How Switzerland aims to enhance reputation for product innovation

Although known primarily for its wealth management proposition, the country is increasingly looking to manufacture funds and other investment products. International fund managers are also looking at the country as a potential growth market.

Switzerland is looking to establish itself as a centre of fund management, with domestic players seeking to beef up their product propositions. They will face competition from international fund managers who, despite increasingly stringent regulatory requirements, consider Switzerland a relatively untapped market.

"For the last 300 years Switzerland has been famous for wealth management, not asset management. It is starting now to try to establish an asset management base," notes Pius Zgraggen, founding partner and chief executive of OLZ & Partners Asset & Liability Management, which specialises in minimum variance investing.

"SFAMA (the Swiss Funds and Asset Management Association), which is a very large group of people representing the funds industry, recognise that the value proposition of Switzerland has changed completely," he adds.

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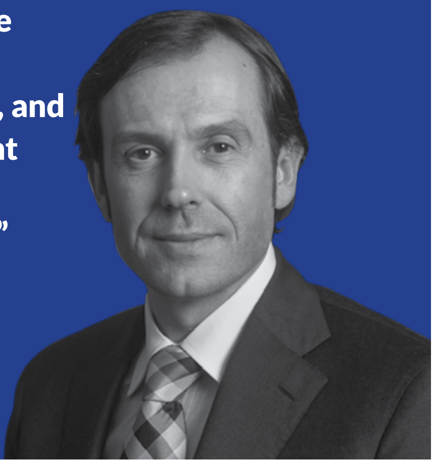

PAOLO CORREDIG
T Rowe Price

"Instead of just buying products the [Swiss asset management] industry can create them. Everything is here in Switzerland except the tradition."

For Laurent Perusset, managing director and global head of advisory at UBP, the country is well-placed to compete because it has for centuries been "an open door on the world", with a tradition of accessing global investment opportunities. "This has always been true of the private banking industry, and is still what we have to offer international clients," he adds.

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HEIGHTENED COMPETITION

According to Paolo Corredig, head of intermediary business, Switzerland, at T Rowe Price, there is a split within the industry between fund specialists and those with fully-fledged product ranges.

“The low interest rate environment has prompted a shift towards more alpha-generating investments.”

“Over the last five or 10 years the number of providers in the market has increased dramatically. Both these sides are appealing,” he says.

“At the end you will survive if you are able to provide superior service and performance, and have a strong commitment to the market as well as excellent quality product.”

M&G is one foreign fund management firm that has recently upgraded that commitment, having set up a physical office in Switzerland after 10 years of being involved in the market.

“The beauty of the Swiss market is that it is so diversified,” says Volker Buschmann, managing director, Switzerland wholesale at M&G. “Demand touches a wider variety of investments compared to other countries, where things are more focused.”

The low interest rate environment has prompted a shift towards more alpha-generating investments, according to the Deloitte report, *Wealth Management Centre Ranking 2015*.

The report notes that in Switzerland from 2008 to 2014, the amount of money in deposits has fallen from 38% to 33%, compared to an increase in securities AUM from 36% to 41%. There is also a trend towards investment in non-financial assets, including quasi-investment-banking functions such as M&A and corporate finance.

Club investing is another trend, with one Swiss wealth manager offering to match entrepreneurs from as far afield as Central America and Asia to establish relationships with one another in both commerce and investment.

These are areas in which smaller, more nimble players are best placed to thrive.

The bigger institutions, including private banks, are in many cases giving way to investment houses rather than trying to do everything in-house.

“Over the last two or three years banks that had understood themselves more as product sellers have been creating investment processes that feed information into an advisory service,” explains Stefan Jaecklin at Oliver Wyman.

“This does not mean you create products yourself but you are in charge of asset allocation decisions.”

SWEEPING CHANGE

The asset management industry has not been immune to the regulatory change sweeping international financial services, but the issue has most affected foreign fund houses wanting to sell into Switzerland. A new regime governing the distribution of non-Swiss funds to domestic investors was implemented in March this year.

This separated investors into three categories, one of which – non-regulated qualified investors – includes family offices, family trusts and HNW individuals. Among other requirements, asset managers must now have a Swiss-licenced representative and use a domestic bank as a paying agent in order to sell to this group.

This might discourage foreign fund managers from targeting the Swiss market, according to Philipp Portmann, chief executive officer of investment portal fundinfo.

“The recent changes to the laws [mean] funds wanting to distribute to retail clients have to get a FINMA license, along with needed a representative or paying agent,” he says.

“This has made their public profile higher, but in reality fewer funds are coming because they can’t just fly into Zurich and sell products to family offices,” says Portmann.

Buschmann at M&G believes firms like M&G can compete on different criteria, particularly as the asset management market is undergoing consolidation.

“We have already seen this on the client side and in distribution,” he explains. “It is a question of how many companies operating in the market will be able to fulfil the criteria on fee levels, and commission-free share classes.

“In general here the operational demands are becoming very high, which means that size becomes a big advantage for us.”

A concern about increased regulation among domestic players is that it might stifle innovation just as Switzerland is looking to add value as a product manufacturing centre, according to Zgraggen. “Young people are not coming from universities to join a company as an assistant and [going on to start up] a new business like we did 15 years ago,” he explains.

“To be regulated you now need to have at least four to six people and all the processes in place, which means you need about CHF1 million (USD1.1 million) just to start a new business.”

GUIDED ARCHITECTURE

The industry has also not been immune to margin squeeze, notes Daniel Ghirardi of EFG Asset Management. “We are all struggling to maintain margins,” he says. “If I am selling my own products within my own bank I am fighting on the same level as the competition. At the beginning of 2000 there began a trend towards open architecture, but now this trend has reversed.”

Andre Bantli, head of distribution for Switzerland at BlackRock, agrees, characterising this as “guided” rather than “open” architecture.

“But now there is a clear shift to ‘guided architecture’, with private banks looking for a particular type of product and wanting to work with a handful or a couple of handfuls of asset managers,” he says.

“With the regulatory requirements you have to fulfil as a private bank – having to know precisely which products you can sell to which clients – you had better focus on a few asset managers and a few products that you are very familiar with,” adds Martin Thommen, president of SFAMA and head of UBS Global Asset

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UBS Global Asset Management

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VOLKER BUSCHMANN
M&G

Management's in-house distribution in Switzerland and EMEA.

"The old, supermarket-type model will disappear, foremost in Europe," he adds.

For fund managers, this will create an increasing need to have a standout offering, and technology is one way in which this can be developed in both product design and distribution.

"Electronic screening to identify words that are indicative of certain trends in investment is something that we believe is going to be enormously important," says Bantl.

"There could be someone out there developing [a technology] that will change the game completely for our business, and we spend at least a few months trying to figure out just what that might be and how we can position ourselves to be a part of it."

FEE EVOLUTION

There is also a clear trend towards a fee-based model. In plain vanilla mutual funds, this change means that many wealth managers seek out the cheapest share classes available.

"Remuneration will fall away. Transaction fees used to be an important component of income for private banks and distributors but will maybe decrease over time," notes Corredig. "Investors are increasingly aware of what is going on in the market and are better informed about the product offering. They know that they can buy cheaper solutions and this is going to force distributors to create new models."

There is also uncertainty about whether Switzerland will ban on retrocessions, after a court in 2012 required one leading asset manager to return fees that had not been agreed with a client.

Formal rules on the issue have yet to be introduced, but it is clear this form of payment will be a much smaller part of the relationship between product manufacturers and sellers.

"Fee models in our industry are changing. That even more leads to a situation where the only things that count [for a fund manager] are performance, quality of service and access to information," concludes Thommen. ■

"The end of the supermarket model will create an increasing need to have a standout offering, and technology is one way in which this can be developed."

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PHILIPP PORTMANN
Fundinfo