Swiss wealth managers need size or agility to thrive in Asia

Wealth managers of Swiss companies operating in Asia need to be either 'too-big-to-fail' or nimble enough to thrive. Those caught in the middle might struggle to offer sufficient reasons for Asian investors to consider them.

"Switzerland remains important as a hub for wealth management, but whether it remains important as a physical location for IT and operations is another question."

CHRISTINE CIRIANI
CAPCO

Although Asia is an increasingly important region for Swiss wealth managers, they need to be certain they can offer added value to HNW and UHNW individuals in the region. This is even more vital now as local financial centres such as Singapore and Hong Kong compete for a larger slice of the region's wealth.

According to Deloitte's *Wealth Management Centre Ranking 2015*, the best opportunities for wealth managers and private banks to attract new client assets are to be found outside Europe, not least in Asian emerging economies. Many Swiss-based wealth managers have recognised this and are targeting these markets.

Indeed, the amount AUM coming from the Asia-Pacific region has doubled since 2008, according to the report. However, it still represents just 2% of the total, and it remains to be seen whether the growth trend will continue given tax savings are no longer one of the benefits of using Switzerland as an offshore wealth management centre.

Furthermore, the report notes, local wealth management centres, such as Hong Kong and Singapore, which benefit from geographical proximity with potential clients and "seem to be more successful in competing to exploit the market potential" in Asia.

Given this, it seems the best way for Swiss wealth managers to gain access to Asia's lucrative and growing pool of wealth assets is for them to establish an on-the-ground presence.

TOO BIG TO FAIL

The biggest firms have, perhaps not surprisingly, had the greatest successes so far.

In a recent article in *The Business Times*, Juerg Zeltner, president of UBS Wealth Management, noted that Asia now represents one third of its business. Its commitment to the region was recently cemented with the creation of an innovation centre in Signapore.

Its major rival, Credit Suisse, is also taking a keen interest in Asia. Former Prudential boss Tidjane Thiam, who became its chief executive in June this year, has an insurance background and is renowned for having strengthened Prudential's business in Asia. The significance of the latter is obvious, but the importance of the former should not be underestimated, as insurance is one of the main conduits of wealth management sales in several Asian emerging markets, including new frontiers such as the Philippines.

"Not every Swiss institution can be a UBS or a Credit Suisse, but many smaller firms believe Asia still presents a substantial opportunity."

NIMBLE ENOUGH TO THRIVE

Of course, not every Swiss institution can be a UBS or a Credit Suisse, but many smaller firms still view Asia as a substantial opportunity. The most notable recent deal was the purchase of Coutts' wealth management business by Union Bancaire Privee (UBP).

The desire to access Asia's growing number of HNW and UHNW individuals and families has been widely seen as one of the main reasons for the acquisition. Indeed, according to a Reuters report, the deal will boost UBP's Asia-based business from just 10% of the firm's total AUM to about one-quarter.

Other Swiss institutions are realising the need to tap Asian markets, but acknowledge they do not have the expertise in house, so need to tie-up with partners in the region.

"If you don't understand [Asia] as a Swiss institution you will find it difficult," notes one partner at a Swiss external asset manager. "We are on-boarding a person in Singapore which we believe will be a breakthrough for us. If we can succeed [with him] will more people will follow. We want this Asian expertise."

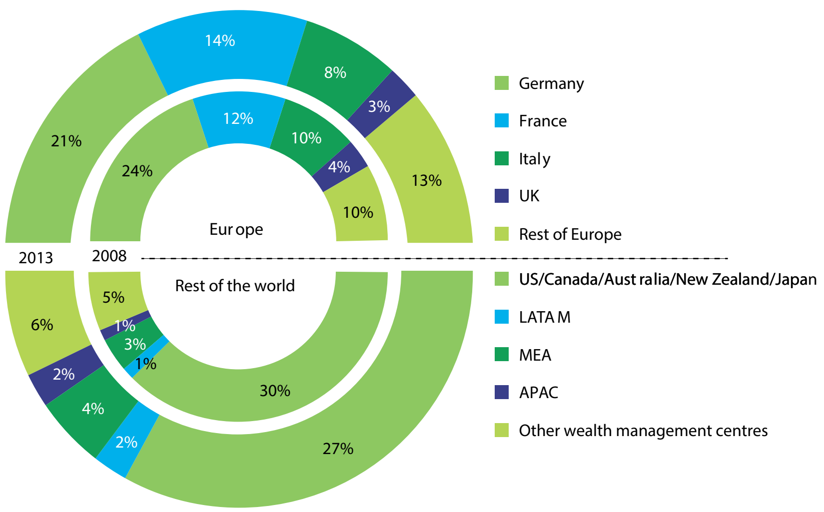
IMMEDIATE ACCESS

Institutions have to be careful to ensure they are truly adding value to the region, believes Adrian Kunzi, chief executive officer of Notenstein Private Bank.

This means giving clients access to booking facilities on their doorstep. "Clients want a booking centre near where they live. If you are based in Switzerland and have clients in Asia it is difficult to interact with them," he says. "A booking centre in Singapore could offer the same level of service as us, so why would an Asian client come to a Swiss bank? There is no value added."

Christine Ciriani, head of Singapore and Switzerland for business and technology consultancy Capco, suggests this ties in with Switzerland's role as a wealth management, rather than an administrative centre. "Switzerland remains important as a hub for wealth

ESTIMATION OF INTERNATIONAL CLIENT ASSETS ORIGINATION IN SWITZERLAND



Source: Deloitte Wealth Management Database management, but whether it remains important as a physical location for IT and operations is another question," she says. "For those banks with a large Asian presence, we see a lot of migration now to Singapore."

Indeed, notes Andreas Toggwyler, a partner and head of IT advisory for Switzerland at EY, technology is one area in which Swiss banks are benefiting from Asian exposure. "Most of the banks we work with have digital private bank programmes that began in Asia," he says.

"Most of the banks we work with have digital private bank programmes that began in Asia."

ANDREAS TOGGWYLER
EY

"The adoption of digital technologies is much higher in a place like Hong-Kong or Singapore than in Switzerland or in Luxembourg. Partly this is down to demographics and culture, but also because the Asian arms of the European banks are typically smaller and more dynamic, so they have greater freedom to act and don't have big legacy systems to work with."

"Having a wealth management business in Asia will only be viable for a few firms, notably large institutions that are able to combine regional and local capacity."

According to Ray Soudah, founder and managing partner of mergers and acquisitions firm MilleniumAssociates, the particular market characteristics of the region have to be taken into account.

"The Asian wealth management market can be split between international (booking centres like Singapore and Hong Kong) and domestic. A DBS, Bank of Singapore or an OCBC can encompass both categories, whereas the large foreign lenders are basically only off-shore/international banks," he says.

Although he acknowledges that having a wealth management business is an appealing prospect, he believes it will only be viable for a few firms, most notably large institutions that are able to combine regional and local capacity. Just as in Switzerland, consolidation will be the fate of those firms unable to offer a distinct value proposition in Asia.

"Beyond these institutions, and very limited number of foreign banks that have already grown big, the rest are only making a little bit of money. They have been or will be sold sooner or later," Soudah adds.

CLEAR BENEFITS, UNCERTAIN COST

It is a no-brainer that a Swiss wealth management institution will want to have at least some presence in Asia, given the region is the epicentre of new wealth generation.

"You need to have a story to tell to your employees, shareholders and the market, which is why you would be in Asia," says Bruno Patusi, head of wealth & asset management at consultants EY.

"You struggle to talk about a growth story if you are not in Asia or the emerging markets. Proximity to China can make Asia an attractive region to be in."

However, he notes that the costs of being in the region can potentially outweigh the benefits, so institutions needs to be careful.

"The cost that comes attached [to having an operation in Asia] is probably disproportionate to the result but you need to be there.

"Many of the business cases are not sustainable and there is cross-subsidising by business in Europe." ■