

# LEARNING FROM THE SWISS FINANCIAL MARKET

Jan Schoch of Leonteq Securities AG reviews what we should learn from the development and evolution of the Swiss financial market.

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Looking back, we see a long period of good growth and low inflation in the world which ended in a series of crises that moved from the US to Europe and the rest of the world. As a result, the world is now in a long-term low growth phase. Jan Schoch talks about the innovations in business models in the financial sector against this backdrop.

Regulation is increasing on a daily basis in Switzerland against an oligopolistic market structure with a number of large players dominating the market.

Schoch says that the crisis has caused two important changes in the market for financial services. The first being the changing client demands and the second being the move into declared assets.

These two changes, he says, lead to three concrete new requirements from the client. Namely, a demand for performance, an increase in cost awareness and a demand for individual or customised services.



## Jan Schoch

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So, on one hand, we have a drastic change in the needs of clients and on the other, we have regulators who're tightening the noose on the institutions who are active in the market. "I think the two elements, the increased client demands and the increased requirements from regulators pose very much a stress field towards financial institutions active in the market in Switzerland and probably that's true for other markets as well", says Schoch.

He believes that the market is going to see a "tectonic plate movement" in the financial services industry and is going to reshape like never before. However, in spite of all the regulation and impact so far, he believes that what we see now is only 2% of what is to come in the future.

Schoch says that the fundamentals are at play now and the winners at the end of the reshaping of the financial services industry will be those institutions with a customer centric business model.

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this proposition should be in the winning zone", says Schoch, who doesn't believe that the large institutions can cover everything in terms of services.

The industry participants need to start specialising in one thing that they are good at instead of trying to offer a breadth of services just to compete for more business. In the new model, organisations will have to offer specialised services and collaborate with different players in the market. These companies will be the role-models of the industry.

"What you need is a similar network of producers like you have it in the car industry", explains Schoch, who

advocates learning from other industries and decreasing the production depth of issuers and providers of financial products, in favour of specialising and providing greater value.

This seems almost intuitive when you contrast it with that the regulators are demanding and the customers are expecting from their financial service providers. In fact, there are already a few companies who have emerged who're operating in this space with a customer centric business model.

Players like PayPal, who are focusing on a certain element of the value chain are rising. Social trading companies, social portfolio management companies and so many other innovative entrepreneurial ventures in the market are on the rise and are trying to provide something on similar lines. Schoch says that these are the first signs in terms of new players coming to the market.

Schoch highlights that gross margin in wealth management in Switzerland has already decreased by about 30%, which may not be a stress field or an indicator of the shift in the market but it definitely marks the beginning of the tectonic shift that he talked about earlier.

Switzerland is in the consultation period of the Financial Services Act and Financial Institutions Act which are scheduled to be introduced to the market in late 2017 or early 2018 which will definitely have an impact on the industry, along the lines that were discussed so far.

However, keeping in mind the new wave of entrepreneurial ventures that are focusing on particular aspects of the value chain in a bid to provide better value to customers, Schoch believes that the regulators should take a look at these new entrants and formulate laws that are directed towards these new functional players.

"They should start regulating functions like payments, settlements, security services and the likes and therefore embrace that new players are entering the market", says Schoch, who cites the need to lower the absolute amount of capital required to perform a certain function, as an example.

He hopes that in the next two decades, they will have a network of players in the market who serve the end client in a better way because they work together in a B2B model. That way, Schoch thinks, the quality and innovation which are at the heart of the Swiss competitiveness are going to be something that the industry will strive for in the long term, together.