many IWMs are trying to do more with less and IT is a crucial part of doing this successfully, it was said. Seb Dovey remarked that in a typical firm with less than five employees all staff are likely to be pretty familiar with the whole client book. Therefore, he believes that continuing to serve existing clients while bringing on new ones is "certainly doable, up to a point" - as long as IT is fully leveraged. "I think it does come down to IT and how much support they [IWMs] receive from the custodian bank in terms of operational support," Dovey said. "They will need new technologies to cope with existing clients." In fact, his view is that "improved technology is not just the key to improved growth, but also to continued existence". Transitioning to a tax-compliant model is going to throw up cross-border issues around regulation and consolidated reporting which will make technology improvements essential, Dovey concluded.

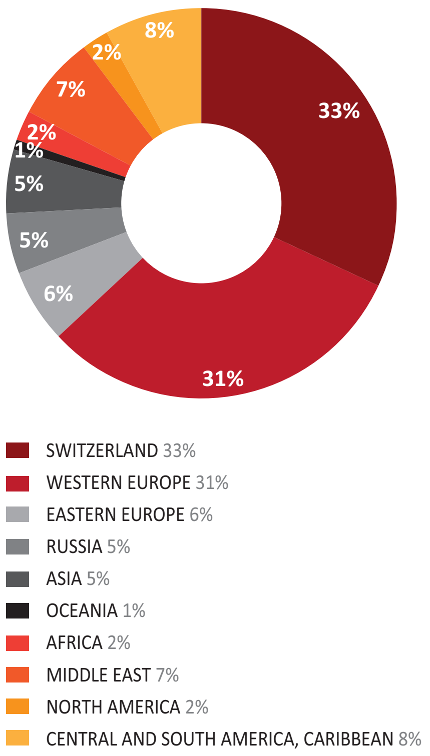
Technology enhancements may be sorely needed (see Section 9), but most of IWMs' cash appears to have been earmarked for acquisitions. The consolidation of the sector is discussed more fully in Section 10, but it is worth noting at this point that acquisitions can incur pretty significant costs over and above the price of the business itself. The panel highlighted quality of assets as a real issue which buyers (and indeed those taking on bankers with ready-made books) cannot afford to get wrong. "People are far more careful now. If you do not get the due diligence right and you buy businesses with clients that are not clean, you are buying more trouble than anything else," said Dr Payer. It is positive that IWMs are so bullish on their growth prospects for the year ahead, but they are clearly going to have to proceed carefully and invest wisely to emerge well from the anticipated consolidation of the sector.

SECTION 3

THE INTERNATIONAL HUNT FOR GROWTH

FIGURE 12

In which regions are the majority of your clients based?



A significant majority of 67% of participants believe they will have more clients next year, and a particularly interesting part of this study examined the regions that IWMs' current clients come from and where they see new business coming from in future. The participants were asked to select all the regions their clients come from and on average they selected two regions each. On aggregate, Switzerland and Western Europe accounted for nearly two-thirds of the votes (32% and 31% respectively), while Central and South America (including the Caribbean) accounted for 8% of the responses and the Middle East for 7%. Eastern Europe, Russia and Asia each got 5-6% of the votes, while Africa and North America each received 2%. Oceania got less than 1%.

These results prompted a mixture of responses from the panellists. Some were surprised that Western Europe and Switzerland came out so far ahead of the other regions, given the *very* international client base IWMs are believed to have. However, Robert Hemmi anticipated that Western Europe would have been even higher because he believes that that the proportional market share of IWMs should be similar to that of the banks, because that's where wealth managers will have built up their client books. "It [Western Europe] is still the biggest share overall and probably the oldest share if you compare it to the other regions," Hemmi said. He reasons that Western Europe came out lower than he expected because the region has been under more intense tax scrutiny and therefore some clients may have reallocated their assets as part of regularising their affairs.

AN OVER-RELIANCE ON WESTERN EUROPE?

The predominance of Western Europe amid this tax crackdown was in fact a source of concern for several of the panellists. They expressed fears that significant amounts of Western European assets remain undeclared and that large-scale outflows might be around the corner as taxed assets might have to be repatriated. Stephen Wall also suggested that an over-reliance on Western Europe could be a weakness because a) the region is not a growth market and b) Swiss IWMs have focused on the region for so long they may have penetrated as much as they can already. It was also said out that carrying out cross-border Western European business is being made harder to do because of the MiFID regulations. "An IWM cannot freely service a French client anymore, so they have to have a mechanism to serve them across borders. This means additional costs for a business to service a client base," Wall continued. In contrast, he believes a heavy focus on Swiss clients is good for the IWM sector because "they're local and tax isn't an issue".

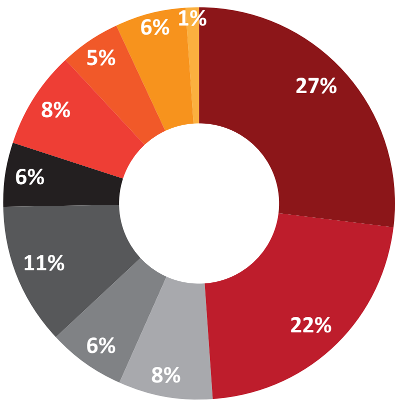
"AN IWM CANNOT FREELY SERVICE A FRENCH CLIENT ANYMORE, SO THEY HAVE TO HAVE A MECHANISM TO SERVE THEM ACROSS BORDERS. THIS MEANS ADDITIONAL COSTS FOR BUSINESS TO SERVICE A CLIENT BASE" – STEPHEN WALL

While all the regions were represented in Swiss IWMs' current client bases, the panellists felt that the figures for some were lower than they would have thought. Daniel Wüthrich was surprised that Western Europe figured so high as "everyone is talking about people coming from the Middle East" – which came in fourth place. Meanwhile, Central and South America received 8% of the votes, placing it third, but Cécile Civiale Vuillier expected this figure to be higher due to the booming fortunes of some of the countries in the region. Additionally, wealthy individuals here - and in many other emerging markets - have good reason to seek a safe haven like Switzerland for their assets. Secrecy in its old form may be dead in Switzerland, but the country's appeal as a stable, secure and sophisticated financial services jurisdiction remains undiminished, the panellists said.

"IT IS IMPORTANT FOR IWMS TO WORK WITH BANKS WHICH HAVE THE REGULATORY AND CULTURAL EXPERTISE IN THE COUNTRIES THEY FOCUS ON FOR GROWTH" – DANIEL FURTWÄNGLER

FIGURE 13

Which geographic area is most likely to drive growth to your business in the next two years?



In discussing the attractions of Switzerland as a jurisdiction, the panellists made an interesting distinction between the country's appeal for European clients and those hailing from emerging markets. "I believe Switzerland is attracting clients from all over the world, especially Europe, because its value proposition is a stable one and it is a highly-developed financial market. Some countries are more interested in the security aspect, while others are interested in the financial skill set," said Klaus-Michael Christensen. He went on to say that as Switzerland becomes more transparent the skill-set piece will become even more important.

The participants were asked to select the geographic area they think is most likely to drive business growth in the next two years. As Figure 13 shows, here Switzerland and Western Europe both came in 5 percentage points lower (at 27% and 22% respectively), while other markets were mostly accorded greater importance (interestingly Central and South America fell). Eastern Europe, the Middle East and Russia each rose by 1-2 percentage points, and North America and Africa rose by 3 and 4 percentage points respectively. Predictably, given its meteoric rise in terms of wealth, Asia rose most noticeably in importance (from 5% to 11% of the votes).

Like the rest of the wealth management sector, IWMs are looking to the East for growth; China is said to be a big area of focus, as are Singapore and Hong Kong. However, the contributors were sceptical as to the ability of smaller firms to tap Asian markets in any real sense since they are unlikely to have a presence on the ground. "Asia has been growing twice as much as the rest of the world over the last five years, so everybody wants to get clients there," said Dr Payer. "But many of those IWMs do not have access to this clientele as it's more the larger ones that have offices in Asia." In addition, Ray Soudah believes the fact that the compliance process in Asia is "very difficult" will mean it is unlikely new set-ups will happen.

"IF YOU LOOK AT WEALTH MOVEMENTS, IT'S GOING FROM WEST TO EAST AND NORTH TO SOUTH. ASIA IS THE LARGEST MARKET AND GROWTH WILL COME HERE FOR THE LARGEST ASSET MANAGERS, BUT NOT FOR THE IWMS" – DR GABRIELA PAYER

Seb Dovey is of the same view, believing that Asia is going to be difficult market to crack for all but the larger IWMs which either have an established local office and book of business or very strong marketing capabilities in the region – which obviously calls for a significant budget. "It's quite a tough environment in which to promote yourself, unless you have a presence out there already," he said, adding that for the majority of IWMs with only a handful of employees installing someone on the ground in Asia is not realistic.

"I DON'T THINK IWMS WILL BE SEEKING GROWTH AT THE EXPENSE OF WESTERN EUROPE. WHILE ASIA MAY BE A BIG GROWTH AREA FOR THE MAJOR WEALTH MANAGERS AND BANKS, NUMBERS INDICATE THAT FOR THE IWM COMMUNITY IT IS MORE ABOUT REMAINING IN SWITZERLAND AND EUROPE AND MOVING TO AN ONSHORE RATHER THAN AN OFFSHORE MODEL" - SEB DOVEY

Another of the significant challenges facing IWMs is that Asia remains pretty heavily banked, and that the big Swiss banking brands have been established there for twenty years or more already. However, this in itself is a testament to the enduring appeal of Switzerland's brand, or - in the words of of Vuillier - that "Asian clients love the Swiss way". The country's reputation for financial services expertise does mean that Swiss IWMs do have an advantage when it comes to trying to establish a brand in Asia. Dovey also observed that the IWM model is gaining traction in the region since following the financial crisis the independence aspect is very appealing to Asian clients. This probably means that Swiss firms which are determined to try to crack Asia will find it relatively easy to find local ones willing to merge. However this brings up all kinds of challenges, not least finding the right firm to merge with. Partnership agreements will also throw up practical and regulatory complexities, although the local knowledge partners bring will clearly lower the compliance hurdle significantly for Swiss entrants.

The increase in regulation internationally is of course a big reason why wealth managers might choose to have a very tight focus in terms of the markets they target. In Wall's view, it's almost impossible for a small firm with few staff to have the necessary market-by-market expertise to be compliant and promote itself successfully in a raft of countries. "You cannot have scattered book of clients from all over the world anymore if you are just a small business with no scale or infrastructure," he said. "Market regulations are important in determining which countries IWMs focus on. A single individual would find it impossible to manage 10 or 20 countries," added Dr Payer.

Indeed, with firms still scrabbling to get ready for the implementation of FATCA, the US is a case in point demonstrating the difficulties of dealing with just one country's regulations (even if in this case they are unusually extra-territorial). It should be noted, however, that challenges also throw up opportunities. When a particular market becomes more difficult to service, those that can develop the requisite skills and expertise will be in a strong position. "Wealth managers with a clear focus on very specific overseas countries might gain a competitive advantage," said Christian Nolterieke. While several Swiss banks have had to endure the most serious consequences for falling afoul of the US authorities on tax matters, a counterpoint is that a number of wealth managers have sprung up which specialise in serving US expats.

All in all, the panellists seemed to agree that on the whole IWMs will be seeking growth in Asia *alongside* Western Europe rather than at the expense of it. They maintained that Western Europe remains a rich seam of business for those firms which have adjusted their models to accommodate the required level of transparency. Indeed, one panellist observed that some clients from Italy and France who had repatriated assets are now coming back to Switzerland as they are concerned about how their governments are going to proceed with tax matters (France has been trying to impose a 75% tax on incomes over €1 million, for example).

While most Swiss IWMs believe they will have more clients in 2014, it is clear that finding this growth isn't going to be as simple as just turning up in hotspots of wealth creation like Asia. The independent model and the Swiss brand certainly do appeal to wealthy clients internationally but winning their business is a challenge on many fronts.

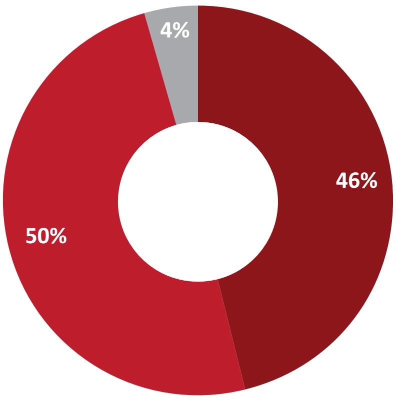
"THE FURTHER AWAY POTENTIAL CLIENTS ARE (ASIA, LATIN AMERICA ETC.) THE MORE SPECIALIST EXPERTISE A WEALTH MANAGER NEEDS TO HAVE IN TAX LAW, REGULATION - KNOW-HOW THAT IS COSTLY AND FOR SMALL BOUTIQUE FIRMS IS DIFFICULT TO OFFER" - CHRISTIAN NOLTERIEKE

SECTION 4

ENHANCING THE OFFERING: PRODUCTS AND SERVICES TRENDS

FIGURE 14

Do you expect to increase or decrease your products & services offering in 2014?

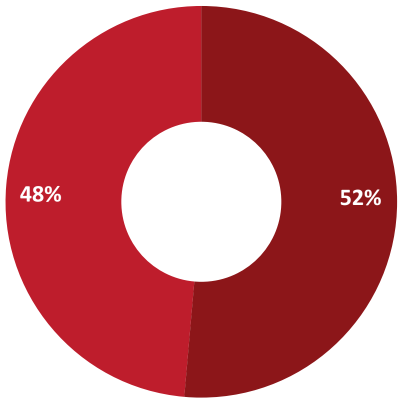


MORE 46%
REMAIN THE SAME 50%
DECREASE 4%

MAKING ADDITIONS

FIGURE 15

Do you feel you need to add more services to your offering in order to stay competitive or interesting to clients?



YES 52%
NO 48%

The Swiss IWM sector is in a state of flux on several fronts. New challenges - and opportunities - face the sector and many IWMs will be looking to make changes to their business models as a result. Increased competition and the new emphasis on transparency means that IWMs are going to have to work much harder to win business, so enhancing the products and services mix is likely to be high on the agenda.

Interestingly, the survey sample were roughly equally split between those who expect to make additions (46%) to their products and services offering next year and those keeping things the same (49%). Likewise, the participants were split on whether they feel the need to add more services to their offering in order to stay competitive or interesting to clients: 52% feel that they do, while 48% do not.

So, around half of IWMs feel that they need to make additions to their products and services suite to succeed and around the same proportion plan to do so soon. But what areas are IWMs likely to focus on, and what challenges do they face?

One of the key debates highlighted by the panel was over the range of investment products IWMs should offer. Here, it was suggested that increased transparency may have made wealth managers more aware of peer comparison and that this might be driving some to increase their range of products. “If your competitor has far more products, then it can be difficult to explain to clients that you decrease your offering,” said Elmar Meyer. However, he and other contributors remarked that increasing the size of the range isn’t the only option as specialist players have always done well. “If you have your niche and you are really good at what you do, then I think there will always be a place in the market for you,” Meyer continued. He highlighted that there are commodities specialists which seem to do well while Dr Fiole drew attention to the rising popularity of sustainability-focused investing.

“BEFORE, CLIENTS WOULD TALK TO THEIR WEALTH MANAGER INFREQUENTLY, BUT NOW THAT CLIENTS WANT TO INVEST IN A TAX-COMPLIANT WAY, THEY EXPECT DIFFERENT PRODUCTS, PRICING AND PERFORMANCE” – PHILIPPE BONGRAND

Adding products which tap into investment trends like sustainability is certainly one way to increase an IWM's appeal to certain clients. However, according to Philippe Bongrand, now we are moving to a compliant world what clients really want are products which offer legitimate tax optimisation opportunities. But while such products might be in demand, offering them across a multi-jurisdictional client base can create "a huge level of complexity", in his view. "If you serve clients from 30 countries it means that you have to have a product range for each country, whereas in the past you just had one. Products need to be optimised to the local regulation of the clients," Bongrand said. "IWMs will lose clients because it won't be cost effective to serve clients of one given country unless you have enough size to amortize the costs of product development, maintenance and distribution. Therefore they are going to have to focus on fewer countries." As discussed elsewhere, the need for market-by-market regulatory expertise is likely to constrain at least smaller IWMs as to the markets they can target and the products on offer.

However, the panellists did say that adding new asset classes is an option for IWMs to consider. "Traditionally they have taken fairly standard approaches in cash and bonds, but they could try to offer derivatives, emerging markets or foreign exchange trading," said Professor Cocca. He also predicted a possible rise in the use of passive investment products like exchange-traded funds. "Wealth managers in the past have been more on the active side. As we know, there is a trend in asset management to go for a passive approach and maybe some of these wealth managers will try to mirror that development," he said.

CAPACITY AND COSTS

The consensus was that the most common additions will probably be wealth planning elements and advisory services, but the contributors almost universally drew attention to the trend of IWMs adapting their service models to more of a family office-style offering. As Meyer pointed out, offering a broader range of services in the style of a family office is "one way of making sure there is a holistic approach to the client's needs". This clearly plays to the trusted advisor aspect of the IWM proposition and will help hugely in the maintenance of long (and hopefully multi-generational) relationships with clients. As discussed more fully in Section 8, broadening the service suite might also help IWMs which want to move towards time-spent, project or fixed fees and lessen their reliance on the AuM model.

However, while the panel agreed that Switzerland is a good place to set up a family office and many families are sorely in need of one, they did sound a few notes of caution. Although fiduciary services were the least selected business activity among the IWMs, a not insignificant number of firms are working in this area and this is a cause for alarm for Cécile Civiale Vuillier. "I think it is a very bad idea to mix fiduciary duties with wealth management because at some point you are going to have a conflict of interests, especially with trust matters," she said. While lots of IWMs are branching out into providing family office-style services, such a move clearly needs to be carefully thought through from a risk management perspective it would seem. It is also important to note that Switzerland is dramatically ramping up oversight of the trust sector and moving it away from light-touch self-regulation, just as it is with IWMs.

Although almost half the survey participants said they plan to add to their offering next year, the panel expressed doubts about how easy IWMs will find this – on several fronts. Firstly, it was said that IWMs have tended to evolve their models gradually over time so making radical changes may not sit well with their relatively small workforces and client bases. But the panel's biggest concerns were over capacity and costs, particularly as regards certain "soft" services.

Big institutions have been offering services like legacy planning and philanthropy for some time now. Their motivation for doing so is clear: they want to deepen relationships (and therefore wallet share) by tapping into clients' most deeply-held values and they hope to establish relationships which transcend generations. But the extent to which they are able to really drive revenue from providing such services is open to debate. As such, the panellists warned against IWMs trying to offer too much – both in terms of personnel and costs. "IWMs do not have the capacity to increase products and services easily," said Osmond Plummer. "The independents can't afford loss leaders. It has got to be cost-effective."

It is interesting to note that although almost half of the participants plan to add services or products in 2014, only 9% said they will be focusing investment in this area in the next two years. It seems that while IWMs are keen to enhance their offerings they are going to have to do this in a cost-conscious way. Plummer's view is that wealth managers need to steer a course between reality and their "wish list", focusing on what clients really *need*, as this is the key to competitiveness. As Stephen Wall concluded, the only reason IWMs should be looking to widen their products and services is to add additional revenue streams to their model and to be more relevant to their client base. The fact that the big institutions have struggled to drive revenues through some services should perhaps serve as a warning.

PARTNERSHIPS

With capacity and cost concerns on the one hand and increasingly demanding clients on the other, the panel predicted that ever greater numbers of IWMs will be working in collaboration with other firms and professionals. As some of the traditional draws of the IWM model are eroded it is inevitable that clients are demanding more, but the panellists said that for most IWMs attempting to do everything in-house would be folly. As Seb Dovey noted, there would have to be an exceptionally high demand for a specific service to warrant bringing the necessary expertise into the business. As such, he predicts a greater reliance on partnerships and networks among IWMs.

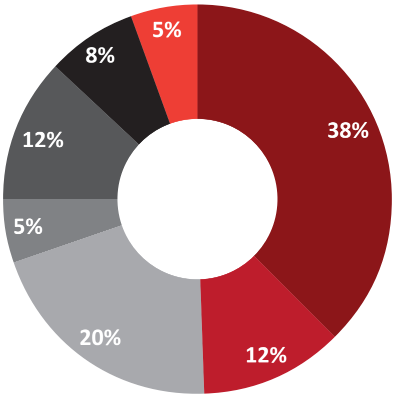
Interesting, several of the contributors spoke about this issue in terms of "protection", saying that partnership and platform structures will be a key way for smaller firms to *withstand* the rising costs of doing business. The fact that large, very well set-up IWMs continue to emerge was also mentioned as another reason why smaller players might look to join forces to maintain their edge.

SECTION 5

MARKETING THE INDEPENDENT MODEL

FIGURE 16

Which of the listed areas will require most of your attention to succeed in the changing environment?



- QUALITY MANAGEMENT & PROCESS EFFICIENCY 38%
- NEW SALES CHANNELS 12%
- NEW MARKET POSITIONING STRATEGY 20%
- M&A AND SUCCESSION PLANNING 5%
- RISK MANAGEMENT 12%
- MARKETING 8%
- NONE 5%

According to the survey, over half of Swiss IWMs feel they need to add to their offering in order to stay attractive to clients. This lack of complacency was strongly approved of by the panel, as was the fact that marketing seems to higher on the agenda of IWMs than has previously been the case.

When the wealth managers were asked which areas they felt were going to need most of their attention to ensure the success of their business, it is perhaps predictable that quality management and process efficiency came out on top given the challenges facing the sector around new rules and regulations. However, marketing was also accorded a good deal of importance: developing a new market positioning strategy was the second-highest priority (at 20%), while new sales channels and marketing got 12% and 8% of the votes respectively. In fact, marketing was found to be much more of a focus than the hot-button issue of M&A and succession planning, which only scored 5%.

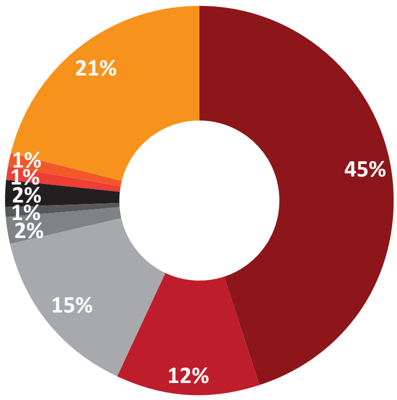
"WITH THE CHANGING ENVIRONMENT NOW THERE IS CLEARLY GOING TO BE MORE EMPHASIS ON SALES AND MARKETING, AND ACTIVELY GETTING OUT THERE AND PROMOTING BUSINESSES" – SEB DOVEY

The panel welcomed this emphasis on marketing as evidence that Swiss IWMs have recognised the need to go after new business more proactively. As Seb Dovey highlighted, up until recently independents have had the luxury of very tight relationships with their clients and they have also been heavily reliant on internal referrals for new business. In contrast, he now sees marketing as a whole climbing the agenda for IWMs.

UNIQUE SELLING POINTS

FIGURE 17

Select your unique selling point to new clients



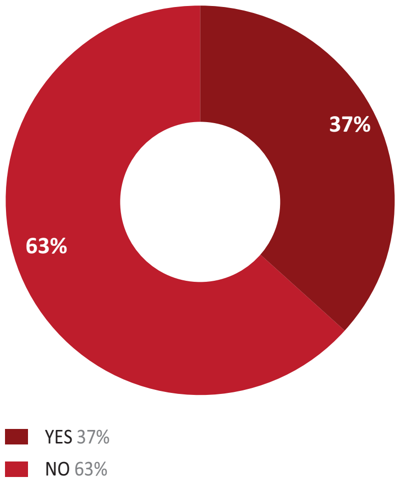
- TRUSTED RELATIONSHIP 45%
- PERFORMANCE 12%
- INVESTMENT STRATEGY 15%
- PRODUCTS 2%
- PRICING 1%
- THE "SAFE HAVEN" IMAGE OF SWITZERLAND 2%
- TECHNOLOGY 1%
- REPORTING 1%
- KNOW-HOW 21%

The fact that developing a new market positioning strategy came out higher than general marketing seems to indicate that Swiss IWMs feel a real need to stand out in the marketplace by clearly articulating and differentiating their offering. Clarity of proposition is of course foundational to successfully marketing a service or product, since a need or desire for it must be established (or uncovered) in the mind of the customer before they are then convinced to choose one provider over another. The differentiation stage has historically been something that wealth managers of all sizes have struggled with, however, and the survey indicates that this remains an issue for Swiss IWMs.

When asked to select what their business' USP to new clients is, approaching half (45%) of respondents selected the trusted relationship they offer. Know-how (21%), investment strategy (14%) and performance (12%) were the nearest followers. Products, pricing, the safe haven image of Switzerland (discussed further in Section 1), technology and reporting were cited by only 1-2% of respondents each. None opted for compliance, which the panel agreed was predictable since it is more of a hygiene factor. A client might deselect a wealth manager for poor compliance but it is not something which will actively attract them to a provider, it was said.

FIGURE 18

Are you aiming to change your investment service offering in the next two years?



"THE IWMS ARE SERVICING DIFFERENT CLIENTS FROM MANY COUNTRIES AND THIS IS JUST TOO COMPLEX, SO THEY WILL NEED TO REVISIT WHO THEY SERVE AND THE TYPE OF OFFERING"
– PHILIPPE BONGRAND

TRUST OVER PERFORMANCE?

That approaching half of IWMs view trusted relationships as their USP came as no surprise to the panel, as this is absolutely core to the independent model. They noted that independence - the separation of product origination from advice - is probably the main draw for clients, along with appeal of a close relationship with an advisor who is not going to be changing institution and who is not reporting to management or shareholders as they might within a bank. Independence and an alignment of interests are core to the IWM model, but this very fact led the panel to question the extent to which trusted, conflict-free relationships can serve as differentiator. "It is something clients would certainly expect, but it is not a means by which independent wealth managers can separate themselves out from the competition," said Stephen Wall.

The general feeling of the panel was that those IWMs which are able to should be making much more of investment strategy and performance, since the Swiss wealth management industry is moving away from its traditional focus on preservation of assets and more towards performance. As touched on elsewhere in this report, a distinctive investment approach can also be a powerful differentiator due to the commoditised strategies being deployed across much of the wider wealth management sector. Indeed, it might be that many IWMs have already spotted this opportunity, since 37% of the survey respondents said they intend to alter their investment offering in the next two years.

"THE TIMES WHERE A PRESTIGIOUS ADDRESS AND THE OPTION TO HIDE BLACK MONEY COULD OFFSET POOR PERFORMANCE ARE GONE. A WEALTH MANAGER HAS TO DELIVER ON ALL THREE ELEMENTS – KNOW-HOW, INVESTMENT STRATEGY AND PERFORMANCE – AND THE FUTURE WILL HOLD MORE CHALLENGES"
– CHRISTIAN NOLTERIEKE

Improving the investment advisory process and headlining performance as a USP seems to be the way forward for Swiss IWMs, but it was pointed out that wealth managers will then need to interact far more with their clients to really understand their investment and risk profile on an ongoing basis. As a corollary, delivering a more dynamic investment proposition will probably call for IT investment in areas like client reporting and sophisticated risk-profiling – or at least partnerships which can deliver these capabilities.

TECHNOLOGY AND REPORTING

Just 2% of respondents view technology or reporting as a USP and while the panel expected low numbers here, they were surprised by just how low they were. In explanation, it was suggested that technology and reporting might be seen more as functional elements rather than as selling points to clients. However, several contributors argued that technology is increasingly important to clients today and so it could indeed act as a differentiator – particularly among some client segments and geographies. Customisable online reporting, mobile access to portfolio valuations and digital communications suites are now top of many clients' wish lists. That so few IWMs see technology as a main strength indicates that an opportunity exists for forward looking independents looking for a real point of differentiation – although this would be highly dependent on the type of client being targeted and the style of the organisation.

Due to the nature of the independent model, it seems inevitable (and arguably right) that IWMs will always headline the relationship side of things and neglect technology. However, several contributors remarked that technology improvements could underpin many of the selling points IWMs are choosing to focus on when marketing their businesses. Enhanced reporting will showcase know-how, investment strategy, performance and accountability; it will also foster peace of mind in the client and therefore trust. The technology issues facing IWMs are the subject of Section 9.

PRODUCTS AND PRICING

According to the survey, a negligible proportion of IWMs see products as a USP. This seems to be in line with the fact that a fifth of wealth managers view know-how as their main draw to clients. It could be that respondents were thinking about their wider expertise or advisor networks, but at the least IWMs seem to feel that clients value skills like asset allocation far more than a wide/esoteric product offering. However, while IWMs clearly don't see their product capabilities as a USP they might still be seen as an important factor on the open architecture front. Having a custodian in place which will handle all manner of products efficiently might be a differentiator since "true" open architecture can apparently be fairly difficult to come by.

Pricing was also at the bottom of the USP rankings. Some panellists remarked that the lack of importance accorded to pricing is unsurprising given the conventional wisdom than wealth management isn't a particularly price-sensitive sector. However, others observed that price sensitivity may well rise with transparency so things might change on this front. It could also be said that price and value are two very different things, and so the question is more one of whether the client feels they are getting value for money.

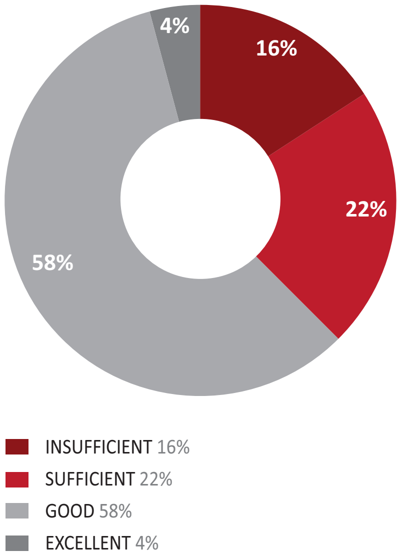
"I THINK CLIENTS WILL VOTE WITH THEIR FEET SIGNIFICANTLY TOWARDS PERFORMANCE-RELATED FEES. THAT MAY BE A BENCHMARK PERFORMANCE OR ABSOLUTE PERFORMANCE" – RAY SOUDAH

SECTION 6

THE BUSINESS CLIMATE FOR SWISS WEALTH MANAGERS

FIGURE 19

In your opinion, in general, what grade would you give the service quality of the wealth management Industry in Switzerland?



SERVICE QUALITY – NOW AND GOING FORWARD

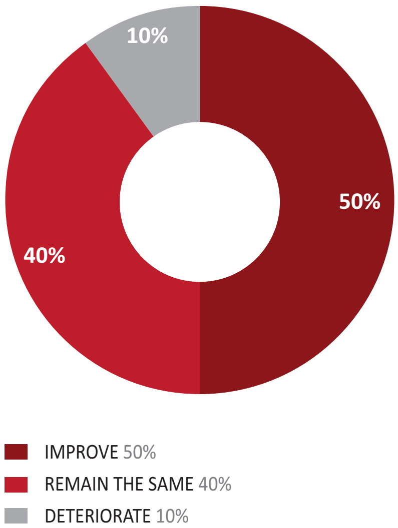
When it comes to Switzerland's status as a premier wealth management centre, there seems to be a fairly high level of buy-in among the country's IWMs. Over 60% of respondents rate the quality of service delivered by the Swiss wealth management industry as good or excellent. However, several panellists were disappointed by the fact that only 4% rated Swiss service quality as excellent as this is certainly not in line with Switzerland's image (both the "face" it projects to the world and arguably its self-perception). As Dr Gabriela Maria Payer said: "Wealth management was born in Switzerland and so the quality should be outstanding."

"IN TERMS OF THE FULL SERVICE MODEL IN SWITZERLAND, I THINK IT IS VERY GOOD. YOU GET MORE CONSISTENT QUALITY FROM SWITZERLAND THAN YOU DO FROM OTHER JURISDICTIONS" – BRUCE WEATHERILL

The contributors offered several possible explanations as to why the "excellent" figure wasn't higher. Some pointed out that the respondents will have probably spent time at a variety of institutions before going down the IWM route. Therefore, their *overall* perception of Swiss service quality may have been coloured by experiences they (or their clients) had at less client-centric firms. It is also the case that stories of disappointing service tend to be repeated and stick in the mind, which could lead to a reluctance to pronounce that everything is excellent unilaterally. Related to this, Dr Payer pointed out that there could also be "a psychological aspect relating to the Swiss trait of being humble and modest". She also noted that because of the new rules and regulations being imposed wealth managers might feel that they haven't had the time to deliver the service quality they would wish to; clients themselves may have not noticed a decrease in service quality at all.

FIGURE 20

Do you expect the quality of the wealth management service level in Switzerland to improve or deteriorate in the near future compared to other financial centres?



In broad terms, Switzerland is judged to be delivering a good level of service and the vast majority of survey participants felt that - in relation to other financial centres -service standards will be either maintained or improved in the near term. It is encouraging that only a tenth of respondents expect Swiss service standards to slide in the near future – despite all the challenges the sector faces. The reality however is that despite these issues Swiss wealth managers have no choice but to continue striving for excellent service standards. Along with (and perhaps even more than) expertise, efficiency and ease of doing business, superlative client service is a key differentiator for the Swiss value proposition. It is therefore heartening that almost half of IWMs see service standards being driven higher in the country.

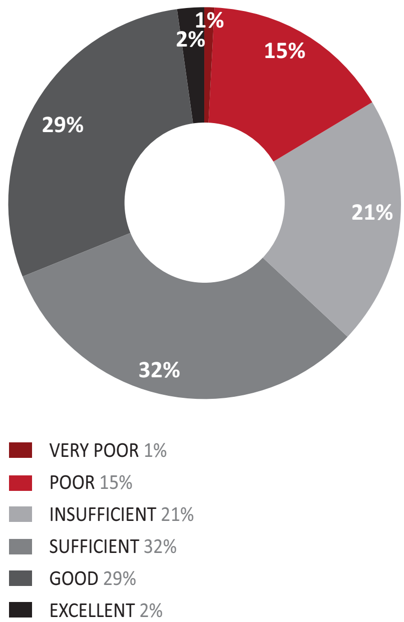
FUTURE BUSINESS CLIMATE

While the survey respondents were upbeat about Swiss service standards, views were very much more mixed when it came to the future business climate for wealth managers. As Figure 21 shows, the question "What is your assessment of the future business climate for wealth managers in Switzerland" yielded a bell curve result, but one which is strongly skewed towards "poor". While around 60% of respondents believe the future business climate is going to be adequate or good, this leaves a significant proportion with fears for Swiss wealth managers' prospects.

The panellists were asked what they think the issues weighing most on IWMs minds are when they think about the future. As might be expected, concerns around new rules and regulations were ubiquitous, but many other elements of the business environment were flagged up – from attitudinal changes to the global economy. While some of these issues are specific to Switzerland, others, such as rising client expectations and data security, have been high on the international wealth management agenda for years.

FIGURE 21

What is your assessment of the future business climate for wealth managers in Switzerland?

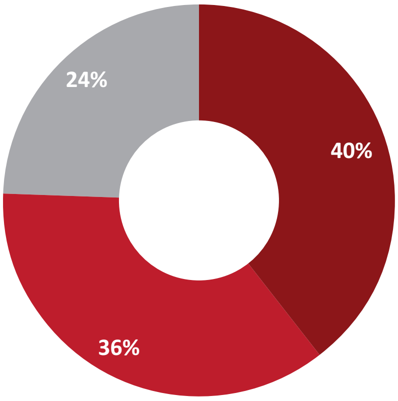


"PROVIDING AN EXCELLENT WEALTH MANAGEMENT SERVICE STARTS WITH UNDERSTANDING CUSTOMERS AND WHAT THEY WANT, THEN GOING THE EXTRA MILE AND DELIVERING UPON THAT" – DR GABRIELA PAYER

INCREASED TRANSPARENCY AND THE EROSION OF BANKING SECRECY

FIGURE 22

Is the erosion of banking secrecy an opportunity or a challenge for your business?



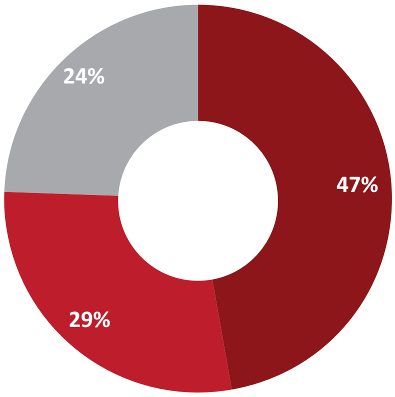
OPPORTUNITY 40%
CHALLENGE 36%
NEITHER 24%

Interestingly, slightly more respondents saw the erosion of bank secrecy as an opportunity for their business than who saw it as a challenge (40% versus 36%), while almost a quarter said it is neither a positive nor a negative. Banking secrecy has of course been under attack internationally for several years now, so it is hardly a new issue. Neither is it solely a Swiss issue, although the Alpine state is now working very hard to undo the reputational damage its financial services industry has suffered from a succession of very high-profile tax cases.

In exploring this issue, the panellists brought up the possibility that some IWMs could see the erosion of banking secrecy as an opportunity because it is eroding the USP of the banks and therefore makes it easier to win clients from them. Conversely, they said that those who see it as a challenge might feel that the tax wrangles Switzerland's government and banks have gone through have damaged the country's image as a wealth management centre, with IWMs suffering as much as the big brands.

FIGURE 23

Are the increased requirements on transparency for investments and wealth management an opportunity or a challenge for your business?



OPPORTUNITY 47%
CHALLENGE 29%
NEITHER 24%

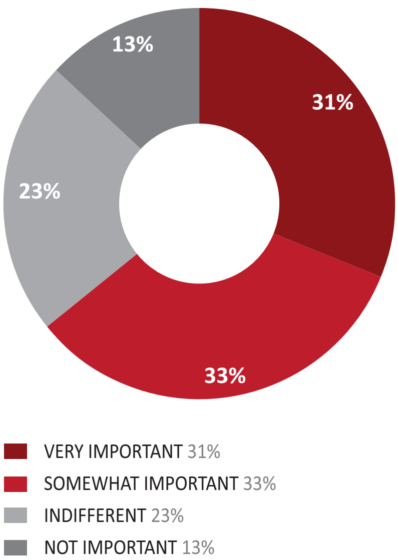
Closely related to the erosion of secrecy, and another vexed issue, is the question of whether increased transparency is an opportunity or a threat for IWMs – although optimism is higher here. Nearly half (47%) of those surveyed view increased requirements on transparency for investments and wealth management as an opportunity, while less than a third (29%) see it as a challenge. As discussed throughout this report, increased transparency is one of the major forces shaping the future of the IWM sector. Wealth managers' models are going to have to evolve quite dramatically since clients are going to move away from a preservation of assets mindset and towards wanting to see much more active investment management. In the words of Osmond Plummer, "You have to move from a world where 'we are keeping your money safe' to a world where 'we are making reasonable profit and returns on your funds for the fees we take'". Short as that sentence may be, it neatly encapsulates many of the key challenges and opportunities IWMs will have to address as client demand changes. How can we generate solid returns in a volatile and low interest rate investment environment? Which asset classes or product types should we focus on to stand out? What fee model will work best for us, and how would our clients prefer to be charged? These are just a few of the questions wealth managers will be asking themselves.

For Dr Payer, increased transparency (and the erosion of banking secrecy) should be an opportunity for most IWMs. However, she understands how respondents may feel challenged because of the implications of increased transparency. "The first issue is that the market has become far more transparent so this puts you more 'on stage' for your investment performance and service quality etc. The second is that a higher level of transparency has resulted in fiercer competition," she said. Her view is that, "the erosion of bank secrecy provides opportunities for independent wealth managers, but they need to differentiate themselves from banks, particularly small banks".

EU PASSPORTING

FIGURE 24

How important is it for Switzerland to get an EU Passport for Swiss Collective Investment Schemes?



Passporting rights, which come under the EU single market directives (MiFID and IMD), allow entitled companies based in one EEA state to conduct business in another or provide cross-border services into it while being regulated in their home country. Since Switzerland is not an EU/EEA member state it is not party to passporting rights at present. However, the draft of MiFID II contains a section on regulating third-country access to the EU market which would allow Swiss firms to service clients domiciled in Europe through having a branch in an EEA state.

Two-thirds of the survey respondents believe it is important for Switzerland to get an EU passport for promoting and distributing Swiss collective investment schemes, with 31% believing this to be very important indeed. FINMA is keen for Swiss providers to be able to compete on a level playing field within the EU and the panellists agreed that an EU passport is desirable for those looking to increase their foothold in the European market. "I see the need for it and it is good for the financial industry, but it will not impact all IWMs the same way as many collective investment schemes are promoted and distributed outside Switzerland by bigger players who already are MiFID II-compliant," said Elmar Meyer.

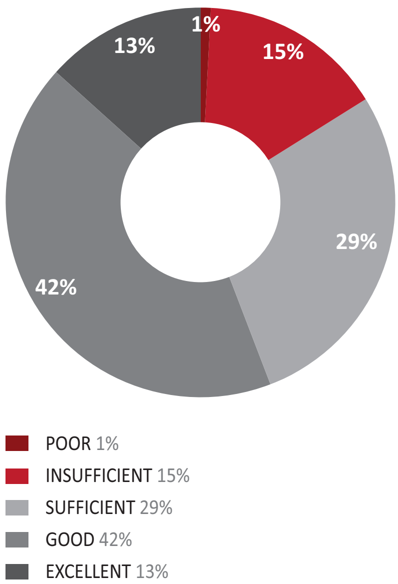
While 23% of the survey participants were indifferent on the issue of EU passporting and 13% think it is unimportant, it could be that these respondents operate solely in Switzerland (for the question on where the bulk of IWMs' clients come from, 32% of responses indicated Switzerland). Alternatively, "it could be that they are already working with a bank that can provide them with products that are already authorised," said Philippe Bongrand. Others suggested that some industry participants might not appreciate the benefits passporting could bring.

Essentially, the importance of EU passporting to Swiss IWMs is contingent on each individual firm's business model and growth aspirations. As Figure 13 indicates, Western Europe came a close second to Switzerland as the region IWMs are expecting to drive most growth, so while some firms are looking East for new business most seem to be sticking closer to home. "If a wealth manager is oriented towards servicing or consulting European clients onshore, then it would be extremely helpful from a cost perspective if that wealth manager could sell Swiss investment funds to those in the Eurozone," said Professor Cocca. "If that is not the case, it would be extremely costly to reintroduce these investment funds under European laws and to make them valid in the Eurozone."

READY FOR THE FUTURE?

FIGURE 25

How prepared is your business for the future?



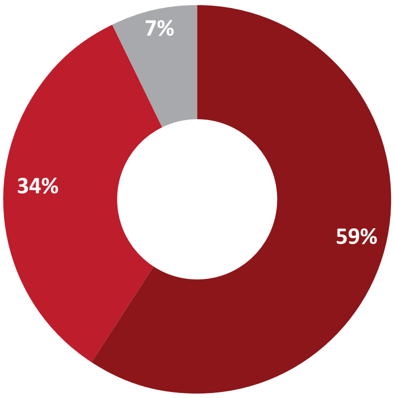
"MOST OF THE INDEPENDENTS ARE STRUGGLING TO OFFER A COMPELLING AND DIFFERENTIATED VALUE PROPOSITION" – PHILIPPE BONGRAND

The panel also pointed out that preparing for the future is contingent on having a fairly good idea of what it will bring – certainty which is lacking at present. Among the myriad uncertainties they pointed to were the possibility of further damage to the Swiss banking system as a result of international tax issues; the implementation of FATCA; tightened oversight in general; and pressure on the IWM sector to come under direct FINMA supervision. These broad challenges – and the many others discussed in this report – will have serious implications for individual business models. A common theme, however, will be significantly increased operating costs.

SOARING OPERATING COSTS

FIGURE 26

Do you expect your operating costs to increase or decrease in 2014?



INCREASE 59%
REMAIN THE SAME 34%
DECREASE 7%

A significant majority of 59% of respondents are bracing themselves for their operating costs to increase next year (34% expect them to stay the same - perhaps at an already elevated level - while a fortunate 7% foresee falls). When the panel were asked to identify the areas in which costs have or are going to rise sharply, having to bring in additional human resources to cope with increased regulation came up repeatedly. "The wealth managers I have spoken to say it is very expensive to stem the increased cost of compliance and that they have to hire more people to cope with areas such as risk and compliance," said Elmar Meyer.

What came through very strongly in the panel discussions was how hard things are for at least some wealth managers. Several panellists spoke of wealth managers worrying if they will make enough money to survive, while others lamented the fact that additional costs are being piled onto businesses which they have little control over. And it looks like human resources costs could rise even higher since, as mentioned elsewhere, MiFID II (the first draft of which is expected next year) is set to impose an element of defined responsibility on wealth managers. Direct FINMA regulation would also bring raise the bar for staffing. "With regard to international developments, self-regulation may no longer be enough and obviously FINMA is a higher standard. You have to employ specialised risk managers and compliance officers, either in-house or outsourced," said Meyer.

Of course, to avoid adding extra salaries to their fixed costs some IWMs have relied on outsourcing. In fact, one panellist suggested that the "classical model" of an IWM is that they have advisors as support staff and then they outsource. Others remarked that the outsourcing market has become really big - particularly for technology, which is also being driven by the regulatory environment. There are a wide range of outsourcing providers and it has also turned into a major growth area for those banks offering platforms.

"IWMS ARE NOW UNDER ENORMOUS PRESSURE FROM THE INCREASINGLY STRINGENT REGULATORY ENVIRONMENT AND ARE GOING TO HAVE TO BEAR THE COSTS OF NECESSARY COMPLIANCE. LOOKING TO OUTSOURCE AREAS SUCH AS COMPLIANCE, RISK MANAGEMENT AND TECHNOLOGY BUILD ARE THREE KEY AREAS WHERE IT COULD CERTAINLY BRING BENEFITS" – SEB DOVEY

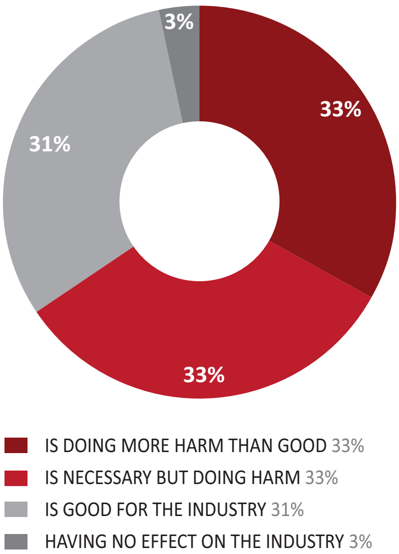
A lot of outsourcing options may be out there, but the survey on which this report is based seemed to show there is scant interest in it relative to other priorities: only 4% of respondents said they will be investing in outsourcing in the next two years to drive business growth, and not one identified process outsourcing as an area needing their special attention. It was pointed out, however, that for the smaller IWMs outsourcing is somewhat of a new concept and so there may be a need for more marketing (and education) from outsourcing providers to make the benefits clear. "There hasn't been a need to outsource in the past as IWMs have relied on the support provided by custodian banks. But with the more stringent regulatory environment and the tax climate there is going to be a need to be more focus on compliance and regulation," said Seb Dovey. "Wealth managers are entering a very different business environment to the one they have occupied for the past 15-20 years."

To some degree, we can attribute the apparent reluctance of IWMs to outsource to the fact that the Swiss IWM sector is relatively unconsolidated and populated in the main by small, disparate organisations (which may also mean that outsourcing providers lack focus). But before criticising IWMs' reluctance to outsource too harshly it also needs to be remembered that outsourcing is no panacea and has to be the subject of a rigorous cost-benefit analysis. Where to deploy resources; whether to go for a third-party platform or in-house development; and whether to in- or outsource expertise are very individual questions for IWMs to answer. It also needs to be said that outsourcing is generally thought to be chronically underused by the wealth management industry as a whole (although it is on the rise).

RISK MANAGEMENT AND COMPLIANCE

FIGURE 27

Is the increased focus on risk management and compliance by banks in Switzerland doing more harm than good for the Swiss wealth management industry?



Operating costs are rising on the back of increased legal and compliance requirements, leaving some IWMs facing serious margin pressures. But do wealth managers feel that the changes happening within the Swiss financial services industry are actually doing any good?

The picture here was very mixed, and in fact the respondents fell into three distinct camps. When asked what they thought Swiss banks' increased focus on risk management and compliance is doing for the country's wealth management industry, 33% of participants said that it is "doing more harm than good". Meanwhile, 32% said it is "necessary, but doing harm" and 31% believe simply that it is good for the industry. Unsurprisingly, just 3% of respondents think the increased focus on risk management and compliance is having no effect.

Whether the Swiss wealth management industry is being harmed or not is a complex issue and this was certainly the subject of some debate among the panel. It is easy to see why the increased focus on risk management and compliance is improving Switzerland's image as a compliant, more transparent financial services centre; what is more contentious is whether clients will ultimately benefit or suffer.

Here, increased costs emerged as a real concern, and not just for institutions. Ramping up risk management and compliance may mean that clients get a better service in the end, but it is they who will probably have to bear the brunt of paying for it, said Meyer. Ease of doing business was also highlighted as a really important factor. "If you increase risk management and compliance in a bank it can have negative consequences. It can increase costs and you can lose clients because they might see it as too burdensome to open an account with a Swiss wealth manager," said Professor Cocca. Another obvious way in which client detriment might creep in is if the wealth manager is so tied up with compliance requirements they neglect their core function of investment management.

It seems as though the Swiss wealth management industry is willing to go along with increased risk and compliance requirements, but only up to a point. This point has to be one where the interests of the international community, the Swiss financial services industry and end-clients intersect. Drawing these lines is extremely difficult given the wildly different agendas of each party, not to mention the factions within them. Several members of the panel seemed to feel that regulation in Switzerland is getting perilously close to "the line" where clients and the industry are damaged.

"It's a major worry that regulations may not be implemented internationally, so there is not a level playing field. The Swiss may be a little bit stricter than others," said Dr Eelco Fiole. Meanwhile, Professor Cocca said that although it makes sense for risk management and compliance to be improved, the regime certainly should not be extended further. "If the regulator keeps the current pace of change then the regulatory burden would come to a point where it would be extremely high. I don't think that would be helpful for clients," he said.

SECTION 7

A NEW FINANCIAL SERVICES ACT FOR SWITZERLAND – A LONG-RANGE FORECAST

CHRIS HAMBLIN
Editor
Compliance Matters

Chris Hamblin is a well-known compliance commentator and editor of Compliance Matters, an international publication covering the the latest regulatory initiatives within private banking and wealth management. Here, he examines how Switzerland's planned Financial Services Act could revolutionalise the industry.

The Swiss financial services industry is going through a phase of intense self-examination in the same sense that the country's other great business, the clock-making industry, did in the 1980s with the appearance of digital timepieces. Switzerland's rulers would have steered their country into the European Union long ago if not for their subjects' tendency to vote the wrong way in referenda. The financial turmoil that began in 2008 (and has never truly ended) is responsible for this latest bout of introspection and one obvious response to the unsettling situation is fresh legislation, in other words a Financial Services Act to revolutionise the way Swiss finance does business. Although plans for a new Act are in preparation, official utterances about it are low-key. In a speech made in September 2013 covering the whole gamut of Swiss finance and what to do about the "ailing" financial services industry, the CEO of FINMA, Patrick Raaflaub, did not mention it once.

The official start date for the legislation was 18 February 2013, when the Swiss Federal Department of Finance issued a so-called "hearing report" on the planned Act, which has not reached the official draft stage yet. Endless committees and consultations are expected to underlie this massive piece of legislation and only a few steps have been taken towards completion so far. On 28 March 2013 the FDF announced that it had received about 50 written opinions on the proposals of the previous month and said that it hoped to produce an official draft for consultation for October 2013. The date for this has been put back until the first quarter of next year, and even now many Swiss lawyers are sceptical about that. It is not expected that the completed Act will enter into force until 2016, when the world may have turned again.

Here is a vague list of suggestions with which the Swiss parliament began earlier this year. Some ambiguities stem from the fact that English is not one of Switzerland's four official languages.

Firstly, the heavy hand of regulation is to become heavier. The so-called hearing report starts by saying that asset managers ought to follow more stringent "rules of conduct" (in British regulation the term is "conduct of business", a term that is linked in to the protection of investors from sharp practice and conflicts of interest). FINMA's definitive version of its "market conduct rules" came into force on 1 October, but these are to combat market manipulation and insider-dealing rather than "investor detriment". There are two ways in which the report envisages progress:

(a) The creation of one or more self-regulatory organisations to supervise asset managers vis-a-vis their new obligations under the "conduct" rules to be set out in the new Act.

(b) FINMA to supervise the same.

The report envisages some sort of enhanced obligation for client advisors to be registered, which they may or may not be already. At the moment, insurance intermediaries and the distributors of collective investment schemes such as UCITS have to be registered.

"ENDLESS COMMITTEES AND CONSULTATIONS ARE EXPECTED TO UNDERLIE THIS MASSIVE PIECE OF LEGISLATION AND ONLY A FEW STEPS HAVE BEEN TAKEN TOWARDS COMPLETION SO FAR"

THE SRO MODEL: PROS AND CONS

The creation of self-regulatory organisations is worth further exploration. Under this option, in order to receive a licence an asset management firm would have to have enough financial assets or surety, an operational organisation that is "fit for purpose" with the corresponding control functions and expert bodies with the necessary integrity led by qualified staff. It would have to observe the rules of the new Act and it would have to belong to an SRO, which in turn would be licensed by FINMA before it could operate.

Even though this is the "softer" of two options in the report (the other being direct FINMA supervision) – or perhaps because it is – it necessitates high barriers to the issuance of a licence. There might be several advantages to this arrangement, however. One might be the greater market flexibility that membership of a small body brings, together with a higher level of acceptance by market participants, as it is the asset-manager's preferred option. Also, every customer could choose whether they wanted to use a provider supervised by FINMA in the present day (e.g. a bank or securities dealer) or one of these hitherto-unregulated financial service providers. This might also be good for the public purse: fees would fund the SROs and FINMA would only have to keep a superintending eye on the SROs themselves. The drawbacks of this option are that the international community is widely thought to have moved on from the SRO model, which the UK abandoned in 2001 and which dates from the US in the 1930s. Under EU law, moreover, investment firms that provide investment services (i.e. asset management services) must always be subject to supervision by central state authorities. The government believes that this would make it difficult for Swiss financial service providers to gain market access to the EU.

> "THE INTERNATIONAL COMMUNITY IS WIDELY THOUGHT TO HAVE MOVED ON FROM THE SRO MODEL, WHICH THE UK ABANDONED IN 2001"

INVESTOR PROTECTION IN PROMOTIONS

In Switzerland, each contractual fund has to publish a prospectus annually. Securities funds, real estate funds and other funds for traditional investments have to publish simplified prospectuses at least and send them off to FINMA, although not all of these need FINMA's approval. The report moots the possibility of mandatory prospectuses for securities (i.e. standardised certificates which are suitable for mass trading, book-entry securities and derivatives). The phrase it uses is "securities offered in and from Switzerland", and it envisages standardised templates for these prospectuses which force issuers to disclose the risks involved and, in the case of every complex financial product, contain (or be published alongside) a "key investor document" or KID that should delineate costs and other things. Any advertising should always be labelled as advertising.

INVESTOR-PROTECTION IN DEPTH

This initiative seems to come from FINMA, which made some "investor-protection" proposals in February last year. In a so-called "position paper" it stated that providers of standardised financial products such as shares, bonds and structured products, should be obliged to draw up a prospectus. It went on to dictate that "this document must contain all the key details of the product and the provider and ensure transparency concerning the risks associated with buying the product".

> "PROVIDERS OF STANDARDISED FINANCIAL PRODUCTS SUCH AS SHARES, BONDS AND STRUCTURED PRODUCTS, SHOULD BE OBLIGED TO DRAW UP A PROSPECTUS" – FINMA

On the related subject of "conduct of business", the legislative proposal is for financial service providers, presumably of all kinds, to have to inform their clients about all service costs before they begin to provide the services. Added to the proposal are things with which UK practitioners are very familiar: an obligation to establish the client's knowledge and experience with respect to the transaction; making their recommendation "suitable"; the avoidance of conflicts of interest between practitioner and client; and transparent remuneration practices that never hurt the quality of the service.

Something akin to the UK's Retail Distribution Review seems to be on the cards. The hearing report calls for disqualification of client advisors who cannot prove that they have had enough training in their products and the prevailing rules of conduct.

The mirror-image of these reforms is an increase in the power that a disgruntled customer has to obtain redress. If a client claims that a financial service provider has broken the rules of conduct, the report insinuates, a reversal of the burden of proof under civil law should apply. This is a revolutionary move, if it is to be made.

To bolster this, the legislators suggest a beefing-up of the Swiss ombudsman service, but in somewhat perplexing prose. They write of giving an ombudsman the right to make recommendations and of forcing service-providers to affiliate themselves with such a person. They also talk of the establishment of a governmental ombudsman who is competent enough to make decisions – a comment which seems to denigrate whoever occupies the post of ombudsman today.

To bolster this, the legislators suggest a beefing-up of the Swiss ombudsman service, but in perplexing prose. They write of giving an ombudsman the right to make recommendations, suggesting that Switzerland is one of those unfortunate countries where freedom of speech does not apply, and then talking of forcing service-providers to affiliate themselves with such a person. They also talk of the establishment of a governmental ombudsman who is competent enough to make decisions – a comment which seems to denigrate whoever occupies the post of ombudsman today.

The underlying message is plain: the machinery that underpins the best interests of the consumer must be strengthened. Not all of the document is ambivalent about ombudsmen's powers, either. At one point the legislators suggest that if an ombudsman concludes that the client's claim is probably justified, the financial service provider should be obliged to pay his costs for the subsequent civil procedure and ultimately to bear them itself, irrespective of the outcome of the case. Another proposal is for the establishment of "independent" (always a loaded word that usually applies to bodies firmly under the control of governments) ombudsman offices to deliberate on cases, with the power to make binding decisions up to a particular disputed amount (e.g. SFr 100,000). The informality of the procedure and the absence of costs would make it easy for customers to stake claims. If the case involved a higher disputed amount, the proposal has the ombudsman limiting himself to expressing his opinion.

CROSS-BORDER TRADE

On the subject of activity that goes on between Switzerland and other countries, there are four main suggestions:

1) that foreign financial service providers should have to comply with the same rules of conduct as Swiss providers if they are providing services from abroad into Switzerland;

2) that they should have to register in Switzerland insofar as their activities are subject to supervision in Switzerland and an entry in the public register (in the language of the report this seems synonymous with a licence to operate) should be tied to the fulfilment of certain conditions;

3) that instead of being obliged to register, foreign financial service providers who are active on either side of the Swiss border could be required to establish branches in Switzerland; and/or

4) that there could be a rule to ensure that the regulation of cross-border financial services provided in Switzerland is no more onerous than absolutely necessary to protect investors from sharp practice and to ensure that the markets function smoothly.

BRAVE NEW WORLD

On the subject of cross-border trade, the hearing report asks the reader two fundamental questions directly. The first is an old one about home/host state regulation, which the EU long ago resolved in favour of the home state. It says: "should foreign financial service providers engaging in cross-border activity in Switzerland have to comply with Swiss rules of conduct or the foreign equivalent?" The second relates to the concept, probably introduced for the first time in the money-laundering field by the USA PATRIOT Act, which requires foreign financial firms to have a presence in the US so that if they break the law the federal authorities have someone to arrest. It asks, rather clumsily: "In order to ensure effective and equivalent protection of Swiss clients vis-à-vis foreign providers, should foreign providers have to establish a permanent physical presence in Switzerland, including supervision, or would the proposed registration ensure an appropriate level of protection?" Such questions are crucial to the modern world of extra-territorial powers in which Switzerland must survive.

A WEIGHTY LAW, A LENGTHY TIMESCALE

It was at the end of March 2012 that the Swiss Federal Council – sometimes called "Switzerland's seven-headed president" as its seven leading politicians collectively represent the pinnacle of the federal state – directed the Swiss Federal Department of Finance to prepare the ground for a new Financial Services Act in conjunction with the Swiss Federal Department of Justice, the police and FINMA. This, on its own, shows how political will for revolutionary change comes from the highest possible level and affects the widest possible audience.

It is still not absolutely clear whether there will be a single mega-law or several smaller ones. The councillors want to see the prudential regulation of all asset managers. FINMA is lobbying to stop SROs operating anywhere other than under Switzerland's anti-money-laundering laws, the better to tighten its grip on mainstream financial services such as asset management. The repayment of retrocession fees (which a bank is paid for distributing third-party products to clients) is a hot issue in the Swiss courts and the extent to which existing court decisions might be generalised in the legislation is unknown. In a test case in January 2012 involving UBS, the Zurich High Court ruled that banks should reimburse fees that they did not earn through the performance of distribution services – a decision upheld by the Swiss Supreme Court on 1 November that year. Politicians are still waiting to have their say on the extent to which the new Act(s) will echo and/or fit in with the European Union's Markets in Financial Instruments Directive. Indeed, one of the questions in the hearing report asks the readers whether Switzerland should adopt the EU's regulatory provisions "unchanged" or whether it should design its own regulation differently and in what areas. There is still everything to play for and the timescale is phenomenally long.

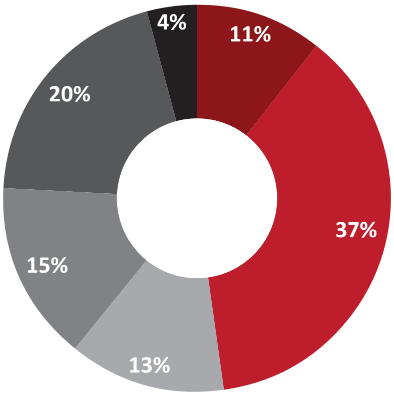
"THE UNDERLYING MESSAGE IS PLAIN: THE MACHINARY THAT UNDERPINS THE BEST INTERESTS OF THE CONSUMER MUST BE STRENGTHENED"

SECTION 8

FEE MODELS: TRENDS AND DEBATES

FIGURE 28

Which fee models do you currently apply in your business?



- TRANSACTION-BASED FEES 11%
- AUM-BASED FEES 37%
- HOURLY-BASED FEES 13%
- FIXED MANDATE FEES 15%
- PERFORMANCE-BASED FEES 20%
- OTHER FEE MODEL(S) 4%

The survey participants were asked to select all the fee models which their business currently applies and on average they selected two each. AuM-based fees accounted for 37% of the responses and performance-based fees for 20%. Fixed mandate fees (15%) and hourly-based fees (13%) came next, while just over a tenth (11%) of responses indicated transaction-based fees and 4% “other”. Seb Dovey suggested that this spread may be due to the background of wealth managers themselves, because those setting up an independent firm after having built up a client book at a bigger institution are likely to stick to what both they and their clients are used to. But although the sector is diverse when it comes to fee models, AuM- and performance-based stand out as the two most widely chosen pricing methods.

MODELS BASED SOLELY ON AUM OR PERFORMANCE

The panellists were unsurprised that AuM-based fee models predominated, with several expressing surprise that the 37% figure wasn’t actually higher. “AuM is high as this is the way the whole of the wealth management industry has traditionally charged - it’s simply a question of what’s been done in the past,” said Dovey. Indeed, Osmond Plummer said that the total of just under 40% for AuM-based fees was a “pleasant surprise”.

But while AuM-based fees seem to be the norm, the panel expressed mixed views on whether this model is in the best interests of clients and how they might feel about being charged like this. One panellist remarked that AuM-based fees are the least fair method of charging because “it just says if you’re rich then we’re going to charge you a lot of money” – regardless of the complexity of the package provided or the performance delivered. Conversely, other members of the panel believe that clients actually feel far more favourably towards the AuM model as it is simple, transparent and gives them control. “It’s easy, it’s calculated on a monthly basis and they don’t have to discuss it,” said Matthias Memminger, adding that “it’s the one they feel they have the most control over”.

“PERFORMANCE-RELATED FEE MODELS AVOID ANY POTENTIAL CONFLICT OF INTEREST BETWEEN THE CLIENT AND THE INVESTMENT MANAGER. IF THE PEFORMANCE GOES WELL THEN THE COMPENSATION WILL BE EQUALLY AS GOOD”
– ROBERT HEMMI

Since IWMs trade on a greater alignment of interests with clients and providing independent (and often specialised) investment advice, it is reasonable to expect performance-based fees to form an important part of the IWM model. But while a performance component is likely to be attractive to clients, the panellists were doubtful that many IWMs at all will have opened themselves to the risk of being paid solely on the basis of performance. One said “there would be *no* wealth manager that would only charge a performance-based fee” and it seems likely that performance is being used in combination with other models in most cases.

It was also pointed out that it can be difficult for firms to achieve and evidence consistent outperformance over a meaningful period of time. As Memminger pointed out, “if you cannot provide a true track record of your performance in the market, no client will pay for it”, and this will be an even bigger issue for the 12% of firms which are less than two years old. It was also suggested that performance-only models can hinder a business since, in the words of Dr Fiole, “wealth managers strive for a higher earnings quality and would not want to be too dependent on fluctuating performance figures...they prefer to have a recurring stable revenue stream”.

"THEORETICALLY, A FIXED RATE AND A PERFORMANCE COMPONENT INCLUDING CLAW BACK WOULD BE IN THE BEST INTERESTS OF CLIENTS. FOR WEALTH MANAGERS IT'S BEST, TO HAVE AN AUM-BASED FEE AND/OR TRANSACTION MODEL PLUS A PERFORMANCE FEE WITHOUT CLAW BACK" - DR FIOLE

COMBINING AUM- AND PERFORMANCE-BASED FEES

It seems likely that a significant proportion of Swiss IWMs are using a combination of AuM- and performance-based fees (akin to the hedge fund model). Most of the banks don't have a performance element in their fees, and this is therefore a powerful differentiator, particularly since many IWMs will probably want to emphasise outperformance relative to the more commoditised investment management offerings of the big banks. The fact that IWMs tend to charge lower flat fees than banks and then a performance fee on top helps them to stand out, said Bruce Weatherill. However, Dovey expressed doubts as to whether performance fees are relevant unless the firm is doing something specifically differentiated to warrant them.

Furthermore, while the panellists agreed that fee models with a performance element might be in the best interests of clients, they questioned how good this is for wealth managers themselves in terms of complexity. Dr Fiole pointed out that putting a performance component into fee models can actually cause some problems. Not only will an element of client education probably be needed, but reporting will have to be more rigorous in terms of performance attribution and so on and that may require investment.

That said, several panellists noted that while applying combined fees might be more complex this is the kind of tailoring clients really value and is probably something they will expect in the higher end of the market. "Best-in-class firms can afford to be pretty sophisticated in the way they deal with clients and have capacity to deal with that issue...the solution that they usually come up with is one that is best for the client," said Memminger. Stephen Wall cautioned however that clarity is key if IWMs do opt to have a performance element in their fee schedule. "They need to be clear about what their performance mechanisms are, what their performance is, what it is relative to," he said. "The industry needs to evolve in its sophistication in measuring and portraying that to the clients. This was not in my view a particularly performance-orientated industry or jurisdiction previously."

While the IWM industry may be becoming more focused on demonstrating investment performance, some contributors expressed concerns about how performance-based charging might skew things against the client. "From a client viewpoint the hedge fund model is a highly disadvantageous because it's open and hidden costs are far too large compared to the expected return," said Christian Nolterieke, adding that having a performance element to compensation might motivate a wealth manager to think short-term and take greater risks to enhance returns. It should also be remembered that in general terms the clients of IWMs have historically prioritised wealth preservation over stellar returns.

> When asked what they think their USP is for new clients, just 1% of IWMs selected pricing. Becoming more affordable for clients received 7% of the votes on why firms are changing their fee models.

TRANSACTION-BASED AND FIXED MANDATE FEES

The survey revealed that transaction-based fees are the least commonly applied model among Swiss IWMs, but the fact that they still attracted a tenth of responses indicates that at least some firms use this model in combination with another. That transaction-based fees didn't figure higher was unsurprising to the panel since IWMs would certainly want to avoid clients thinking, however erroneously, that their portfolios were being "churned" for profit. A model which seems to reward a wealth manager for increased transaction volume sits poorly with the alignment of interests piece and from a branding perspective it might also be seen to somewhat low-end due to its association with execution-only. It was also pointed out that transaction fees could be tangentially linked to broad market performance, since average transaction sizes will increase as assets grow, and this could be bad for client relations. Indeed, many hold that transaction-based models are only good for clients who wish to carry out a limited and foreseeable number of transactions.

Fixed mandate fees received 15% of the votes, which the panel suggested was due to the fact that IWMs are applying this model to certain activities like family offices services. As Figure 5 shows, family office services are the most third most common business activity of Swiss IWMs (after discretionary and advisory asset management services). We could also speculate that family office services might be an addition at many of the 46% of firms which are planning to bolster their offerings next year.

While fixed mandate fees are not the most commonly applied fee model, Soudah and Plummer raised the fact that fixed-mandate fees can be advantageous to firms because when asset values drop they do not suffer in sympathy (although the reverse also applies of course). Currency fluctuations can also be a factor. "You had the situation with the banks in 2010/2011 when the Swiss franc rose 30% against the dollar, causing a significant reduction in revenues. If you are billing in a percentage of dollar portfolio, as most are, that is not a sustainable business model," said Plummer. Psychology is also important. Clients like the fact that they don't have to pay more when their assets rise, Soudah said. "Clients get fed up with paying so much so they negotiate an annual fees, a fixed fee for their account within reason of assets under management," he said. "The larger clients do not like to be punished for improvement in the stock market, which the AuM model does, so they go for fixed fees. Broadly speaking these are used by larger clients in negotiating down fees. They tend to favour clients more than they favour the wealth managers." It was also highlighted that having no surprises makes sense from a business management perspective. "Fixed fees favour those wealth managers - and clients - who don't like volatility in their fees," said Soudah.

COMMENT: FIXED FEES AND FAIRNESS

Max Thowless-Reeves, a former relationship manager at a Swiss bank who subsequently founded UK multi-family office, Sorbus Partners, argues for fixed fees as the fairest method of charging clients.

Clients need to develop a clear understanding of the layers of fees they are subject to and the resulting damage to their portfolio's total return. They should know that fees can originate from several sources - custody and platform, dealing, advisory or discretionary and asset management and product distribution - and that some fees might be aggregated. For example, custody might be "free" if you pay a 0.5-1.5% advisory fee.

The acid test for most of these components that any private client should think through is, does the cost double for my provider if I double the size of my investment? What if I held £1 million worth of a particular company's shares in custody, rather than £500,000 worth? What if I place a deal of £1 million versus £500,000? What if I add another £500,000 to my existing £500,000 under management? The unspoken truth is that there is basically no difference in cost to the investment manager to provide these services for the larger size.

The second point to note, and this is particularly relevant to IWMs' trusted advisor model, is that evidence shows that transaction fees, product fees, performance fees and ad valorem fees can all contribute to creating asymmetric incentives – where the interests of the advisor and the advised are misaligned. When there is a misalignment eventually bad stuff happens to clients. Minimising the misalignment should be one of the central considerations when using any wealth manager.

HOURLY FEES – THE WAY FORWARD?

Hourly fees seem to be relatively unpopular at present, accounting for only 13% of responses, but a significant proportion of the panel argued that this is the best option for clients, individual firms and the industry as a whole. For Dovey, the issue comes down to wealth managers being able to demonstrate value for money and he believes that this is far easier with an hourly fee rather than with an all-in fee that covers a multitude of different aspects to the service. He also sees a move towards hourly fees as being key to the continued professionalisation of the industry, bringing wealth managers more into line with lawyers and accountants. Additionally, Weatherill pointed out that there are elements of the wealth management service mix – like wealth structuring – where hourly charges are self-evidently the most appropriate approach. "If the client agrees to an hourly fee, it probably is not an asset management activity but more something they asked the investment manager to *do*," he said. "If the investment manager provides tax services to clients, hourly fees make a lot of sense," added Robert Hemmi. Wall, meanwhile, suggested that hourly fees might be an important part of IWMs' quest for greater profitability going forward.

"If they want to start extracting more value from clients, for instance, from being an advisory shop or by having more planning elements around an individual's wider wealth needs, then you can see time-based charging coming into play," he said.

The move towards upfront fees for time spent is already underway in the US and the UK. In the latter case, the regulator's Retail Distribution Review reform package has banned advisors from receiving commission payments from product providers in a bid to make investment advice more transparent and independent. In the UK there has been much talk of lower-value clients falling into an "advice gap" since people might be unwilling to pay an upfront fee for previously "free" counsel. However various studies have shown that many clients are in fact happy to pay for advice and the industry doesn't seem to have been as damaged as some predicted it would be. In fact, Dovey believes that most clients understand and support moves towards hourly fees as it gives them a greater understanding of the value they are getting from their advisor.

"I DON'T THINK SWISS WEALTH MANAGERS WILL INITIALLY TRY TO GO DOWN THE HOURLY ROUTE. THEY WILL LIKELY STICK TO WHAT THEY HAVE ALWAYS DONE" – SEB DOVEY

BARRIERS TO ADOPTION

While a significant proportion of the panel are convinced that hourly fees are the way forward, they conceded that few firms would go down this route without pressure from either the regulator or clients. In contrast to Wall's earlier comment, several of the contributors said that profitability concerns are likely to be a significant barrier against firms going for hourly fees; they also alluded to the fact that fees charged in this way may seem excessively high to clients. "I don't think Swiss wealth managers will move towards an hourly-based fee model. They have no incentive to switch to an hourly model as they would lose profit," said Professor Cocca. "We worked out in a study that Swiss wealth managers would have to charge SFr1,000 per hour in order to maintain their current level of profitability." Memminger also said that firms are probably fearful of changing their fee model and then clients questioning the hourly rate and how much time is being spent, noting that "transparency isn't always easy for the provider".

"CLIENTS ARE USED TO A CERTAIN TYPE OF A PRICING MODEL AND IT TAKES A LOT OF TIME TO CONVINCE THEM TO CHANGE TO A NEW ONE" – PROFESSOR COCCA

Interestingly, several of the panellists believe that clients might actually be resistant to hourly-based fee models since they are used to paying AuM-based fees or because they might prefer to go on perceiving advice as being "free" (particularly as retrocession payments have historically often not been disclosed). "If you offer clients an hourly fee model, most of them would rather use an asset-based pricing model. They have the impression that the consulting service is free and that they just pay for the products," said Professor Cocca. (Here we could note the tendency of Chinese clients to want charges to be "hidden"; they know that there are charges but just don't want to see them, it was said). "There is a resistance in the client base and it is difficult, even for new players offering hourly fees to attract client share. I'm very sceptical about an hourly fee model attracting market share in Switzerland," Professor Cocca continued.

Ray Soudah pointed out that actually the term hourly-based fees might be a misnomer since the time allocated to a client cannot be quantified meaningfully in that way. The client is paying for good decision-making, in his view. A decision might take a relatively small amount of time to make but will be backed by years of investment experience and that is what we're trying to put a price on (along with all the capabilities required to execute thedecision). It is also the case that activities such as monitoring the markets will be carried out on behalf of an advisor's whole client book in large part and trying to attribute a portion of this strategic thinking to individual clients is impractical.

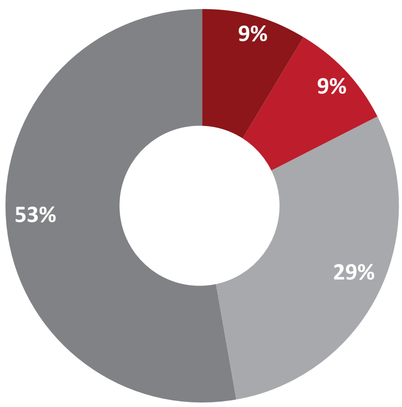
"THERE WILL BE INCREASING PRESSURE ON COMPANIES TO DEMONSTRATE VALUE FOR MONEY AND THAT IS GOING TO BE A BIG ISSUE. IF YOU ARE CHARGING AN HOURLY RATE, THAT MODEL IS POSSIBLY VIABLE. BUT IF YOU ARE TAKING 1% FOR THE PRIVILEGE OF LOSING CLIENT MONEY, AT SOME POINT THEY ARE GOING TO NOTICE" – OSMOND PLUMMER

Hemmi argued that time-spent fee models can only really be applied meaningfully to tax advisors, lawyers and accountants, and one cannot really apply it to asset managers. Others, however, were more confident of the attractions of time-spent fee models - particularly as a differentiator for IWMs. "Certain established banks may have much to lose from changing their pricing model, but I think you will find newer entrants or the smaller independent boutiques doing this and using alternative models more and more," said Dr Fiole. Plummer puts the cases more strongly, arguing that Swiss wealth managers are going to be forced to adopt time-spent method, despite the fact that it is likely to significantly reduce revenues. "I think Swiss wealth managers will resist at all costs going down the hourly route that has occurred in the UK as a result of the RDR, but I think ultimately they will have to do it because clients will demand it. As lower fees benefit clients, there is a conflict of interest between clients and managers," he said.

KEY DRIVERS FOR CHANGE

FIGURE 29

Do you intend to change or have you recently changed your pricing model?



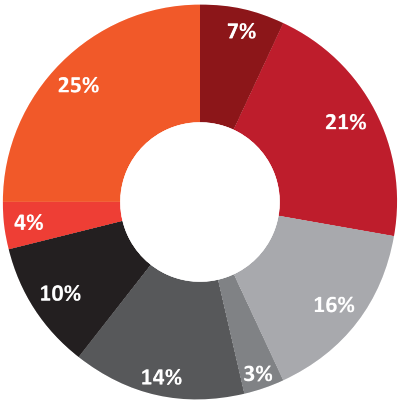
- YES, I WILL CHANGE IT IN THE NEXT 12 MONTHS 9%
- YES, I HAVE CHANGED IT IN THE LAST 12 MONTHS 9%
- YES, I CONSTANTLY ADJUST IT 29%
- NO 53%

While over half (53%) of respondents have no plans to change their pricing model, the survey found that around a tenth of IWMs have changed their pricing model in the past year and the same proportion plan to in the coming 12 months (30% report constantly adjusting it). The move away from retrocessions is a big driver of change, firstly because the banks are stripping them out of their models and the high-profile debate on the issue will have undoubtedly prompted clients to ask more questions about how they are charged (and their wealth manager remunerated).

The survey participants were asked to select all the aims they would be trying to fulfil by changing their pricing model. Transparency accounted for 21% of the responses and we could surmise that this is highly correlated to the move away from retrocessions. In this context it is interesting to note that fairness only accounted for 3% of responses, although some might argue that being fair is not really the concern of a business which is run for profit and which market forces should make competitive. Meyer meanwhile pointed out that "transparency and fairness should go hand in hand" since clients can make only make an informed judgement as to whether they are getting value for money (being treated fairly) if charging is transparent.

FIGURE 30

If you aim to change your pricing model, what are you aiming for?



Aside from satisfying regulatory requirements, transparency over charging is of course essential for building trust and demonstrating value - and therefore doing more business with clients. In fact, several of the panellists said that the fee model a wealth manager applies isn't that important, as long as everything is made perfectly clear to the client, i.e. so that all parties are aware of the fees charges and what is covered by those fees so that the client can make an informed judgement.

The second most commonly cited motivator for altering pricing models was MiFID II compliance. It is unsurprising a number of respondents explicitly cited this massive piece of legislation in light of the planned Swiss Financial Services Act (see page 33), which is said to be intended to bring the Alpine state's financial services industry in line with MiFID II. General MiFID compliance will of course be an even bigger concern for those firms targeting cross-border Western European business.

One interesting point to note on drivers for change is that reflecting value-added performance came in behind making pricing more clearly based on performance (at 10% versus 14%). Whether IWMs are focusing on relative or absolute performance, and which benchmarks they are using, would seem to warrant further investigation - particularly since 12% of respondents see performance as their USP and 14% selected investment strategy.

RETROCESSIONS: IS AN RDR-STYLE BAN ON RETROCESSIONS COMING?

In 2012 UBS lost a civil case brought by a private client which may have huge ramifications for the Swiss wealth management industry in general and IWMs in particular. The Zurich High Court and subsequently the Swiss Supreme Court ruled that banks should reimburse retrocession payments to clients with whom they have an asset management agreement, unless those fees had been received for genuine distribution services. There is a possibility that repayment could be applied retrospectively and to all Swiss banks.

The full ramifications of the decision have yet to play out. The ruling introduced precedent in civil law effectively banning retrocessions, but how strongly this is incorporated into legislation remains to be seen. Some expect the Swiss Financial Services Act to ban retrocessions outright while others believe the use of retrocessions will simply become more transparent.

The Swiss Financial Services Act is understood to be partly aimed at bringing Switzerland into line with MiFID II, which itself is still being hammered out and isn't expected to be adopted before 2015. One of the sticking points of working out the text has been whether to opt for full transparency over inducements rather than an outright ban.

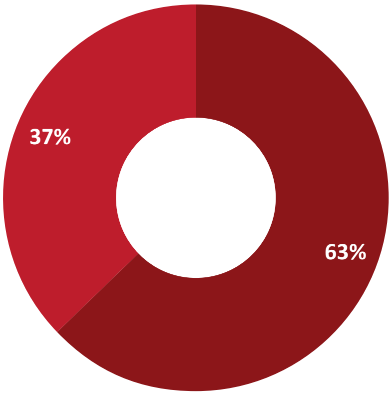
If a ban on inducements did pass into Swiss law, some IWMs could be hit very hard indeed as, according to Wall, retrocessions currently account for 38% of Swiss IWMs' overall income. "The industry has got a huge issue with retrocessions," he said. "They are seriously in danger of being removed from the model".

SECTION 9

IT INVESTMENT REQUIRED

FIGURE 31

Have you recently considered investing in IT improvements?



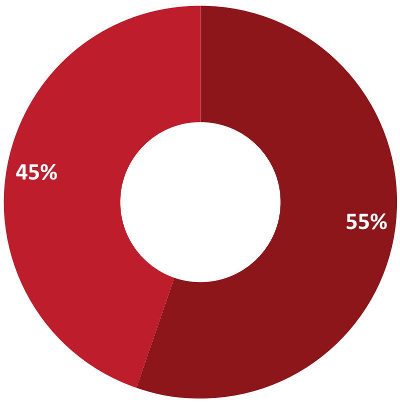
Technology enhancements have the potential to improve virtually every element of a wealth manager's business, helping them to increase operational efficiency and fine-tune the investment process while also enhancing client experience. But, right across the industry, it is increased regulation which is really driving technology investment as wealth managers grapple with a growing array of new regulations. So while technological solutions can certainly seem expensive to small wealth managers, the contributors viewed investment (or partnering in some way) as absolutely necessary – particularly for those providing cross-border services and which need to comply with supranational reporting requirements like FATCA. "You basically have two options if you want to make yourself compliant with the new regulations, and that is via manpower and/or IT tools that facilitate controls," said Elmar Meyer.

Increased transparency is - or at least should be - driving technology improvements on several fronts, the panel said. Like most of the experts, Osmond Plummer believes that tax compliance is "the big thing for the future" and that it is going to force a greater reliance on technology right across the sector. Meanwhile, Professor Teodoro Cocca noted that - although regulatory pressure will certainly increase the need for clean and efficient processes – wealth managers also need to be aware that tax-transparent clients tend to be more active investors. They will therefore probably demand more in-depth and regular reporting on portfolio performance and risk. "I'm not sure everyone in the market has the skills to deal with these sophisticated clients," he warned.

PORTFOLIO MANAGEMENT SYSTEMS

FIGURE 32

Do you use portfolio management software for your business?



The survey revealed a stark split between the 55% of IWMs which use a portfolio management system and the 45% which do not and are presumably relying on spreadsheets.

The panellists were surprised that quite such a high number of wealth managers are operating without a portfolio

"I THINK THAT PORTFOLIO MANAGEMENT SOFTWARE NEEDS TO BE LOOKED AT IN A BROADER WAY THAN JUST PORTFOLIO MANAGEMENT AS SUCH. THERE SHOULD BE FUNCTIONS IN THERE THAT RELATE TO BESPOKE CLIENT REPORTING, PORTFOLIO SIMULATIONS AND OTHERS. THIS IS NOT JUST ONE SYSTEM FOR ONE ISOLATED ASPECT OF THE FIRM" – DR EELCO FIOLE management system, although some suggested that the high figure might be partly due to firms having developed capabilities in-house (they may not count these as a "system" in the same way as one produced by an external IT vendor). Even taking this possibility into account, the number of firms lacking a portfolio management system is still likely to be high, the panellists said, due to cost considerations. As Stephen Wall pointed out, "there is a general environment of rising costs and it's expensive to have a decent technology platform".

As well as costs, Dr Eelco Fiole suggested that the low use of portfolio management systems among Swiss IWMs could be partly due to the fact that in the days where governments had a lower focus on their citizen's tax situation firms were focusing their resources on acquiring assets. With the emphasis now more on the transparent management of declared assets the business of actively running money has come more to the fore. In Wall's view, as Switzerland now has to compete on a like-for-like basis with onshore markets the country's IWM sector "has to move towards performance, communication and advisory". But this shift in model "creates big infrastructure challenges", he cautioned.

Portfolio management systems might not be essential in a literal sense, as it is possible to run a firm solely with spreadsheets, but the panellists (and other technology experts who contributed to this report) highlighted the limiting effect this has on a business. "The need for a portfolio management system is a function of volume to a large degree," said Daryl Roxburgh, global head of BITA Risk, adding that while a few large accounts can be managed on a manual basis this soon becomes untenable. Considering that 58% of the survey participants expect to be managing more assets in 2014 and 67% think they will have more clients, capacity is clearly going to be a big issue.

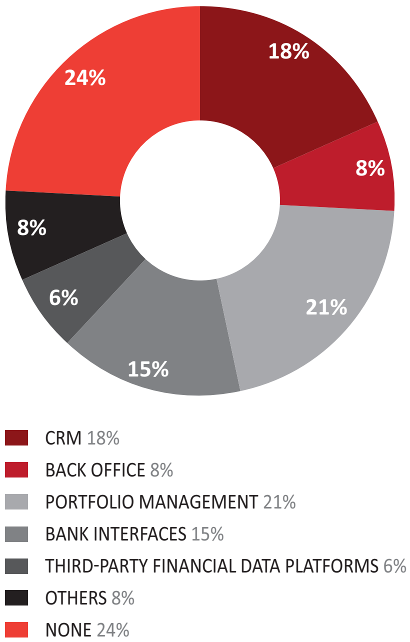
Roxburgh also drew attention to the fact that relying on spreadsheets makes it harder for wealth managers to demonstrate how they generate value through process, and deliver consistency – and we should remember that investment strategy and performance emerged as "second string" USPs for Swiss IWMs, after trusted relationships. "Spreadsheets won't give you the kind of sophisticated process and reporting clients now expect you to have. You can create performance attribution spreadsheets but when you start looking at all the transactions life becomes very difficult," he said.

Dr Fiole additionally believes that trying to do without a portfolio management system disadvantages the client "because there is not enough factual intelligence going into the investment advisory and decision process". In his view, technology vendors need to improve their marketing efforts and make the value proposition of their products clearer to the wealth managers and potentially their clients they target. "It [software] looks expensive at times and it is difficult to translate it into investment results. However, if you do not have it and the markets go through a downturn, then it will be strikingly obvious who has it in place and who does not, and also who was able to limit or recoup losses," he said.

"TECHNOLOGY AND REPORTING ARE GOING TO GROW IN IMPORTANCE AS CLIENTS ARE DEMANDING THAT THEY DO NOT WANT TO DEAL WITH AN INSTITUTION THAT IS BEHIND THE TIMES, AND I THINK FROM A TECHNOLOGY AND REPORTING PERSPECTIVE THEY ARE" – STEPHEN WALL

FIGURE 33

Select the IT area most in need of investment within your business



While a lack of portfolio management systems does seem to be holding a significant proportion of the industry back, Swiss IWMs are cognisant of the need to improve their technology and many are apparently on the cusp of doing so. Well over half (63%) of respondents have considered investing in IT improvements recently. In terms of the areas of IT most in need of improvement, portfolio management and CRM systems came out in front, with 21% and 18% of the votes respectively.

The panellists noted that cutting-edge technology has only really come onto the radar of the Swiss IWM sector quite recently, and the fact that only 1% of respondents see technology as a USP suggests that IT is still not front of mind. Interestingly however, the panellists pointed out that technology improvements can have a huge impact on the selling points modern firms and independents have to emphasise - namely investment expertise, performance and trusted relationships. Portfolio management systems are invaluable for delivering and *demonstrating* the former two and CRM systems can be a great boost to forging the latter. Effective client data management is going to be particularly essential at a time when Swiss IWMs are growing their client books and scouting for business in new markets. Sophisticated CRM systems help build a fuller picture of the client and their needs, but they also facilitate proper client planning so that wealth managers can schedule appropriate (and interesting) contact points with clients. "CRM coming out at the front is interesting - this is about the evolution of client expectations. Having a CRM system allows wealth managers to have a better package through which they can communicate and understand their clients, and interact with them," said Stephen Wall.

While portfolio management and CRM software are priority areas of investment, several contributors highlighted the need for firms to look at software in a broader way which encompasses enhanced reporting and simulation capabilities – both of which speak directly to the move towards "performance, communication and advisory" mentioned by Wall earlier in this section. Small Swiss IWMs might perhaps view mobile onboarding applications or other new technologies as an unnecessary expenditure but return on investment could be seen in pretty short order, the panellists said. The fact that so few IWMs see IT as their USP to new clients could be turned to an innovative firm's advantage, in making client meetings and reporting much more engaging, for example. "We always say that it's much better to spend your time *using* the data – in discussions with clients - rather than *preparing* it," said Roxburgh. "If you want to maximise the efficiency of your highly-skilled and expensive employees you have to have processes in place."

"INVESTMENTS IN TECHNOLOGIES ARE NOT A NICE-TO-HAVE BUT A MUST-HAVE FOR WEALTH MANAGERS. APPLYING THE RIGHT TECHNOLOGIES WILL REDUCE COSTS, EASE COMPLIANCE MATTERS AND ATTRACT AND ENGAGE CLIENTS. THEY ALSO INCREASINGLY DEMAND TECHNOLOGY-DRIVEN INTERFACES AND COMMUNICATION CHANNELS LIKE MESSAGING, MOBILE APPS AND DIGITAL VAULTS" - CHRISTIAN NOLTERIEKE

BANK INTERFACES

While portfolio management and CRM systems are the areas of IT IWMs feel are most in need of improvement, bank interfaces also got a significant 15% of the votes. According to Wall, inefficiencies in bank interfaces are indeed a big issue, firstly because the data IWMs are trying to pull together is often not automated and secondly because the various data feeds are likely to be in disparate formats. Having to manually consolidate these feeds into a spreadsheet is, in his words, "a major headache" since it is time-consuming, prone to human error and doesn't allow wealth managers to be efficient in reporting.

The situation is further complicated by the array of custodian relationships an IWM might have, Wall continued. "They might have their core group [of custodians], but then they might have 10 to 20 other relationships with banks and if they want to get data from all of them they need an interface, which is expensive," Wall said. Meyer, meanwhile, believes because bank interfaces are such a pain point they could be a real differentiator for banks looking to provide a platform for IWMs. He said that in order to attract IWMs today banks have to offer a state-of-the-art platform and this might push some smaller players out. In fact, he predicts custodian banks could soon be engaged in a "platform battle" – both among themselves and with other platform providers. On this point, Roxburgh noted that third-party administration platforms have become fully embedded in the UK and US wealth management industries and so we can expect the same to happen in Switzerland. He also noted that cloud-based solutions have levelled the playing field significantly for smaller firms, opening up tools and processing power which were previously the preserve of only large organisations.

Back-office systems and third-party financial data platforms were the least-commonly selected areas for improvement, receiving 8% and 7% of the votes respectively. According to the panel, this is as expected. In the former case, it was said that back-office efficiency isn't much of an issue for IWMs until they get larger, while in the latter they said that wealth managers might be content (at present) to save money by relying on a combination of data sources. What did somewhat shock the panel was that nearly a quarter of participants see no area of IT in need of particular improvement within their business.

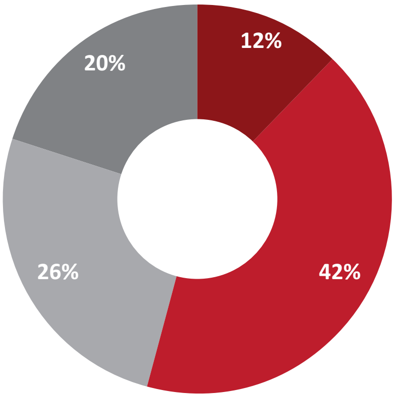
Overall, the panel said that it's going to be difficult - if not impossible - for IWMs to grow their businesses and differentiate their offerings without recourse to cutting-edge technologies. Wall said that factors like the increased complexity of the market, raised client expectations around data, reporting requirements and risk mitigation mean that "technology is just going to have to be part of the proposition", while Dovey pointed out that this is a transition the whole industry is embroiled in. "For all wealth management businesses IT is going to be the key to improving processes and efficiency, and I don't think the independent wealth manager is going to be immune from that either," he concluded.

SECTION 10

SUCCESSION AND CONSOLIDATION

FIGURE 34

How many years has your current business been in operation?



UP TO 2 YEARS 12%
OVER 2 YEARS BUT UNDER 10 YEARS 42%
OVER 10 YEARS BUT BELOW 20 YEARS 26%
OVER 20 YEARS 20%

A SELLER'S MARKET?

The reader survey not only revealed that a fifth of the Swiss IWMs surveyed are very mature businesses, having been in operation for over 20 years, but also that new start-ups have continued to launch in the past few years, despite the upheaval the industry has faced.

The longevity of these 20% of very mature businesses is a testament to the robustness of their models over the decades since the IWM boom began. However, as discussed on page 13, many of the leaders of these businesses are now likely to be approaching retirement age and so will be looking at their options. But ageing is far from the only factor which will prompt exits, and whether the Swiss IWM sector is in fact a buyer's or a seller's market is more complex than at first might appear.

The panellists said that the additional compliance burden is a huge factor for the industry as a whole, but particularly for small players. As Elmar Meyer pointed out, the bigger banks have economies of scale while the smaller players have to spend far more per client on things like compliance and risk. "Compliance is a bigger issue for smaller outlets because of their fixed cost. It has increased constantly over the last three years and it is going to be difficult for a small wealth manager to survive or to make the same profit as before. This leads to consolidation in the market," he said. As we see from Figure 26, 59% of respondents are bracing themselves for their operating costs to increase next year, 34% think they will stay the same (presumably at an elevated level) and just 7% foresee them falling.

"SUCCESSION PLANNING IN A SOPHISTICATED SENSE PROBABLY HAS NOT HAPPENED IN MUCH OF THE MARKET. THEY ARE ALSO BEING HIT BY A REAL CHANGE IN THE MARKET ENVIRONMENT AND IT IS MUCH MORE DIFFICULT TO DO BUSINESS"
– STEPHEN WALL

Looking ahead, we see that quite a significant 16% of respondents said they are insufficiently prepared for the future and over a third have a gloomy view of the future business environment for wealth managers in Switzerland. These figures suggest that for some at least an exit is looking increasingly attractive. But while age or the increased challenges facing the sector might be making Swiss IWMs take a long, hard look at their businesses, the panellists argued that achieving a sufficiently profitable exit might be tricky for many – despite the fact that there seem to be more buyers than sellers today.

DEPRESSED PRICES

Matthias Memminger's view is that many wealth managers are hungry for growth and see buying up the client books of retirees (and others exiting for different reasons) as a fast way to bulk up. Indeed, 18% of respondents said that acquiring other wealth managers will be the primary source of growth for their business next year. But while buyer demand is strong, he said that this isn't translating into premiums since valuations are largely driven by how much profitability can be extracted from the client base, and that has gone down. "Ten years ago an IWM would probably be able to extract 150 basis points, whereas now this would be around 100, and that's driving valuations down," Memminger said, adding that while there may be a rise it will not be massive. Along with decreased profitability, Stephen Wall believes that prices for many wealth managers are depressed because undeclared assets might still make up a big proportion of their books. Therefore "buyers are not going to be paying great amounts for the business, if anything at all", he said.

Although the data suggests that many wealth managers are open to exiting, Wall suggested that some are holding out because of the difficulty of achieving the valuation they had in mind. He, along with several other contributors, believes that many wealth managers are now allowing their businesses to run their course to a natural winding-up point. In his words, they are "extracting value from the business until the point at which they can do no more". The fact is that the longstanding clients of the older wealth managers will have aged along with them and so securing net new business will have to be a priority for those wishing to carry on. However, a gradual tapering off of business might be quite appealing for those wealth managers looking to gradually scale back from working in the same style – and there will doubtlessly be some in this situation.

"THE NEXT GENERATION DOES NOT BY DEFAULT SEE ANY NECESSITY TO CONTINUE THE RELATIONSHIP WITH THE SUCCESSORS OF THE WEALTH MANAGER – IF THERE IS ONE IN THE FIRST PLACE – AND WILL AT LEAST START TO SHOP AROUND" – CHRISTIAN NOLTERIEKE

An ageing client base will of course be taken into account by a potential buyer, not least because of the outflow of assets which typically accompanies intergenerational wealth transfer. But it was also suggested that longevity of relationships might play against a firm in an internal succession scenario too. We can assume that the clients of independent wealth managers value a durable relationship and will stick with a trusted advisor and firm for decades. But over the course of the years the client's profile and needs are likely to have changed quite dramatically and they may take the exit of the business leader as an opportunity to review their options and perhaps find a more suitable provider for their current needs. It cannot be assumed they will stay with the same firm with a different wealth manager servicing them.

Of course, these kinds of issues will have been on the minds of forward-thinking business owners for some time. They may have been grooming successors from within the business by encouraging employees to take on more of a lead role with clients. They may even have been consciously servicing clients on a collegiate basis, much in the same way that many large institutions deploy a "team banking" approach in an attempt to make the institution – rather than the individual advisor – "own" the relationship with the client. In such cases internal succession will naturally be far smoother. For Wall, the question of how well set up a business is to be transferred to new leadership is a key one.

PARTNERING UP AND REVAMPED BUSINESS MODELS

The challenges which are encouraging exits from the industry are also encouraging smaller firms to partner up to share the costs of compliance, risk, IT, human resources, office space research and so on. It seems that operating under an umbrella partnership or joining a platform will be an increasingly attractive option for many wealth managers, but, as several panellists remarked, this is likely to lead to further consolidation.

While it is easy to think of consolidation as a negative, the panel did point out that a healthier industry will probably emerge from the process. One benefit highlighted by Dr Payer was that the sector is likely to become more inclined towards outsourcing as it consolidates to create fewer, larger independent wealth managers. "An important factor determining spending [on outsourcing] is size. An independent wealth manager with three people will be completely different to a boutique or family office with 20 or 30 people, she said. "The more consolidation you have in an industry, the more outsourcing you have and Switzerland is still in the early stage," she said. We could note here that only 4% of respondents said that they will be focusing investment on outsourcing in the next two years.

It seems that moves towards partnerships, platforms and outsourcing are part of a broad revamping of the industry which will lead to "pure independence" playing a reduced role. Culturally, this transition may be slightly problematic but several of the panellists said that IWMs are going to have to accept that they need additional support if they are to be successful – particularly since going forward they will be competing with new entrants which will have aligned their business models to take advantage of, rather than just cope with, the new business environment.

HOW MUCH CONSOLIDATION IS COMING?

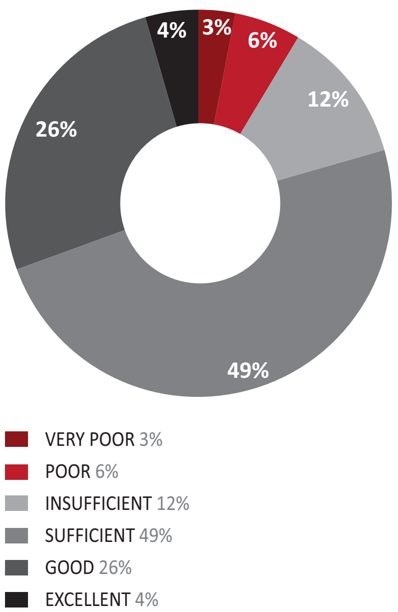
There is some debate over how many IWMs are currently in operation: estimates go up to 3,600, but the most commonly accepted figure is around 2,600. Similarly, estimates of how many IWMs will be shutting up shop vary from the hundreds to thousands. According to Wall, some industry observers expect the number of Swiss IWMs to fall down to 1,000. His view, however, is that a reduction in the region of 25% is more likely since "there will be new entrants as the market comes to terms with its new environment, from client expectations to competing, to taxable assets and regulation."

SECTION 11

HOW WELL ARE CUSTODIAN BANKS SERVING IWMS, AND WHAT ARE THEIR PREFERENCES?

FIGURE 35

How do custodian banks meet your business requirements?



Amid the onslaught of regulatory change and increasing demand for cutting-edge technology, independent wealth managers have become a major growth area for the custodian banks helping them do business. According to Aite Group, IWMs account for 12.3% of all Switzerland's assets under management today and so it is unsurprising that custodians are keen to forge closer links to the independent sector. But how well are custodian banks serving IWMs?

Broadly speaking, the survey indicated that custodian banks are doing pretty well: almost half (49%) said their needs are sufficiently met and 26% said they are well met (although a fifth did fall down on the poor side). The contributors to the report were surprised that only 4% of respondents said that custodian banks are excellent at meeting their needs, given that the two sub-sectors have been closely linked for a long time. It was pointed out however that the respondents are likely to be working/have worked with several custodians and will therefore have probably given an averaged-out view from across all their experiences. "Some of the banks are doing a very good job indeed," said Robert Hemmi. He also made the interesting point that perceptions of being poorly serviced might be partly down to banks having to be more stringent in matters of KYC and tax compliance in recent years. "For some investment advisors this is new and has led to the poor ratings here. IWMs feel that the custody banks are too strict and are asking too many questions," Hemmi said.

"AS A BANK, IF YOU WANT MANAGERS TO COME TO YOUR PLATFORM THEN YOU NEED TO OFFER ONE THAT IS STATE OF THE ART. IF YOU ARE A SMALL BANK TODAY WITHOUT AN ATTRACTIVE IT OR SERVICE PLATFORM, I THINK YOU HAVE TO CONSIDER WHETHER YOU ARE STILL ATTRACTIVE TO WEALTH MANAGERS" – ELMAR MEYER

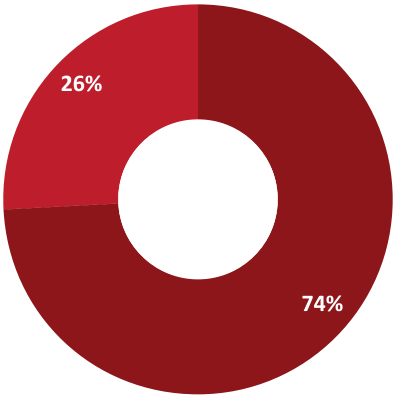
BRAND VALUES

It was also pointed out that brand is another area where banks can help IWMs, particularly when it comes to scouting for business in new markets with what will probably be a relatively unknown brand. In fact, with thousands of IWMs in operation with limited marketing budgets, this "piggy-backing" on the brand strength of a larger institution will be helpful for most independents, it was said. "Very few IWMs have real brand value, so using well-known custodian banks helps to keep clients happy," said Ray Soudah.

That said, a few of the panellists brought up the possibility that the events of the financial crisis may have turned clients off of the big names, at least in relationship sense. Some clients may like the safety of assets element offered by the big banks, but only that – which is arguably why they would use an independent in the first place.

FIGURE 36

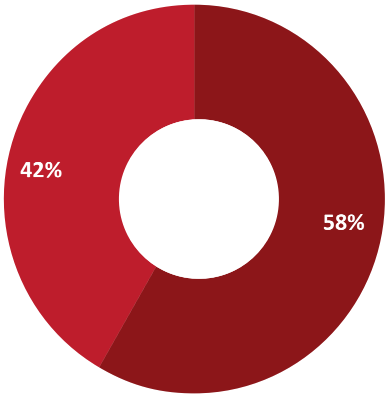
Select your preference between a flexible or process-oriented custodian service



FLEXIBLE CUSTODIAN SERVICE OFFERINGS 74%
PROCESS-ORIENTATED 26%

FIGURE 37

Select your preference between placing orders via the intermediary desk or directly through an online IT trading solution



HUMAN INTERACTION THROUGH THE INTERMEDIARY DESK 58%
ONLINE IT-TRADING SOLUTION 42%

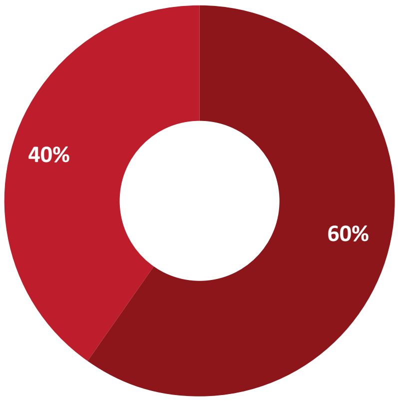
IWMS' PREFERENCES

When asked if they would prefer a flexible or process-orientated custodian service, almost three-quarters opted for the former. For Seb Dovey, and most of the other contributors, this preference is unsurprising. "It goes hand in hand with the independence aspect of these asset managers and they will obviously want to be able to continue to be as flexible as they can for their clients," he said. But while IWMs are going to want to be able to continue to be as flexible as possible Dovey suggested that IWMs are going to increasingly realise the need for structured processes in order to make their businesses more efficient.

On the surface, there may seem to be a tension between the IWM model and moves towards more a process-driven approach to serving clients. (Indeed, the wealth management industry as a whole is trying to steer a path between standardisation and customisation which will allow for efficient and profitable, yet also personalised and high-touch service.) For Dovey, the case isn't one of either/or. He acknowledges that wealth managers may not feel that a more process- or technology-driven approach sits well with their highly-tailored approach to client servicing, but he believes that actually the two dovetail well. "As the concept gains traction it will be evident that more IT-based solutions will help wealth managers in the processing aspect of things and allow them to spend more time with their clients," he said.

FIGURE 38

Select your preference between working with highly-skilled investment advisors or access to extensive digital research information



ACCESS TO HIGHLY SKILLED INVESTMENT ADVISORS 60%
ACCESS TO EXTENSIVE DIGITAL RESEARCH INFORMATION 40%

When it comes to their preferences for placing orders, there was an interesting split between those who prefer the human interaction they get from an intermediary desk (58%) and those who prefer to place orders directly via an online trading solution (42%). While wealth management is doubtlessly a relationship business, several of the panellists were surprised that the proportion of respondents preferring online ordering wasn't higher, given its convenience and efficiency. In examining this finding, it was suggested that the average age of IWMs might be a big factor. "Younger independent wealth managers prefer to use online systems as they feel more comfortable with it and enjoy the benefits of it such as working from home," said Hemmi.

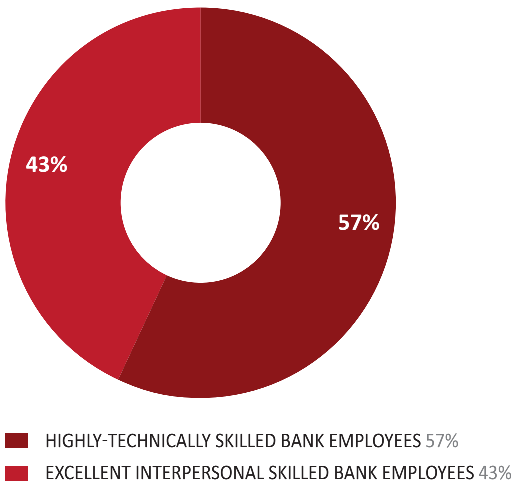
He also said (and this again might be a function of age) that the IWMs might be placing a high value on human interaction since that is the way they have traditionally been serviced, and arguably made to feel valued. "The banks had people actively managing relationships and looking after IWMs and that was well-received," he said. Here we could draw comparisons between the relationship between end-client and advisor. Some (probably older) clients still prefer only to meet face-to-face or speak on the phone with their advisor, but for a growing number (perhaps of younger, more entrepreneurial) clients, digital communications are the preferred method. However, although firms in the UK and US have recently been launched which *only* interact with clients digitally, most argue that traditional communication methods must remain a core to the high-touch wealth management proposition. Whether this should be the case when it is *IWMs* who are the client remains to be seen – particularly when both sides are facing cost pressures. "The future has to be towards direct access... the need to operate more cost-effectively will lead to an increase in the use of IT solutions," said Hemmi.

Realistically, it seems that wealth managers will increasingly choose to spend their (high-value) time interacting with their clients rather than with the custodian banks servicing them. However, while online "self-servicing" might become the norm for routine tasks like placing orders the survey revealed a clear preference for human interaction when it comes to accessing investment expertise. A majority of 60% of wealth managers said they would prefer to work predominantly with highly-skilled investment advisors rather than rely solely on extensive digital research. The panellists expected this preference because, as they pointed out, having someone to validate (or challenge) investment decisions is invaluable. They also highlighted the fact that all the various research agencies often have very different views and so digital research alone may not help a wealth manager get any closer to an investment proposal they can feel confident about. Here again, we could say that the investment experts at a custodian bank can play a similar role for IWMs as an advisor plays for the end-client – that is to cut through the "noise" of all the digital research available and apply an overlay of expertise and experience to a specific investment scenario. "It is always good to discuss your investment views with a person rather than using digital methods," said Dovey.

"WHILE INTERPERSONAL SKILLS REMAIN IMPORTANT, THE COMPLEXITY OF THE INVESTMENT WORLD TODAY IS SUCH THAT YOU NEED A LOT MORE TECHNICAL SKILLS THAN BEFORE" – DR FIOLE

FIGURE 39

Select your preference between working predominantly with highly-technically skilled bank employees or those with excellent interpersonal skills



It would appear that IWMs highly value the ability to work with investment experts at the custodian banks serving them. Given the choice between working with bank employees who are highly-technically skilled and those with excellent personal skills, 57% would prefer the former. Of course, the two qualities aren't mutually exclusive, but it seems sensible that - if they *had* to choose - wealth managers would prefer to work with those who can add value to their own business through their investment expertise. That said, given that investment management is so fundamental to the IWM offering, the fact that 43% opted for interpersonal skills shows just how much of a people business wealth management is. For his part, Dr Fiole was surprised that such a high proportion of wealth managers preferred interpersonal qualities since today's investment environment calls for greater technical skills and he believes that IWMs should be aiming to improve the objectivity of their decisions. While Fiole conceded that technical skills will not cover everything IWMs need on the advisory side, and that no one is infallible, he remains convinced of their greater importance. "At times, portfolio managers are betting the wrong way or just reflecting market sentiment, but at least you can understand the grey zones in decision-making better," he said.

SECTION 12

THE SYMBIOTIC RELATIONSHIP BETWEEN WEALTH MANAGERS AND CUSTODIAN BANKS

KLAUS-MICHAEL CHRISTENSEN
Director, Head Of Independent Wealth Managers For Zurich
Coutts & Co Ltd

Klaus-Michael Christensen heads Coutts & Co Ltd's Independent Wealth Manager division in Zurich. Here, he gives his views on how the relationship between banks and wealth managers has evolved, and explains what Coutts is doing to help the sector.

Coutts has been working with Swiss IWMs as a custodian for over twenty years. In general terms, how has the relationship between IWMs and custodians changed over that period?

In the beginning, the purpose of the bank was simple: providing access to markets and safe custodianship. With increased regulation, the bank and the IWM must cooperate closer together in order to fulfil new legal requirements and operational issues. It has become more of a partnership between IWMs and banks.

"AN IWM NEEDS A CUSTODIAN BANK THAT UNDERSTANDS THEIR BUSINESS MODEL AND THE ASSURANCE THAT THE BANK CAN SERVE THIS NEED"

In your opinion, what are the factors which make a wealth manager choose one custodian over another?

An IWM needs a custodian bank that understands their business model and the assurance that the bank can serve this need. The business model usually involves a certain level of technology, price flexibility and access to products and markets. The personal relationship between the bank and the IWM has become more important. Wealth managers want fewer bank processes and a greater understanding of their clients' needs. Lastly, but still of great importance, are the bank's reputation and financial stability.

The consensus was that custodian banks are doing pretty well at servicing IWMs, but very few said they were excellent. Which areas are the banks likely to be falling down in?

It is possible for banks to address the needs of wealth managers that have clear and simple strategies. However, for managers that serve multiple jurisdictions and offer a multitude of investment strategies, it is more difficult. Another issue is the dilemma between IT and relationship-oriented service. If banks increase the level of technology, the important trust-building interactions with wealth managers can suffer. Conversely, not having enough technology for wealth managers to work efficiently can be a burden on the relationship. Defining this mix is the biggest challenge for banks in servicing each individual IWM.

"WORKING WITH A BANK WITH STRICT COMPLIANCE RULES FOR INSTANCE WILL GIVE THE CLIENT A SENSE OF SECURITY"

How important is the custodian side of things to clients in your view?

The choice of the custodian is also very important for the end-client. It tells the client a little about how the wealth manager works. Long history, good brand, clear compliance, ethical rules and solid financial footing give the client a sense of security. Wealth managers choose custodian banks they know well because they worked with them previously, or because they provide a good resource as a selling proposition to their clients. The end clients appreciate a financially solid custodian bank and the technology tools they receive to monitor their wealth manager's account activities. Professionalism and skills of the people in the bank serving the client's wealth manager are probably the most important things to the client. It is all about trust between the wealth manager and their custodian, just like it is all about trust between the wealth manager and their clients. Skills build trust on all levels and give the end-client the feeling that a certain level of checks and balances are in place to deal with their affairs.

Is it your feeling that IWMs worry a lot about disintermediation? In general, how do you think they feel about the custodians they work with?

The development of IWM departments within private banks happened very gradually and was mainly fuelled by private bankers leaving their banks to start their own independent wealth management companies. Some banks were quick to organise special IWM departments serving the private bankers who left in order to keep their clients with the bank. Most private banks now have a service offering for IWMs, but that doesn't mean that IWMs trust their banks fully. Trust is not something you can sell, it is something that is earned. Banks that have a long relationship with IWMs have had plenty of time to build trust. For new relationships, trust is something that still needs to develop. It is obvious that the recent fluctuation of people within the banks hasn't helped build trust between IWMs and their custodians. Simply speaking, there are two groups of IWMs. One group sees custodian banks as a necessary evil, while the other group sees them as a positive partner to their business model. Coutts is embracing the latter approach.

Is technology something Coutts has invested heavily in for the IWM sector?

Two years ago we began expanding our technological platform, thereby giving our IWMs and their clients online account access and improved trade and execution flow for our IWM team. We still have some way to go to close the gap between the technological leaders in the market, but we are slowly getting there. The goal is to combine our personal service with new technology to be able to offer a really powerful value proposition for existing and new IWMs.

Beyond IT infrastructure and investment expertise, what else does Coutts offer IWMs?

Switzerland has a very unique standing as a safe, stable and highly-skilled place to bank and receive wealth management in the world. Coutts contributes to this picture by way of its solid financial balance sheet and skilled and rigorously trained workforce. But this is the basic requirement for any IWM seeking a custodian bank to work with. In addition, our IWM team has an entrepreneurial understanding of the businesses of IWMs, which allows us to support them with a range of operational matters such as marketing, wealth planning, compliance and IT solutions. A new development is our IWM community, where IWMs can network with potential service providers in the sector.

"TRUST IS NOT SOMETHING YOU CAN SELL, IT IS SOMETHING THAT IS EARNED. BANKS THAT HAVE A LONG RELATIONSHIP WITH IWMS HAVE HAD PLENTY OF TIME TO BUILD TRUST. FOR NEW RELATIONSHIPS, TRUST IS SOMETHING THAT STILL NEEDS TO DEVELOP"

SECTION 13

WEALTH MANAGERS' WISH LISTS AND THE CHALLENGES FACING CUSTODIAN BANKS

WHAT DO IWMS LOOK FOR IN A CUSTODIAN BANK?

Respect, responsiveness

Fundamentally, IWMs are looking for a custodian bank which knows what they want and need, and which respects the way the relationship between the bank, the wealth manager and the client works. There may be a need for education here so that banks can reassure IWMs that they are seen as important partners rather than mere AuM and revenue gatherers. Wealth managers might also fear disintermediation and so banks need to be very mindful of boundaries and approach the triangular bank/IWM/client relationship with delicacy. Where these boundaries lie will largely depend on the type of custodian offering and whether it is very collaborative in nature or mainly platform-driven. Direct client contact from the custodian also requires significant levels of trust, as discussed in elsewhere.

Wealth management is a remarkably diverse industry when it comes to model, target client base and ethos. Each organisation has its own "style", which in turn informs the tone of its relationships with clients. This is arguably also true of IWMs and custodians and needs to be taken into account when the framework for such a relationship is worked out. As discussed in Section 11, just as some end-clients prefer a technology-led, almost "self-service" approach, so might some IWMs when dealing with their custodian. Others will desire more support and a highly-personal service.

In either case, IWMs will want to feel that their business is valued. There appears to be a perception in the market that lower-value IWMs can become little ignored by larger custodians and that smaller ones are more responsive to instructions or queries. In another parallel to the advisor-client relationship, smaller banks might also boast of greater longevity of relationships between their staff and IWMs so large providers need to be aware of this.

Robustness

Whatever the style of relationship, what all IWMs will be looking for is a highly-professional partnership with a robust organisation. This robustness naturally extends to the financial and brand strength of the bank, but also to the people, processes and systems it has in place. It is therefore important to get basics like flawless trade execution right, particularly when we consider that IWMs might be investing across all kinds of markets and instruments. Given their unconstrained investment approach, independents will also require banks to be able to deliver true open architecture efficiently.

The heightened focus on investment strategy and performance probably means that wealth managers are keen to access the expertise of bank employees. As discussed in Section 11, a clear majority of IWMs prefer input from highly-skilled investment advisors to relying on digital research. Custodians should therefore probably emphasise their bench strength on the investment side, and the accessibility of employees as well as centralised research. Expertise in other areas like wealth planning are also going to be increasingly important as IWMs continue to branch out into other service areas to add more income streams to their models.

"IF IWMS ARE GOING TO ATTRACT NEW CLIENTS AND WANT TO GROW AND SCALE UP EFFICIENCY, IT IS GOING TO BE DOWN TO HAVING THE RIGHT PROCESSES IN PLACE AND THE RIGHT MANAGEMENT CHANNELS IN ORDER TO SERVICE A GREATER NUMBER OF CLIENTS. IT COMES BACK TO IT AND THE SUPPORT OF THEIR CUSTODIAN BANK IN DELIVERY" – SEB DOVEY

While the survey clearly showed that IWMs value the human touch in both service and sharing knowledge, banks have clearly seen how much of a draw technology is. In the words of Stephen Wall, "technological capabilities are a key selling point for custodian banks wanting to partner with wealth managers". Banks are therefore going well beyond the basics of dealing, asset administration and reporting when developing dedicated IT systems for IWMs. Some include marketing modules to help IWMs grow their businesses, while other banks have launched social networks for them.

CHALLENGES FACING CUSTODIANS

Price competition

Competition for the business of IWMs is increasing at the same time as the independent sector itself is in a state of flux. This probably means that banks will have to revamp their offerings on a fairly regular basis to remain relevant and appealing to IWMs as they change. A cutting-edge IT platform seems to be where some banks have placed their bets, but developing and maintaining one requires deep pockets and it looks likely that custodians are going to be under increasing pricing pressure as IWMs take advantage of their position to negotiate better rates for their clients. Given that clients go to an independent because they value transparency and alignment of interests, it's probable that they will have a keen eye on this.

In fact, it is incumbent on an independent wealth manager to advise a client if a custodian's pricing has gone up and a more competitive provider is available, just as they should bring it to the client's attention if a bank's credit risk has changed. As well as being competitively priced, custodian banks should also think about being *flexible* with how they charge so that they can accommodate IWMs' changing (probably retrocession-free going forward) fee models. In fact, flexibility in general is probably something banks should emphasise because, as discussed in Section 11, almost three-quarters of the survey participants said they prefer a flexible custodian service over a process-orientated one.

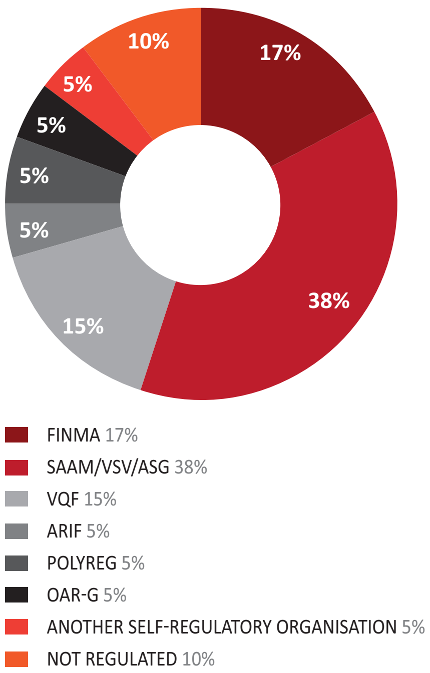
While flexibility and constantly evolving the custodian offering seem to be key, this does not mean that custodians can take a scattergun approach to targeting IWMs. As ever, it is difficult to be all things to all people, and Wall argued that banks are going to need to take a very focused approach and define specific IWM segments to target – just as IWMs themselves are going to need to become far more distinctive. Specialisation is very important for smaller custodians which probably can't compete with bigger players on price, products or coverage. But it will also be important generally as the quest for greater efficiency forces IWMs to rationalise their custodian relationships. "In order to function in the new environment IWMs are going to rely more on strong relationships with custodian banks," said Wall. "What is going to happen in the custody space is that firms, rather than having a disparate, scattered book of custody relationships, are going to streamline to a set of defined and deeper relationships with custodian banks."

SECTION 14

SRO REGULATION AND REPRESENTATION

FIGURE 40

Who is your regulator/professional body?



Arguably, it is easy to draw cultural parallels between Switzerland's federal system of political governance and the way that its IWMs are regulated. Switzerland is noted for the complexity of its political system, which must balance the need for national standards against the freedom of the 26 cantons to self-govern where permitted, but the ideals of federalism and cantonal autonomy are fiercely clung to in the Alpine state. A similar kind of federalism is the hallmark of Switzerland's use of Self-Regulatory Organisations in overseeing its financial services industry. FINMA is the only body accepted under international standards for prudential supervision and provides direct oversight to prevent money laundering and terrorist financing. However, the Anti-Money Laundering Act allows certain kinds of financial intermediaries - like IWMs - to be *indirectly* regulated by SROs. These are in turn regulated by FINMA, which approves SROs' rules and ensures their enforcement under threat of withdrawing recognition of the organisation.

Further complexity comes from the fact that self-regulation ranges from the voluntary category (with no state interference), to that recognised as a minimum industry standard and then to compulsory self-regulation where the legislature has mandated an issue be addressed. It is also possible for regulations to progress through these ranks if, for example, a professional body issued a code of conduct which was then proposed by an SRO to become a minimum standard. Once accepted this rule would then have to be adopted as a minimum standard by all sector participants. Despite the fact that FINMA encourages collaboration between SROs in the development of new rules (they do have their own roundtable, Forum SRO) it seems possible that conflicts of agenda could arise – simply because they are all effectively competing against each other and their respective members could have different goals. "They [SROs] each have a mandate to put in place FINMA directives as they see fit. So, ultimately, they can all do different things. IWMs join one SRO or another depending on their profile," said Stephen Wall.

WHERE DOES POWER LIE?

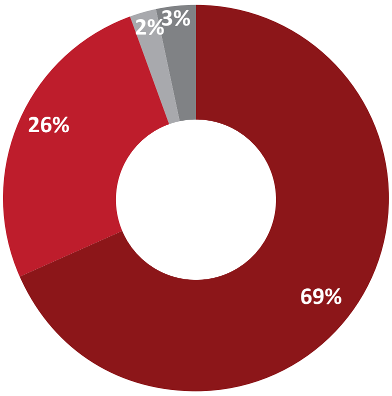
Regulatory body	% of survey respondents	Number of members
FINMA	17%	354
SAAM/VSV/ASG	38%	1,084
VQF	16%	804*
ARIF	5%	470
PolyReg	6%	239*
OAR-G	5%	475
Total		**3,426**

**According to a 2012 study by The Consulting Partnership; all other figures are the latest published*

There are thought to be around 2,600 IWMs in Switzerland, although the fragmentation of the sector and the organisations which oversee them make arriving at a definitive number difficult. The SROs also have different of policies on member confidentiality and different levels of membership and affiliation (some meaning regulated and others just professional association). Estimates may differ, but this and previous studies concur in finding that SAAM is the biggest SRO by some margin and that FINMA directly regulates a relatively small proportion of IWMs in comparison. However, even the smaller SROs still regulate hundreds of IWMs each.

FIGURE 41

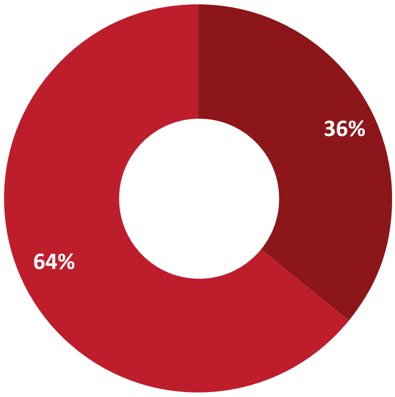
Who do you see as the Swiss wealth management industry's primary point of regulation?



FINMA 69%
SRO 26%
BANK ASSOCIATION 2%
OTHER 3%

FIGURE 42

Are your interests as a wealth manager represented well in Switzerland?



YES 36%
NO 64%

What we might call the federal style in which Swiss IWMs are regulated seems to have given rise to a disjunction in terms of where firms feel regulatory power *really* lies. As Figure 41 shows, compared to the SROs, FINMA is accorded a far higher status by wealth managers – at least as a regulatory body. While 68% of respondents view FINMA as the wealth management industry's primary point of regulation, only 26% said this of SROs. But when it comes to actual oversight, a majority of 38% of respondents are regulated by either SAAM/VSV/ASG and only 17% have opted for direct supervision under FINMA. VQF accounts for 16% of the sample, while ARIF, PolyReg, OAR-G each regulate 5-6% of those surveyed. A further 5% cited another unlisted self-regulatory organisation and a tenth said that they were unregulated.

FEAR OF FINMA?

The reason why so few IWMs have opted for direct regulation by FINMA is unclear, but several of the contributors to this report suggested that wealth managers who have chosen an alternative have done so because they fear a conflict of interests. "The voice they could have is FINMA, but they feel threated by that because it is a regulatory body that largely works for the banks or much larger entities," said Wall, adding that IWMs may fear being "pushed around".

Other panellists suggested that a preference for regulation by a smaller, specialised body may be preferable as this approach feels more attuned to the independent ethos; it may be that the desire to disassociate from the larger institutions runs that deep. Equally, choice of SRO might be down to practicalities like proximity or preferred language.

HOW WELL ARE IWMS' INTERESTS REPRESENTED?

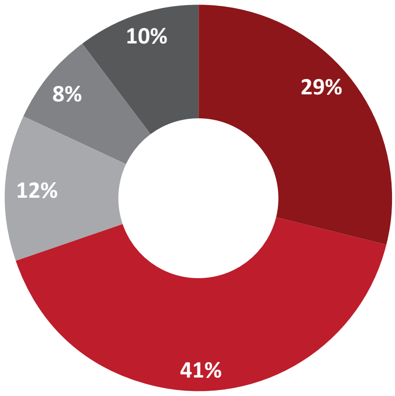
The proportion of respondents who feel their interests as a wealth manager are not well represented in Switzerland outnumber those who do by almost two to one (64% versus 36%). The panellists said the fact that almost two-thirds of IWMs feel under-represented was disappointing but not surprising since they operate under such a fragmented system. With so many different SROs sitting under the "umbrella" of FINMA, it's naturally going to be difficult for there to be a coordinated approach to representing the interests of wealth managers, said Seb Dovey. In his view, "It's difficult for them to present a united front as they lack a single regulatory entity that can take a united view forward".

"A UNIFIED VOICE FROM THE INNOVATIVE AND INVESTMENT–DIVERSE IWM SECTOR WOULD HELP POSITION SWITZERLAND AS A LEADING DESTINATION FOR GLOBAL WEALTH MANAGEMENT. I BELIEVE THAT REPRESENTING SWITZERLAND SHOULD NOT JUST BE LEFT TO THE BIG BANKS AND INSURANCE COMPANIES"
– DANIEL FURTWÄNGLER

REPRESENTATIVE FOCUS

FIGURE 43

What should the focus of a Swiss wealth manager lobbying organisation be?



- REPRESENTING THE WIDER SWISS WEALTH MANAGEMENT INDUSTRY 29%
- INFLUENCING THE SWISS REGULATORY AUTHORITY 41%
- INFLUENCING INTERNATIONAL BODIES AND GOVERNMENTS 12%
- TO PROVIDE EDUCATION, TRAINING AND ACCREDITATION 8%
- TO CREATE AND ENFORCE STANDARDS WITHIN THE INDUSTRY 10%

The panellists were united in the view that Swiss IWMs need a single organisation representing their interests. However, the issue of what the main focus of such an organisation should be was more contentious – both among the panellists and the survey participants. Influencing the Swiss regulatory authority was selected by 41% of the respondents, while representing the interests of the wider Swiss wealth management industry got 29% of the votes. For Elmar Meyer, it is entirely right that influencing the Swiss regulator came out way ahead. In his view, the fact that the number of IWMs is growing in Switzerland and they are taking market share from the big firms means they “definitely deserve a voice and should be a part of the political process as well”. “It will take time as the banks are still very big and influential, but we should start building up something that acknowledges the independent wealth industry so they have some kind of voice beside big business,” he continued. Furthermore, he sees the fact that 41% of respondents chose influencing the Swiss regulator as a sign that the Swiss independent wealth industry wants to ensure its own survival. “Firms want to be able to influence FINMA for lighter regulations as they want flexibility in their business and lower compliance costs,” he said.

“IT IS RECOGNISED IN SWITZERLAND THAT WEALTH MANAGERS ARE VERY IMPORTANT, BUT THE WAY THE INDUSTRY IS RECOGNISED IS NOT GREAT”
– DR GABRIELA MARIA PAYER

“THE FOCUS OF A SWISS WEALTH MANAGER AGENT LOBBYING ORGANISATION NEEDS TO BE REPRESENTING THE NEEDS OF THE INDUSTRY AS A WHOLE TO THE RELEVANT GOVERNMENT BODIES. THERE NEEDS TO BE AN ELEMENT OF INFLUENCING, DISCUSSION AND INPUT ON WHERE THE INDUSTRY IS GOING AND TO ENSURE THAT THEY HAVE A VOICE. AS A PRIMARY POINT OF REGULATION, IT IS LIKELY THAT FINMA WILL REMAIN THE MAIN REGULATORY AUTHORITY”
– SEB DOVEY

According to the panel, the fact that only 12% of survey respondents chose influencing international bodies and governments reflects a realistic view of what a representative organisation for Swiss IWMs can and *should* be trying to achieve. As Dr Payer remarked, influencing regulatory bodies and authorities internationally is a “pretty tricky thing”, but more importantly she sees this kind of work as outside the scope of what the independent wealth management industry should be trying to do. In her view, understanding and influencing other countries should be managed at a governmental level, partly to ensure that efforts are in sync with what Switzerland is trying to achieve both domestically and on the international stage. Moves like the planned Financial Services Act could be taken as strong indicators of Switzerland’s determination to engage and exert more influence at an international level, and several panellists remarked that this is going to be crucial to the ongoing health of the Swiss industry. In Wall’s view, influencing international bodies and governments is where Switzerland has had its problems. “It is not because the Swiss authorities have created a new regulatory environment. The problem for Switzerland is that it is being forced to adopt all of these things through international measures,” he said.

The fact that only 10% of respondents believe that a representative organisation should create and enforce industry standards, and that just 8% think it should concentrate on education, training and accreditation surprised many of the contributors. Dr Payer argued that a central point of focus is needed on the qualifications and accreditation front and that a strong industry association would be invaluable in providing this, along with honing professional standards. Furthermore, she remarked that these kinds of efforts are far likelier to bear fruit for the IWM sector than them dabbling in the “hugely complex story” of financial laws and development.

SECTION 15

A SELF-REGULATORY ORGANISATION SPEAKS OUT

NORBERTO BIRCHLER
Managing Director
Association Romande des Intermédiaires Financiers

Norberto Birchler, managing director of the Association Romande des Intermédiaires Financiers (ARIF) explains what his organisation does and his view of the sector.

What can you tell us about ARIF's origins and activities?

ARIF was founded in Geneva in 1999. It is a private, non-profit association whose purpose is to assist in the prevention of and the fight against money laundering in relation to the Swiss Federal Act on Combating Money Laundering and Terrorist Financing in the Financial Sector (AMLA).

In 2009, the Swiss Financial Market Supervisory Authority recognised the self-regulatory provisions of ARIF for independent wealth managers. ARIF is an SRO recognised by the Swiss Federal State according to Article 24 of the AMLA.

As the sole multi-disciplinary SRO based in the French-speaking part of Switzerland, ARIF is independent from any professional association or political body. We currently have more than 470 members and are open to any non-banking financial intermediary practising in Switzerland.

What is the profile of your member base in terms of factors like location, size, length of operations, type of client focus etc?

As multi-disciplinary SRO, our members are the ones mentioned in Article 2 of the AMLA, which specifies that the Act applies to financial intermediaries. Financial intermediaries are defined as those "who on a professional basis accept or hold on deposit assets belonging to others, or who assist in the investment or transfer of such assets". In particular, the definition includes those who:

- carry out credit transactions (in particular in relation to consumer loans or mortgages, factoring, commercial financing or financial leasing);
- provide services related to payment transactions, in particular by carrying out electronic transfers on behalf of other persons, or who issue or manage means of payment such as credit cards and travellers' cheques;
- trade for their own account or for the account of others in banknotes and coins, money market instruments, foreign exchange, precious metals, commodities and securities (stocks and shares and value rights) as well as their derivatives;
- manage assets;
- make investments as investment advisors; or
- hold securities on deposit or manage securities.

Our members, whose activities cover those mentioned above, are located throughout all of Switzerland and many of them were active before the AMLA entered into force. Our members range in size from a single person through to firms with 200 employees.

There seems to be a great deal of debate about what a representative organisation for IWMs should focus on. What does your organisation do to help members in this regard?

As stated in our Articles of Association, ARIF "takes part in the supervision of the financial markets and helps to maintain and improve the reputation and competitiveness of the Swiss financial centre" (Article 5). As part of its aim of maintaining and improving the reputation and competitiveness of the Swiss financial centre, ARIF:

- takes part in the work of preparing the international treaties and laws closely related to the area of financial intermediation and makes proposals intended for the legislative bodies and the federal and cantonal authorities; and

- encourages research and teaching in the area of financial services and its members' efforts to provide vocational training and further training by means of appropriate measures and an adequate offering (Article 8).

What is your organisation doing to help IWMs in today's climate? What do you see as the particular challenges and opportunities facing independent wealth managers today?

Last year, we submitted a position paper on the anticipated law on financial markets [the Swiss Financial Services Act]. ARIF is also a member of the Forum-SRO, an association of all eleven SROs which provide regulation for financial intermediaries in the non-banking sector in Switzerland, according to the AMLA.

The main challenge for IWMs is the current regulatory environment. Some changes will be necessary to their business models as a result of increased regulation and compliance. One IWM said the business agenda has gone from "too big to fail, to too small to survive", and I agree with this opinion.

The relationship between IWMs and custodian banks in Switzerland is symbiotic in many ways. Do banks seek guidance from ARIF, as one might expect?

Although we have excellent bilateral contacts with most of the banks represented in Switzerland, they rarely ask for input from us about our members or on regulatory questions.

"AS THE SOLE MULTI-DISCIPLINARY SRO BASED IN THE FRENCH-SPEAKING PART OF SWITZERLAND, ARIF IS INDEPENDENT FROM ANY PROFESSIONAL ASSOCIATION OR POLITICAL BODY. WE CURRENTLY HAVE MORE THAN 470 MEMBERS AND ARE OPEN TO ANY NON-BANKING FINANCIAL INTERMEDIARY PRACTISING IN SWITZERLAND"

SECTION 16

AN INDEPENDENT WEALTH MANAGER'S VIEW

DOUGLAS MARSTON

Douglas Marston is an American who has been living in Switzerland for the past 18 years. He is now a naturalised Swiss citizen. Having held senior roles with some of the world's biggest wealth management brands, he then went on to set up his own Zurich-based IWM business, Marston Capital Partners, 11 years ago. The opinions expressed here may not be representative of the entire IWM sector, but they certainly represent a useful on-the-ground view.

What do you see as the main challenges and opportunities facing Swiss IWMs at present?

Most importantly, I think the issue of dealing with offshore money is still a very strong driving factor of the Swiss wealth management sector – both for banks and for IWMs. It includes everything from OECD tax compliance guidelines to the EU Savings Directive, from US Department of Justice actions to now implementing compliance according to FATCA. This is difficult for a generation of Swiss wealth managers who must adapt in order to deal with almost any non-Swiss domiciled wealth.

It is also the compliance, KYC and due diligence work that all the regulators are already requiring, and will require even more in the future. This relates not just to banks and IWMs, but in my view, will also bring into the net insurance companies, asset managers and hedge funds, even maybe private equity managers and trustees/fiduciaries. What will really drive consolidation is the huge cost and effort this entails. In addition, once Switzerland commits to a certain level of compliance and regulation, you can be sure that it is enforced precisely and in a professional manner.

Regarding opportunities, Switzerland is a country that functions efficiently. It is at the centre of Europe and has done an excellent job of integrating its own four nationalities, not to mention a large foreign immigrant population. I believe investors see Switzerland in 20/50 years as being similar to today: a minimally intrusive federal structure and tax regime, strong cantonal and local governance, a vibrant commercial environment, deep regard for personal privacy, a healthy pension and healthcare system, great infrastructure and education. It will be around 20/50 years from now in a similar fashion as it is today. In other words, a country that offers stability and certainty in how it manages its affairs. In addition, as competition in offshore jurisdictions increase, Switzerland is very well positioned, due to its levels of sophisticated service and deep understanding of the needs of UHNW families worldwide.

The participants in our study are very upbeat indeed about growing AuM and gaining new clients next year. Do you think these growth hopes are realistic?

In the short term, I think these figures are more of a wish list in the current regulatory environment. One needs to drill down more in looking at where such growth is to be tapped. If that expectation comes from Asia, Latin America, or the Middle East, and represents UHNW individuals looking to further diversify, then yes. US-based asset growth is going to be very hard to achieve. If it is new clients from new locations, the Middle East, East Asia, Latin America, possibly. I would expect it to come more from UHNW clients rather than HNW, let alone affluent ones. If it is Europe, we are still faced with short-term challenges as mentioned earlier, and the fact that wealth is not growing as quickly as in some of these other areas of the world.

What do you see as the enduring attractions of IWMs for both clients and wealth managers?

The main reason for their attractiveness to clients is that they have been working in this industry for a long time; they are experienced, have become very acquainted with the individuals and families they have. Many have become trusted advisors.

> "IT TAKES MANY YEARS TO GET TO KNOW THE FINANCIAL STRUCTURE OF AN HNW FAMILY WELL; ONCE YOU HAVE A KEY TO THAT LOCK YOU ARE VALUABLE, BOTH TO THE FAMILY ITSELF, TO OTHER BANKS, AND TO YOUR OWN FUTURE"

It takes many years to get to know the financial structure of an HNW family well; once you have a key to that lock you are valuable, both to the family itself, to other banks, and to your own future. This is what the Swiss IWMs have done in the past. They are serious, discreet, relatively knowledgeable in financial affairs and globally aware.

For other wealth managers, IWMs offer the key to asset management, transaction services and other products that may be offered. As a small organisation IWMs may need asset allocation advice, transaction execution, portfolio performance reporting, and increasingly assistance with compliance regulation.

What do you see as the pillars of an excellent custodian bank offering?

IWMs for large banks, until recently, were never a big draw in terms of how they wanted to grow their custody business. This may be changing, although I think it is still too early to tell.

A bank needs to offer a number of services, including the efficient execution of transactions either online or with a dedicated execution desk. This may or may not include an advice-giving/brokerage activity as well. Open platform architecture offering a full range of products, across stocks, bonds, mutual funds, ETFs, hedge funds and other specialised products is becoming standard.

Delivering tax information in the manner that is required by a client to comply with his or her home country tax authorities will become more the norm. Access to products that are tax efficient to clients (just like US municipal bonds for US investors) and advice to IWMs on tax-efficient products will help custodians obtain competitive advantages.

As these custodians own compliance standards have increased with their regulators, so too will the compliance they will require in turn from their IWM clients. This may be an opportunity for them to provide value-added services.

"AS WE MOVE TOWARDS GREATER TRANSPARENCY GENERALLY, IT MAY BE POSSIBLE TO MOVE TO A MORE AUTOMATED PROCESS. SWITZERLAND IS AN EXTREMELY EXPENSIVE LOCATION FOR FINANCIAL TRANSACTIONS AND AUTOMATION COULD HELP LOWER THESE COSTS. CLIENTS, PARTICULARLY YOUNGER GENERATIONS WITH NEWLY-MINTED MBAS, WILL INCREASINGLY DEMAND ELECTRONIC ACCESS TO INFORMATION"

What is the extent to which IWMs want human interaction with custodians (versus automation)?

I think that just as with HNW clients, it is a mix of both styles for IWMs. Some want personal hand-holding; some are happy to make the interaction across a computer screen and emails.

As we move towards greater transparency generally, it may be possible to move to a more automated process. Switzerland is an extremely expensive location for financial transactions and automation could help lower these costs. Clients, particular younger generations with newly-minted MBAs, will increasingly demand electronic access to information.

How can custodian banks make business easier for IWMs to do?

They could make business easier by charging less. The problem is one for Switzerland generally. With a significant investor who is concerned about transaction costs, the US and London are cheaper. Swiss custodians are used to charging high fees; part of this is a high cost base, but part of it is that old habits die hard. In Switzerland, I do not think custodians have moved to offer cheap products cheaply; they offer everything dearly.

Open architecture in product offerings, I would argue, is becoming increasingly important for the entire wealth management industry. The days of only offering one's own products across the entire investment management spectrum is coming quickly to an end. This is especially true for IWMs who have, in many cases, led this charge.

How they can help them compete?

They can provide timely and accurate information, professional support and cost-sensitive execution. I also think that each of the players in Switzerland's wealth management business will need to do a better job of marketing our professionalism, expertise and skills around the world if Switzerland wants to continue to be home to so much of the privately-held wealth in the world.

Why do IWMs seem to have become such an area of focus for custodians?

Clearly, there are pockets of very significant wealth dotted across many parts of Switzerland. I think custodians would like to tap into this money to manage/service/custody. Compared to institutional assets, it tends to be higher-margin business. It can be more complicated to transact and it is a client's own personal wealth, so premium pricing may be possible. I am probably not the person with the answers to this.

What are your feelings about the way that IWMs are regulated in Switzerland?

Historically, regulation in Switzerland with the various SROs which operate here could have been characterised as "regulation-lite". It was possible to choose one's regulatory SRO depending on location, the type of business, and whether one was using the SRO designation as a marketing advantage.

As regulations and compliance have increased dramatically, all SROs have had to up their game. My own feeling is that it is just a matter of time before all regulation for IWMs will be overseen by FINMA, maybe not to the level of inspections and direct interface, but in guidelines for regulatory compliance – client due diligence, KYC etc.

"SWITZERLAND SHOULD BE MINDFUL NOT TO OVERCOMPENSATE WHEN IT COMES TO REGULATION. ONE OF THE PRINCIPLE ADVANTAGES OF THE JURISDICTION HAS BEEN A SENSIBLE, BUT LIGHT, REGULATORY REGIME. RISK-BASED ANALYSIS SHOULD DRIVE THE PROCESS TO AVOID NEEDLESS AND CUMBERSOME OVER-REGULATION"

Switzerland should be mindful not to overcompensate when it comes to regulation. One of the principle advantages of the jurisdiction has been a sensible, but light, regulatory regime. Risk-based analysis should drive the process to avoid needless and cumbersome over-regulation.

Do you foresee everything coming under FINMA soon and what do you see as the implications of that?

It could result in less flexibility, but I am not sure that this will matter, since it will affect all Swiss players in the industry, whether it is regulation, KYC compliance or transparency on fees and retrocessions. What will be important for SROs or eventually FINMA to ensure is that such a regime creates a level playing field across other wealth management jurisdictions – i.e. London, the US, Singapore and numerous others.

If FINMA regulation comes, one positive result could be allowing IWMs to assure their clients that they are regulated by one of the strictest and most transparent regulators in the world - a sense of security that might be helpful in the future for IWMs to achieve those AuM growth targets mentioned earlier.

How well do you feel your interests as an IWM are represented?

As a past member of an SRO I did not think they necessarily represented my interests, but I was a very small cog in a much larger wheel. I do feel the need for a representative body for IWMs in Switzerland. Switzerland most certainly fights above its weight in terms of economic importance in the world. I would argue it fights well below its weight in representing itself with the EU, its neighbours and especially the US, on issues that are important for our industry. Professional lobbying and forcefully projecting one's specific interests as wealth managers has been difficult these past couple of years. I find that many people in our industry are trying to keep their heads below the parapet, waiting and hoping that the storm will blow over.

I believe that Switzerland has a tremendous amount to offer high net worth individuals and families looking to diversify the jurisdiction, style, and location of the management of their accumulated wealth. Solid regulation, better transparency and good performance will only help market our strengths. That is one of the reasons I am still here after 18 years.

Commentators suggest that the pressures facing the industry will force a consolidation down from around 2,600 to 1,000 IWMs. Do you foresee consolidation this dramatic?

I do not think it will all happen at once. There is still a lot of undifferentiated noise between bank and IWM consolidation. Bank consolidation has to do with capital, critical mass of AuM, compliance and regulation, especially related to cleaning up the past. IWM consolidation has more to do with the burden of compliance and regulation and succession.

A question I have is whether the IWM model can attract a younger generation of managers. In the current environment, attending a cocktail party and saying one is a banker – investment or private – is much less impressive than saying one works for a hedge/private equity fund or management consultancy. It remains to be seen whether the industry can attract the kind of qualified professionals it will need for the next generation.

Will this be a good thing for the industry, and clients?

With most consolidations, the wheat is separated from the chaff. The likelihood is that the weaker performers will leave, which should be good for the industry as a whole. Clients should ultimately reap this benefit as the experience and professionalism of their counterparties improves, they have access to a wider, better performing array of products in a compliant and stable platform.

"I BELIEVE THAT SWITZERLAND HAS A TREMENDOUS AMOUNT TO OFFER HIGH NET WORTH INDIVIDUALS AND FAMILIES LOOKING TO DIVERSIFY THE JURISDICTION, STYLE, AND LOCATION OF THE MANAGEMENT OF THEIR ACCUMULATED WEALTH. SOLID REGULATION, BETTER TRANSPARENCY AND GOOD PERFORMANCE WILL ONLY HELP MARKET OUR STRENGTHS"

CONCLUSION

Switzerland's independent wealth managers face a difficult road ahead. One that is full of challenges, but also opportunities for those who embrace the new reality facing the sector.

Heightened regulation has hit wealth managers hard, across markets and models. Players both large and small are having to evolve rapidly to be able to satisfy new oversight requirements while also protecting profits and – most important of all – keeping clients happy. Switzerland's independent wealth managers are no exception.

The regulatory maelstrom has impacted every element of the wealth management business. National and supra-national legislation continues to come thick and fast, and wealth managers across the board are having to ramp up their compliance, due diligence and reporting capabilities to cope. While the big banking groups are also feeling the squeeze on margins, smaller wealth managers are having a hard time absorbing all the additional operating costs the new regime of transparency has brought in its wake.

Increased oversight is far from the only challenge facing wealth managers, however. Clients' expectations and desires continue to change dramatically in several areas. Increased transparency means that they are more focused on value for money and are taking a much more comparative view of their wealth management provision. They are more demanding in terms of both technology and tailored service, while their view of the investment universe is also getting broader in the search for returns.

Independent wealth managers are perhaps feeling the change in investment preferences more than any other cohort of the sector. They are transitioning from a protection of assets model to one where clients will be scrutinising investment performance far more closely. Wealth managers have to compare favourably to their peers, but also stand out from them by offering something beyond the commoditised investment offerings many providers now focus on. This intensified focus on investment expertise brings with it its own challenges in terms of personnel and IT, adding to the issues IWMs are grappling with.

But while Swiss IWMs certainly face myriad challenges, they are also entering a time of great opportunity. The pressures facing the industry, along with its imminent succession transition, will combine to force a significant (some say massive) wave of consolidation. Many see a comprehensive shakeout of the industry around the corner and while it is sad to contemplate wide-scale exits we will probably be left with a far healthier industry – one that is fitter to meet the needs of clients, and regulators, today.

Those Swiss IWMs which do remain can look forward to a bright future as the enduring appeal of the independent model has never been in doubt. For clients, having a longstanding, trusted advisor sitting on their side of the table is invaluable. For their part, IWMs have the flexibility to serve their valued clients exactly as they would wish and to control their own destinies by running their own business. Independents have been a hugely important part of the Swiss wealth management scene for decades now and (despite their often tiny size) together IWMs now manage some 13% of all the Alpine state's assets under management. Some foresee this figure climbing even higher.

With independents running such a significant proportion of the assets in Switzerland it is little wonder that banks are keen to target their business as custodians and platform providers. The stable revenue streams provided by IWM business doubtlessly look very attractive to banks at a time when all are facing profitability pressures. Meanwhile, banks can give independents the infrastructure and support they need to survive – and even thrive – in the new environment. Banks which have spotted the opportunity to help IWMs adapt are making great strides in this regard, as are all manner of providers to the sector.

Innovation and collaboration will characterise the future development of the IWM industry in Switzerland. Partnerships with SROs, banks and third-party service providers are going to be an important part of how independents negotiate their new reality and this will hopefully help them to preserve all the things which make their model so attractive while also becoming sharper and more streamlined across their activities.

This report speaks of a symbiotic relationship between IWMs and banks, and over time it seems likely that its mutually beneficial nature will become ever more apparent. It is a common misconception that wealth managers must always be in competition for clients' loyalties. Wise banks respect the triangular relationship between themselves, wealth managers and clients, and view independents as valued partners, rather than mere asset and revenue gatherers; savvy wealth managers appreciate the additional depth banks' expertise and infrastructure can bring to their proposition, as well as the sense of security a robust custodian gives the client. With trust as the basis of their relationships, banks and IWMs can flourish together to the ultimate benefit of clients – and the efforts of the SROs and all the other stakeholders can only further improve things.

This report is an attempt to gauge how IWMs – and the SROs, banks and other providers serving them - are going to shape up to meet the future. It is also intended to celebrate the diversity and entrepreneurialism of a sector which remains highly important to the Swiss financial services industry and highly valued by end-clients themselves. In many ways the independent model represents the apotheosis of the wealth management concept and this is why the smallest of firms can be found running portfolios of stunning size. Just as Switzerland punches well above its weight on the international stage, so too do its independent wealth managers. There may be testing times ahead for some and radical changes may be necessary, but it is possible that the IWM sector will go from strength to strength.

PUBLISHED BY

WealthBriefing
Heathman's House
19 Heathman's Road
London, SW6 4TJ
United Kingdom

PRODUCED IN ASSOCIATION WITH

Coutts & Co Ltd
Stauffacherstrasse 1
PO Box 8022
Zurich
Switzerland