SwissBanking

January 2007

# Wealth Management in Switzerland

## Industry Trends and Strategies

**Impressum**
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Publisher and Print: Swiss Bankers Association, Basel

## Foreword

Switzerland's international leadership in wealth management is no coincidence. In a volatile world, location matters, at least in two ways. The tradition of high-end services, the availability of skilled staff, and a predictable regulatory environment all have contributed to Switzerland's leading dominant position among global wealth management centres. Importantly, Switzerland provides wealth management banks with the pillar of market positioning in an increasingly brand-conscious industry. Merging tradition and entrepreneurial spirit has winning ways and, clearly, a profitable edge.

The aim of this paper is to assess how Switzerland compares to its global peers, in what ways Swiss wealth management banks differentiate themselves, and which strategic responses to industry threats and opportunities they have espoused. It summarises and presents in a user-friendly manner what appears at first sight to be a set of heterogeneous and sometimes conflicting data, surveys, and literature. To illustrate the magnitude of the Swiss wealth management centre, this paper extensively resorts to the use of tables and figures.

For the purpose of this paper, no formal distinction is made between private and institutional wealth management, unless one of them is specifically referred to. Private wealth management focuses, although not exclusively, on private individuals with large bankable assets (commonly referred to as 'high net worth individuals' or HNWIs) (Table 1). Institutional wealth management instead focuses on the pool of investors with professionally-managed assets, including pension funds, collective investment vehicles, foundations and corporates.

**Table 1: Typical client segmentation in Swiss private wealth management**

| Up to CHF 250-500,000 | CHF 250-500,000 to 1-2 million | CHF 1-2 million to 50 million | CHF 50 million and above |
|---|---|---|---|
| Mass Affluent | Core Affluent | High Net Worth | Ultra High Net Worth |

Source: SBA research.

## Executive summary

**With 9% of global assets under management (AUM), Switzerland is among the world's leading trio of wealth management centres, beside the United States and the United Kingdom. It is the world's leader in international private wealth management, with a market share of 28%. The country's two largest banks are among the world's top ten wealth management firms, with UBS ranking first.**

- AUM in Switzerland, which refers to client portfolio holdings in domestic branches, reached an all-time high of CHF 4.4 trillion at year-end 2005, equivalent to ten times the Swiss GDP. If all client assets managed or deposited for investment purposes in domestic and foreign branches are included, Swiss banks' global AUM reached a total of CHF 6.9 trillion.

- The Swiss banking sector had its most profitable year in 2005, posting an all-time high after-tax return on equity of 18% and a first-class cost-income ratio of 57%. This position of strength largely derives from high-quality earnings streams generated by wealth management business lines. Almost 7 in 10 banks in Switzerland offer whole or part of the wealth management value chain.

- The Swiss wealth management centre exhausts the spectrum of size and business model possibilities. It comprises 2 global players (with each over CHF 1,000 billion AUM and over 10,000 wealth management staff), 5 large players (CHF 100-1,000 billion AUM and over 1,000 staff), 52 medium players (CHF 10-100 billion AUM and over 100 staff) and 83 small players (CHF 1-10 billion).

- The performance of Swiss wealth managers has been remarkably resilient in the face of increasing international competition. Its strength lies in a strong on- and off-shore home market. Gross margin on AUM has stabilised at high levels, in the range of 80-120 basis points, consistent with top-tier peers. Whatever the underlying business model, operating margins of 50% are within reach.

- Although market fragmentation favours consolidation, players' approaches have varied. Larger players have embarked on worldwide acquisitions, either to establish physical presences or to expand market shares. Smaller players have merged with equal-sized domestic counterparts to offset cost pressures. Both of them pursue organic growth through high-intensity optimisation of business models.

- Swiss wealth managers have aggressively expanded their international franchise in both on- and off-shore destinations. In the past decade, the stock of capital investments abroad has risen by a factor of 5, to CHF 70 billion. The total number of foreign branches has increased by one third to 304 over 2000-2005, of which the two big banks and foreign banks are the primary sources (138 and 117 respectively).

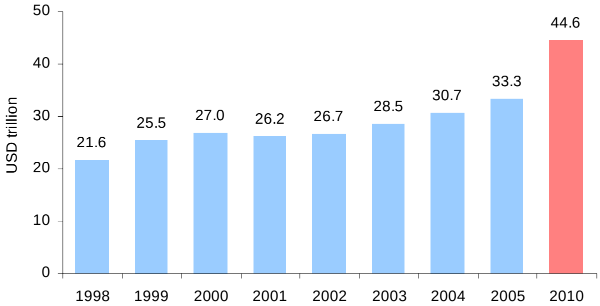
- Over the same period, the stock of banks' capital investments in Switzerland has doubled to CHF 29 billion. Top and mid-tier international banks have scaled up their international wealth management operations in and from Switzerland. Market positioning and brand management have been driving forces and have deepened the attractiveness and international reach of Swiss wealth management.

# 1 Switzerland and global peers

## 1.1 Global market sizing

Needless to say, wealth management ultimately depends on new money growth. According to estimates by Merrill Lynch/Capgemini, global private wealth climbed to USD 33.3 trillion in 2005 (Figure 1), with a global population of High Net Worth Individuals (HNWIs) at 8.7 million.[1] From 1996 to 2005, HNWI wealth grew at a compound annual growth rate (CAGR) of 8%. North America is still the world's largest wealth management market, with 2.7 million HNWIs holding USD 10.2 trillion in financial assets. It is followed by Europe and Asia Pacific, totalling respectively 2.8 and 2.4 million HNWIs with financial holdings of USD 9.4 and 7.6 trillion. HNWI global wealth is forecasted to reach USD 44.6 trillion by 2010, growing at a CAGR of 6%.

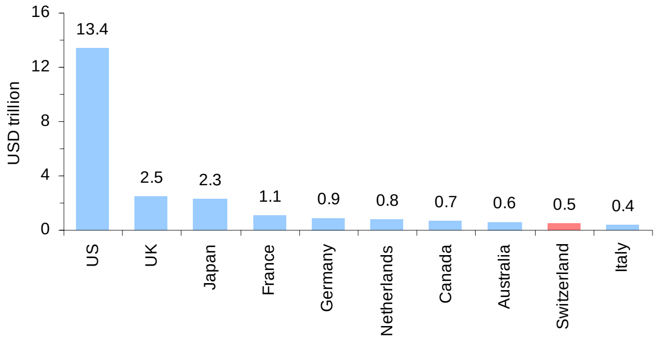
**Figure 1: HNWI's financial wealth, 1998-2010**




Source: Capgemini/Merrill Lynch; SBA research.

Driven in part by pension reforms, the institutional asset market is also experiencing rapid growth. A useful yet imperfect proxy is the total assets accumulated in long-term savings and retirement systems, i.e., the sum of pension funds and life insurance assets (Figure 2).[2] In 2004, OECD economies totalled USD 24.5 trillion of pension funds and life insurance assets, equivalent to 109% of the OECD aggregate GDP. Pension fund assets reached USD 15.6 trillion or 85% of GDP. With a total market share of 95%, ten countries dominate the pension funds and life insurance asset market. With total assets exceeding USD 13.4 trillion (USD 11.1 trillion of pension fund assets), the US is clearly the largest market.

**Figure 2: Largest country pools of institutional assets, 2004**




Note: Data includes pension funds and life insurance assets.
Source: OECD; SBA research.

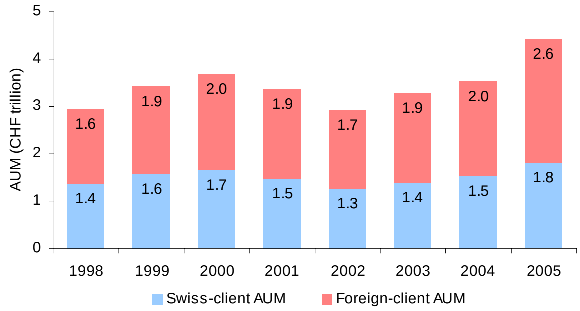
[1] Merrill Lynch and Capgemini, 2006, World Wealth Report. According to competing estimates from Boston Consulting Group (2005, Global Wealth 2005), HNWI's global wealth stood at USD 27 trillion.
[2] OECD, 2005, Pension Markets in Focus, December 2005. Excluded from this proxy are privately managed pension plans such as book reserve arrangements. Note in passing that the above-mentioned private wealth estimates include, at least partially, HNWI's pension and life assets.

## 1.2 AUM in Switzerland

The classic figure of AUM in Switzerland, which refers to client portfolio holdings, reached an all-time high of CHF 4.4 trillion at year-end 2005, which is ten times the Swiss GDP (Figure 3). More than half of AUM (55%) is held on behalf of institutional investors, 35% from private individuals and 10% from corporate clients. The distribution by client domicile shows that more than half of AUM (60%) originates from foreign clients.

AUM include all client assets managed by or deposited with Swiss-based banks for investment purposes.[3] Therefore, the inclusion of savings and time deposits (CHF 0.6 trillion) and fiduciary deposits (CHF 0.5 trillion) raises the AUM figure to CHF 5.5 trillion. This figure refers to branches in Switzerland and excludes AUM with foreign branches and subsidiaries. If foreign holdings are also included, SBA research estimates that Swiss banks' global AUM reached CHF 6.9 trillion at year-end 2005.[4]

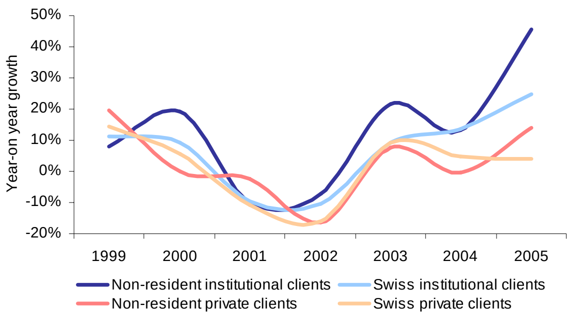
**Figure 3: AUM with Swiss wealth managers, 1998-2005**




Note: AUM calculated according to the strictest definition, that is, client portfolio holdings in domestic branches. AUM growth is increasingly driven by institutional assets.
Source: SNB; SBA research.

Referring to client portfolio holdings, the developments in AUM closely relate to boom-bust cycles in financial asset prices (Figure 4). The institutional asset segments, Swiss and foreign alike, have outperformed. Over 1998-2006, foreign- and Swiss-institutional-client AUM grew by the respective CAGR of 11.6% and 6.2%, whereas aggregate AUM grew by 5.9% a year. As far as net new money is concerned, SBA research suggests that even the Swiss on-shore mature market appears dynamic. Net new money growth explains, on average, 30% of the variation in AUM.[5]

**Figure 4: AUM dynamics by client segment, 1999-2005**



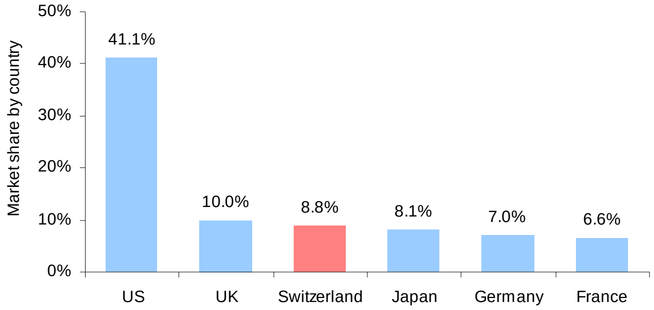

Source: SNB; SBA research.

[3] In line with the Swiss Federal Banking Commission's Bank Accounting Guidelines.
[4] Based on a full sample survey including the largest 200 banks with AUM exceeding CHF 500 million.
[5] Donzé, S., 2006, On the Cyclicity of Net New Money: Some Stylised Facts. SBA Research Note, May.

## 1.3 Switzerland among peers

With 9% of global AUM, Switzerland belongs to the world's leading trio of wealth management centres, beside the US and the UK (Figure 5). Switzerland is the principal platform for international private banking, with a market share of 28% (Figure 6). The two country's largest banks, UBS and Credit Suisse, rank among the world's premier wealth management franchises (Table 2). The global wealth management market remains fragmented, as the assets of the top 10 wealth managers totalled USD 13.4 trillion, representing, according to P&I/Watson Wyatt, about one quarter of total assets.[6]

**Figure 5: Who manages global wealth?**



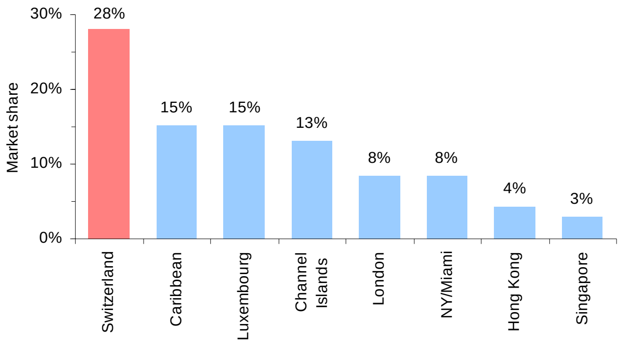

Note: Rest of the world=18%. Data sums wealth managers' global AUM by their registered office. Data refers to 2004.
Source: P&I/Watson Wyatt; SBA research.

**Table 2: The world's largest wealth managers, 2005**

| Rank | Manager | Country | AUM (USD billion) |
|---|---|---|---|
| 1 | UBS | Switzerland | 2 016 |
| 2 | Barclays Global Investors | UK | 1 513 |
| 3 | Allianz Group | Germany | 1 493 |
| 4 | State Street Global | US | 1 441 |
| 5 | Fidelity Investments | US | 1 422 |
| 6 | AXA Group | France | 1 260 |
| 7 | Capital Group | US | 1 166 |
| 8 | Credit Suisse | Switzerland | 1 128 |
| 9 | Deutsche Bank | Germany | 1 027 |
| 10 | Vanguard Group | US | 958 |

Source: P&I/Watson Wyatt; SBA research.

**Figure 6: Financial centres by international private AUM, 2005**




Note: Rest of the world=5%. As of 2005, USD 5.9 trillion of private assets was estimated to be held off-shore.
Source: Boston Consulting Group; SBA research.

[6] Pensions & Investments and Watson Wyatt, 2006, "Global Fund Management Assets Continue to Grow", September.

## 2 Swiss wealth managers

### 2.1 Swiss banks at large

The Swiss banking sector makes up a large part of the Swiss economy and performs a sizeable international intermediation function within the global financial system. At year-end 2005, balance-sheet assets totalled CHF 2.8 trillion (Table 3), corresponding to six times the Swiss GDP. The banking sector generates a disproportionate share of net output, 9.5% of GDP, twice as much as in, e.g., the US or Germany. Wealth management alone accounts for more than half of banks' value-added. Consolidation has resulted in 32% fewer institutions over the past 15 years.

**Table 3: The banking sector at a glance, 1990-2005**

| | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Number of institutions | 495 | 413 | 375 | 337 |
| of which foreign banks | 142 | 155 | 148 | 150 |
| Number of branch offices | 5 762 | 4 945 | 4 037 | 3 839 |
| of which offices abroad | 216 | 276 | 228 | 304 |
| Number of staff (1,000) | 136 | 133 | 188 | 182 |
| of which staff abroad (1,000) | 16 | 23 | 76 | 82 |
| Total balance sheets (CHF billion) | 1 082 | 1 323 | 2 125 | 2 846 |
| of which foreign assets (CHF billion) | 389 | 514 | 1 196 | 1 849 |

Source: SNB; SBA research.

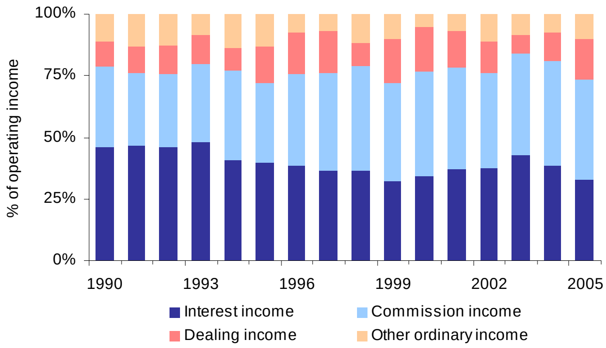
In aggregate, Swiss banks had their most profitable year in 2005, posting CHF 25 billion of net profits and an all-time high after-tax return on equity of 18% (Table 4). The robustness of profitability is further shown in the first-class cost-income ratio of 57%. This position of strength largely derives from high-quality earnings streams across retail, corporate, and wealth management segments. The increasing importance of commission- and fee-based revenues in recent years has increased banks' aggregate exposure to financial market cycles (Table 4 and Figure 7).

**Table 4: Performance indicators, 1990-2005**

| | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Operating income (CHF billion) | 28.9 | 37.8 | 68.7 | 68.6 |
| Operating expenses (CHF billion) | 17.3 | 22.6 | 37.5 | 38.9 |
| Operating profit (CHF billion) | 11.6 | 17.1 | 31.2 | 29.7 |
| Net profit (CHF billion) | 4.0 | 6.0 | 19.2 | 24.7 |
| Cost-income ratio | 60.0% | 56.9% | 54.6% | 56.7% |
| Net interest income (% of operating income) | 46.0% | 39.5% | 34.4% | 32.8% |
| Net commission income (% of operating income) | 32.9% | 32.6% | 42.1% | 40.9% |
| Return on equity (ROE) | 5.5% | 7.1% | 16.3% | 18.3% |
| Return on assets (ROA) | 0.4% | 0.5% | 0.9% | 0.9% |

Note: Cost-income ratio calculated as operating expenses divided by operating income; ROE as net profit divided by shareholders' equity; ROA as net profit divided by balance sheet total.
Source: SNB; SBA research.

**Figure 7: Income composition, 1990-2005**




Source: SNB; SBA research.

## 2.2 Wealth management industry

Among the banking population (337 banks at year-end 2005), two thirds of institutions offer whole or part of the value chain of wealth management. Two universal banks, 70 private banks (of which 56 are asset management banks and 14 are private bankers i.e. industry purists with a partnership structure), 10 cantonal banks and 130 foreign banks (including most major international banking groups) represent the traditional players of the Swiss wealth management industry. More recently, a handful of Swiss-based retail banks have entered the wealth management market, while, at the same time, the number of independent asset managers grew to 2,600 by year-end 2004.[7]

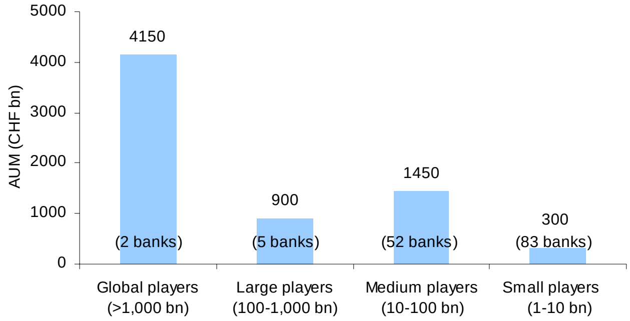
**Table 5: Banking system structure, 1990-2005**

| Number of banks | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Big banks | 4 | 4 | 3 | 2 |
| Cantonal banks | 29 | 25 | 24 | 24 |
| Foreign banks | 142 | 155 | 150 | 150 |
| Regional and savings banks | 206 | 128 | 104 | 80 |
| Asset management banks | 51 | 54 | 57 | 56 |
| Commercial banks | 25 | 20 | 13 | 7 |
| Private bankers | 22 | 17 | 17 | 14 |
| Other banks | 5 | 5 | 7 | 4 |
| Total | 484 | 408 | 375 | 337 |

Source: SNB; SBA research.

The world's two premier wealth management franchises rub shoulders with a mass of smaller-sized players (Figure 8). Global players manage over CHF 1,000 billion of assets and employ more than 10,000 staff in their wealth management division. Large institutions, typically staffed with more than 1,000 employees, enter the AUM range of CHF 100-1,000 billion. The third and fourth classes, no less than the bulk of wealth managers, encompass medium-to-small-sized players with an AUM base in the respective range of CHF 10-100 billion and 1-10 billion. Medium players typically have over 100 staff, whereas small players operate with a lesser head-count.

**Figure 8: Typology of wealth managers, 2005**




Note: The chart does not include micro players, i.e. wealth managers with AUM below CHF 1 billion.
Source: SBA research.

With the emergence of large-sized players, virtually non-existent in the not-so-distant past, the Swiss landscape offers perhaps the most exhaustive catalogue of wealth management franchises, from universal banks to family office-type boutiques. Yet because of their different size, Swiss banks react to external operating conditions in different ways and to different degrees. For example, the increasing fixed-cost base forces smaller players to adjust, whereas larger franchises have greater scope to pursue active growth strategies.

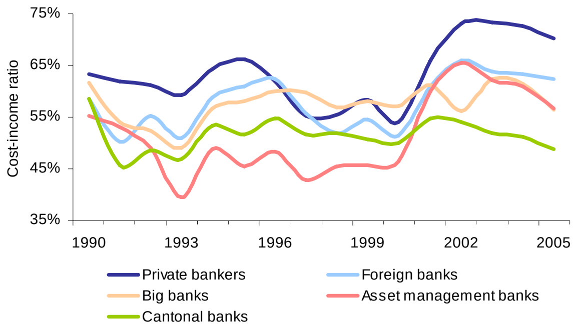
[7] According to the Swiss Association of Asset Managers (SAAM), independent asset managers managed circa 14%, or CHF 600 billion, of client portfolio holdings deposited with Swiss banks' domestic offices in 2005.

## 2.3 Wealth manager performance

Industry economics suggests that most private banking players achieve net profit margins per asset of 25 basis points (bps) or more, compared to around 5 bps for institutional asset management.[8] Private bankers but also asset managers typically consume less capital than banks that are principally engaged in balance-sheet intermediation. A stable client base generates recurring revenue streams due to the high proportion of fees in the income structure, in contrast to more volatile net interest or trading income. However, downside risks remain. Despite the growth of absolute return product offering, wealth managers, particularly smaller players, are exposed to periodic market downturns translating into falling asset-based revenues and sticky overhead costs.

As regards operational efficiency - a premier metric to benchmark wealth managers' performance - Swiss wealth managers stand at comparatively high levels, with cost-income ratios averaging 56% in the long run (Figure 9). Data suggests that efficiency has fluctuated over time. The early 1990s traded at about 10 percentage points below the early 2000s. Since then, cost-income ratios have been returning to low average levels due to cost control measures and earnings enhancement initiatives. Although larger size does not necessarily enhance operational efficiency,[9] cost discipline even among players of the same size entails significant competitive cost advantages.

**Figure 9: Cost-income ratio trends, 1990-2005**




Note: Cost-income ratio calculated as total operating expenses divided by total operating income.
Source: SNB; SBA research.

Swiss wealth managers' gross margins have been remarkably resilient even in the face of increasing international competition. Gross margins (defined as operating income divided by average AUM) have stabilised at high levels over recent years, in the range of 80-120 bps, consistent with top-tier peers. In 2005, Swiss wealth management banks earned an unweighted average gross margin of 105 bps.[10] At the individual bank level, gross margins vary with client base composition. Gross margins tend to be lower in the ultra-HNWI segment, linked to the client pricing power, and higher in the off-shore-client business, which is typically less price sensitive.

Overall, the performance of Swiss wealth managers, whose strength lies in a strong on-shore and off-shore home base, compares favourably with the best-in-class direct competitors. In spite of their heterogeneity, classes of wealth managers have convened ways to deliver high margins and high cash flow generation, two features of wealth management activities. Whatever the underlying business model, operating margins of 50% are within reach, which generate high-quality, low-volatility earnings.

[8] Maude, D., 2006, Global Private Banking and Wealth Management, Wiley Finance
[9] Cocca, T.D., 2005, The International Private Banking Study 2005. Swiss Banking Institute.
[10] Meier, C., 2006, Wealth Managers Walk the Tightrope between Profitability and Growth. Vontobel Equity Research.

# 3 Strategic positioning

## 3.1 Business models

By business models we refer, quite conventionally, to the strategic framework upon which banks base their growth plans, including the source and method of creating business volume, ways of generating revenues, etc. The heterogeneity of Swiss wealth management banks' business models has been resilient, even though some realignment or convergence has occurred in recent years. A primary centrifugal force in the reassessment of most business models has been, for instance, the increasing reliance on open-architecture platforms in the distribution of in-house and third-party products. The universe of business models divides into two extremes, as follows.

At one extreme, a small number of global universal banks have implemented integrated business models, engaging in the full array of banking products and services. By leveraging global reach and capabilities, integrated business models exhibit substantial economies of scale and scope, including product development, cross-selling and client referral, especially from retail and business banking franchises. At the other extreme, a large number of specialist wealth management boutiques have specialised in sophisticated products, customer segments, niche services or even distribution. Either extreme comprises examples of successful high-margin, high-growth players.

In between both extremes, the imperatives of market positioning have led players to engineer an array of business model options, from value chain unbundling to in- and out-sourcing via divestiture of non-core operations. Unbundling occurs, for example, when a player focuses on client relationship management and advisory assets while entering into co-operation agreements or adopting a multi-manager approach for discretionary assets. The same player may choose to outsource IT and back-office operations. Conversely it may choose to in-source back-office functions to exploit economies of scale. It may liquidate non-core businesses such as low-margin brokerage.

**Table 6: Typology of business models**

| Player class | Typical business model components |
|---|---|
| Global to large players | Integrated investment management value chain; services in-sourcing<br>Comprehensive proprietary and third-party product offering<br>On-/off-shore home base; global market presence |
| Large to medium players | Unbundled value chain; focus on core elements<br>Diversified product offering; selection/third-party distribution<br>On-/off-shore home market; selected growth markets/booking centres |
| Medium to small players | Narrow value chain; focus on differentiated service<br>Niche products manufacturing; selection/third-party distribution<br>Targeted on-/off-shore customer niches; selected distribution channels |

Source: SBA research.

The optimisation of business models over recent years has paradoxically rendered the idea that one critical mass fits all obsolete. Most chosen business models are situational and usually contingent on subjectively-perceived critical masses.[11] Global, mid-tier and niche players have demonstrated resourcefulness to develop, refocus or switch between models. The advent of large-sized players has further expanded the universe of business models, re-combining universal banking constituents and expertise in niche segments. In part driven by cost pressure, non-specialist medium-to-small-sized players have been under more pressure to overhaul business models and strategies.

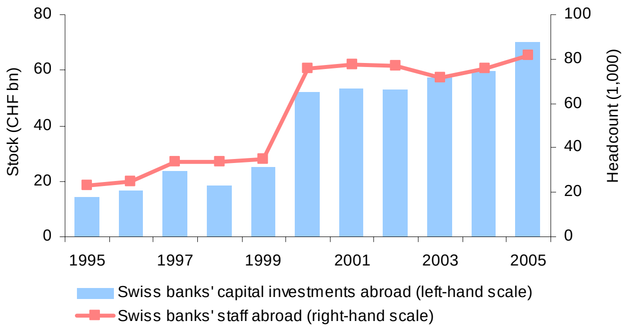
[11] For a similar view, see, e.g., Brupbacher, D., 2004, Swiss Private Banking Review: A Widening Gap. UBS Investment Research.

## 3.2 To on-shore or not to on-shore?

The internationalisation of wealth management has put business models to test. Players compete aggressively to grow at above market average and capture a disproportionate share of net new asset growth. While BRIC (Brazil, Russia, India and China) super-markets and the commodity-driven Middle East have received most attention, mature markets such as Continental Europe and the US, effectively the world's largest wealth management markets, still remain core regional specialisations. Expanding on- and off-shore franchises in growth markets is a capital-intensive route, pursued especially by the larger players.

The European on-shore strategy, which was initiated by the two global banks at the end of the 1990s, has become global. In 2005, the two big banks held 138 branches abroad (+31% over 2000-2005) or almost half of Swiss banks' foreign branches (304 or +33% over the same period). While significantly enhancing global execution capabilities, Swiss banks have increased the total of their foreign capital investments by a factor of 5 over the past decade, to CHF 70 billion (Figure 11). Smaller institutions have expanded more selectively, engaged in on-shoring products and strengthening distribution channels.

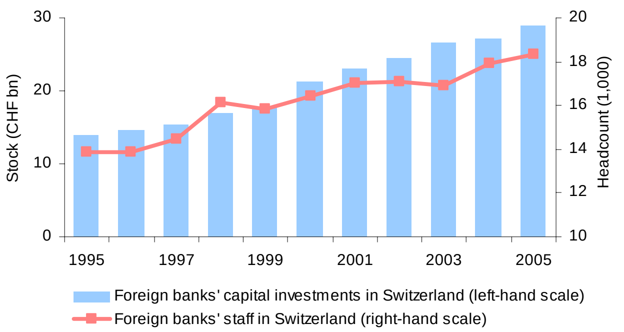
**Figure 11: Going global, 1994-2004**




Note: The sharp increase in 2000 reflects the acquisition of Donaldson, Lufkin & Jenrette (DLJ) by Credit Suisse and of PaineWebber by UBS.
Source: SNB; SBA research.

In the meantime, inward capital investments have doubled to CHF 29 billion, showing that foreign banks have constantly strengthened their client base in and operations from Switzerland (Figure 12). Evidence suggests that leading international financial institutions, including major Wall Street and City firms, have established and grown their wealth management brands by scaling up their international private wealth management operations *from* Switzerland. Foreign banks have indeed been the most dynamic providers of branches abroad (117 or +46% over 2000-2005).

**Figure 12: Going Swiss, 1994-2004**




Source: SNB; SBA research.

## 3.3 M&A in wealth management

At a global level, consolidation in the highly-fragmented wealth management industry has accelerated in recent years. Increased cost bases favour larger, consolidated players seeking to increase their product capabilities, build economies of scale in existing geographies or expand market shares. According to Thomson Financial, the total number of completed merger and acquisition (M&A) deals in the industry worldwide increased to 258 in 2005, compared with 142 a year earlier and 113 in 2003. The Asia-Pacific region continued to dominate activity, accounting for 45% of all deals in 2005. Domestic acquisitions continue to dominate the sector, at 78% of all deals in 2005.[12]

The pace of consolidation in Switzerland mirrors international trends. With over 60 transactions involving at least one Swiss wealth manager party in the past five years, the Swiss marketplace has witnessed fundamental structural changes (Table 7). On the one hand, larger players have typically engaged in serial, small-to-medium-sized domestic or cross-border acquisitions with a view to increase market penetration, either through enhanced market share or *de novo* establishment. On the other hand, smaller players, chiefly concerned with business model optimisation, have acquired or merged with equal-sized, primarily domestic, institutions.

**Table 7: Industry-shaping M&A deals in Switzerland, 2002-2006**

| Date | Transactions |
|---|---|
| 2006 | Announced merger of Clariden Bank, BGP, Bank Hofmann, Bank Leu and Credit Suisse Fides into Clariden-Leu (to be effective as of January 2007) |
| 2005 | Acquisition of SBC Wealth Management by Julius Bär |
| 2005 | Merger of Crédit Agricole (Suisse) and Crédit Lyonnais (Suisse) |
| 2004 | Acquired participation in Vontobel (12.5%) by Raiffeisenbank |
| 2003 | Merger of Armand von Ernst, Banco di Lugano, Bank Ehinger, Cantrade, Ferrier Lullin and GAM into SBC Wealth Management |
| 2003 | Acquisition of Bank von Ernst by Coutts |
| 2003 | Acquisition of Banque Edouard Constant by EFG Private Bank |
| 2002 | Merger of UBP and Discount Bank |
| 2002 | Merger of Lombard Odier et Cie and Darier Hentsch et Cie |
| 2002 | Strategic alliance between Sarasin and Rabobank |

Source: SBA research.

Landmark deals can be classified into three not mutually exclusive categories. A primary type of deal puts scale first. The principal motivation of such potential acquirers is to grow or diversify their existing wealth management franchise. A second type of deal relates to the acquisition of an established brand. Illustrative examples include the international takeovers of Swiss franchises to tap into the competitive advantages of a strategic off-shore market. A third type of deal seeks to mitigate fixed overhead cost pressures or downplay earnings volatility, particularly among smaller players.

After a prolonged period of intense M&A activity, the Swiss wealth management industry is likely to undergo a period of restraint, especially at the boom phase of the banking business cycle. However, wealth managers grow differentially even in benign conditions. Franchises that consistently grow below average are under more pressure to envisage strategic alliances. In the long run, consolidation opportunities remain afloat, particularly among the small player segment including independent asset managers. At the same time, organic restructuring such as non-core business outsourcing and value chain optimising will in all likelihood sustain its momentum.

[12] Figures are from KMPG International, 2006, Hungry for More? Global Update 2006.

## 4 Concluding remarks

Swiss wealth management has become global in recent years. It has capitalised on the success of the home market, which in turn has made the development of leading-edge investment products feasible as well as attracting and retaining highly skilled professionals. For a majority of wealth managers, Switzerland equates with global market positioning. The twofold fact that some international financial centres are tempted to delegate wealth management operations to Switzerland and that other centres try to emulate the Swiss model indicates that Swiss wealth management has established itself as a global benchmark.

Looking forward, however, there is no lack of challenges. While players aggressively compete to capture wealth creation worldwide, margins erode, client expectations shift, and regulatory pressures increase. As a global market leader, the Swiss financial centre participates in shaping the industry contours and leading its global transformation. Keeping this position will continue to be a challenge in years to come. Both the industry and government responses will be critical in maintaining Switzerland's competitive edge and helping to sustain the high-growth potential of wealth management activities.

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