

Swiss EAM segment set to emerge leaner and meaner

External asset managers (EAMs) in Switzerland will continue to face pressure on performance and regulatory overhang, but those that adapt to this new environment will be stronger for it, believes Omar Shokur at Crédit Agricole Private Banking.

A combination of pressure on performance and regulatory uncertainty could prompt the number of external asset managers (EAMs) in Switzerland to decline from 3,500 to around 1,000, in coming years, believes Omar Shokur, head of Crédit Agricole Private Banking's financial intermediaries department.

He believes this consolidation, although difficult, should have positive effects for the industry.

Most of the EAMs are relatively small institutions, with only a few having AUM of more than US\$500 million, according to Shokur.

They value their independence, but many realise that in the current economic and regulatory environment they need to either join forces in order to thrive, or exit the market altogether.

"There is a natural loss of assets as some clients leave [Switzerland] and invest

back in their home countries," Shokur says. "There is a need to deliver performance and markets are becoming increasingly difficult."

Low interest rates are also hurting this segment of Swiss financial services, he notes, as EAMs that once generated performance and revenue through bond and deposit investments are now less able to do so.

Another emerging trend in the industry is companies moving to a no-retrocession model, to an extent forced by upcoming regulation.

"Most of the companies setting up now are starting with a new model – without retrocessions – based on a more complete value proposition than in the past.

"This new model looks more like multi-family offices including the management of assets, consolidation of assets, follow-up of tariffication, etc.," says Shokur.



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REGULATORY OVERHANG

There has been regulatory pressure to move towards a fee model without retrocession, he adds, but there is now

uncertainty as to whether some degree of retrocessions will be allowed or the practice will be banned altogether.

A new regulatory framework for the financial services industry, dubbed LSFIn (Loi Sur les Services Financiers), has been in the process of elaboration by the Swiss authorities for a few years, but its content has yet to be confirmed.

However, the latest version of the legislation does not specifically ban the use of retrocessions. "Retrocession has become a negative concept, but regulators may have realised transparency [on the way in which retrocessions are paid] is the most important thing.

"[This includes showing clients] the way you are being remunerated is a true retrocession, that is, sharing in commission that the bank would take, and how that amount is calculated," says Shokur.

An additional uncertainty in the EAM industry, which LSFIn will hopefully clarify, is the question of who will oversee EAMs and other financial intermediaries in the market.

in Switzerland, covering industries such as trusts and insurance.

The first option could put yet more pressure on EAMs, Shokur notes, as FINMA might need to add more staff to perform its additional regulatory functions, pushing up requirements on costs and shareholder equity from EAMs.

"A system of self-regulation might cause fewer [EAMs] to exit," he adds.

Finally, the LSFIn will also tackle the question regarding consumer protection (as a parallel of MIFID) and its eventual modification and new applications in the EAM industry.

One of the expected objectives of the financial industry in Switzerland is that the new framework (via the LSFIn) will increase opportunities to gain access to more markets, particularly Europe.

LEANER AND MEANER

The shrinkage of the EAM segment is not necessarily a negative development, either for EAMs or the banks they deal with, Shokur believes.

cated, and larger, could be an opportunity for banks that have the services and capabilities to serve these more demanding new 'big EAMs.'" he says.

"EAMs share of assets [in Switzerland] is now 13% to 15%, but even if consolidation decreases this share to 10% or 11% it should still be an interesting business to be in."

Based on its strong banking operating solution (S2i), its wide range of product offerings and a competitive pricing structure, Crédit Agricole Private Banking has over the last 15 years built a dedicated team to service EAMs.

In addition to the standard custody services, the bank also offers EAMs dedicated access to its product specialists, including those covering investment advisory, private equity, structured products and forex.

Its EAM desk also serves as an entry point to the broad range of services provided by a universal bank such as Crédit Agricole Group.

Shokur, who has been with Crédit Agricole Private Banking since 2001, believes that the future success of banks, EAMs, and more generally of the banking industry, will depend on their capabilities to deliver a high-quality service (in terms of offering, operational service, and security) while at the same time being competitive in terms of pricing.

"Most of the external asset managers setting up now are starting with a new model based on a different value proposition."

One option is for FINMA (the Swiss Financial Market Supervisory Authority) to supervise financial intermediaries, including EAMs directly. Another is to choose a unique self-regulatory organization. There are already several of these

"It is necessary for the industry to become sustainable.

"Having a model when they don't have to deal with 3,500 entities but rather 500 or 1,000 which are more sophisti-

"Things are changing at an amazing speed in the Swiss private banking industry," he concludes. "Some small entities, including those that have been doing business for years, might not be able to evolve quickly enough." ■