December 14, 2022

Swiss wealth management : taking advantage of challenges to transform

It's five thirty in the morning. Not yet time to wake up, yet three short rings fill the air. Bleary-eyed, Thomas picks up his phone and checks his notifications, which include the following message: "Your home renovations loan has been approved."

He smiles and gives himself a mental pat on the back for downloading the app, which meant that he could get a loan at the best market conditions. He had used the app's interface to submit the documents needed to obtain the loan at around midnight the night before last.

In good spirits, he reads his daily personalised investment advice, sees how his share, crypto and NFT portfolios are doing, and looks at some advice on optimising his personal monthly budget. He is amazed at the wide range of financial services offered by the app.

Thomas is 31 years old. Two years ago, he created an Instagram profile where he shares his passion for motorbikes with more than 400,000 followers every day. Anyway, he should get a move on now because in ten minutes he has a Zoom call with an Indian engine oil manufacturer who wants to place products in his upcoming posts. They have to negotiate the practical and financial terms.

Thomas does not have a fixed schedule. He often works at night, sometimes during the day. He is hyper-connected.

Face-to-face meetings aren't his cup of tea. What he wants is a simple digital tool to receive advice that he can look at when he needs it, and to get an overview of his assets and investments in real time. He wants investing to be simple, and gains are not his only priority. He also wants to be able to understand and measure the impact that his choices have on society and the environment.

Thomas forms part of the generation of *millennials*, born between the early eighties and mid-nineties, who are always on the look out for alternative solutions. In five to ten years' time, they will be among the new millionaires and responsible for more than 90% of wealth creation.[1]

Competition and challenges

With around USD 2,600 billion in assets under management, Switzerland is the world leader in wealth and asset management. No other country has been able to attract so much international private capital. This position has been achieved thanks to a stable political, economic and legal environment and the passionate work put in by several generations of men and women who have combined their expertise, skills, advice quality, sense of responsibility, and excellence. However, the gap with these main competitors in traditional finance is narrowing; in 2020, assets under management in Switzerland increased by 7%, which is a slower rate than the global wealth management market (+10%).[2] Luxembourg (+20.7) and the United States (14.8%) are the countries that have seen the most capital inflows and the strongest growth. In terms of growth rate, Switzerland came in sixth place.

Fintech[3] companies, which use information and communication technologies to make the world of finance more accessible, are capturing market share and represent growing competition for traditional Swiss financial companies. Providing innovative and disruptive offerings along the banking industry's value chain, their business volume has surged over the past five years.[4]

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1 Asterès, February 2019, "Les millionaires millennials" [millennial millionaires]: https://asteres.fr/site/wp-content/uploads/2019/08/Aster%C3%A8s-Etude-nouveaux-entrepreneurs-VWebsite-Revu-CAS.pdf
2 Deloitte, 7 October 2021, "press release": https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/about-deloitte/deloitte-ch-fr-communique-wealth-management-ranking-2021.pdf
3 Wikipedia, page viewed on 13 November 2022, "Fintech": https://fr.wikipedia.org/wiki/Technologie_financi%C3%A8re
4 State Secretariat for International Financial Matters [SFI], April 2022, "Place financière suisse Chiffres-clés, avril 2022" [Swiss financial centre, key figures, April 2022]: https://www.sif.admin.ch/sif/fr/home/documentation/place-financiere-suisse/durabilite-blockchain-fintech.html

Major technology companies, such as GAFA in the US or BATX in Asia[5], are already offering many financial services. Although their activities in this sector mainly focus on payment-related services, their diversification and entry into the lucrative investment advice market represents a threat that should not be overlooked. They have the means to do so and possess huge amounts of data showing their users' buying and spending habits.[6]

With the tense global economic situation, increasingly complex regulations, changing client expectations and wider competition, the Swiss financial sector is facing many challenges. The way how Swiss wealth managers will deal with these challenges and transform themselves will have an impact on their ability to maintain their leadership. To do this, they must also adapt to new realities in terms of digitalisation, transparency, regulation and sustainability.

These realities include legal, financial and tax standards that involve numerous diligence and information-related obligations. The 2008 financial crisis was the starting point for more national and international regulatory initiatives, which were aimed at providing more transparency and protection for clients.

Examples include the *Foreign Account Tax Compliance Act* (FATCA) of 2010, which gives the US a right to recover taxes, or the European MiFID II directive of 2018, which distinguishes between private and professional clients and imposes a level of regulatory protection and information appropriate to their level of financial knowledge.[7]

More recently, the Federal Financial Services Act (FinSA) and Financial Institutions Act (FinIA) have introduced new transparency and due diligence provisions. These laws, which came into force in

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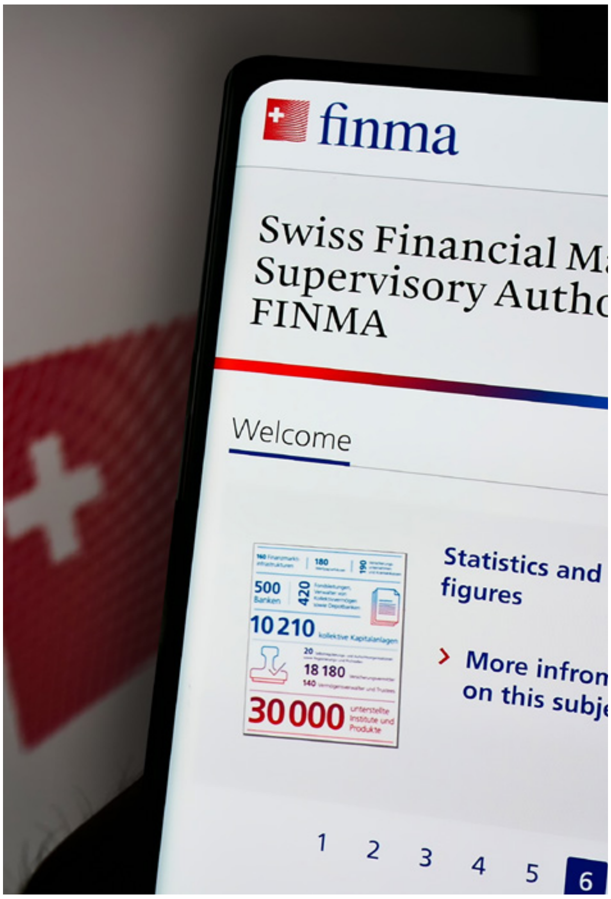
[5] Google, Apple, Facebook, Amazon - Baidu, Alibaba, Tencent, Xiaomi
[6] Private Banker International, 11 August 2021, "Big tech to shake up wealth management": https://www.privatebankerinternational.com/comment/big-tech-to-shake-up-wealth-management/
[7] ESMA, page viewed on 13 November 2022, "MiFID II": https://www.esma.europa.eu/policy-rules/mifid-ii-and-mifir

2020, are aimed at strengthening competition and reducing risks to the reputation of the Swiss financial centre, and creating a level playing field while improving client protection[8]. Financial institutions (wealth managers, collective wealth managers, fund managers and securities institutions) must demonstrate their financial soundness, have sufficient reserves, and draw up a three-year budget forecast.

They are also required to register with a mediation body approved by the Swiss Federal Department of Finance (FDF). Lastly, they need to apply to the FINMA by 31 December 2022 for authorisation to continue their activity.

These information and transparency requirements are reassuring for clients, but will have an impact on the organisation, activity and margins of wealth managers.

This compliance with the regulations should not be an end in itself; wealth managers should take advantage of this pivotal moment to rethink their strategy and business model.



Embracing change and transformation

Indeed, wealth managers must continue to offer a unique experience and bespoke service while using technology to be innovative in their relationships with clients. Innovation must be introduced as a key value in business culture and made possible through keeping up to date with the latest developments in business and technology.

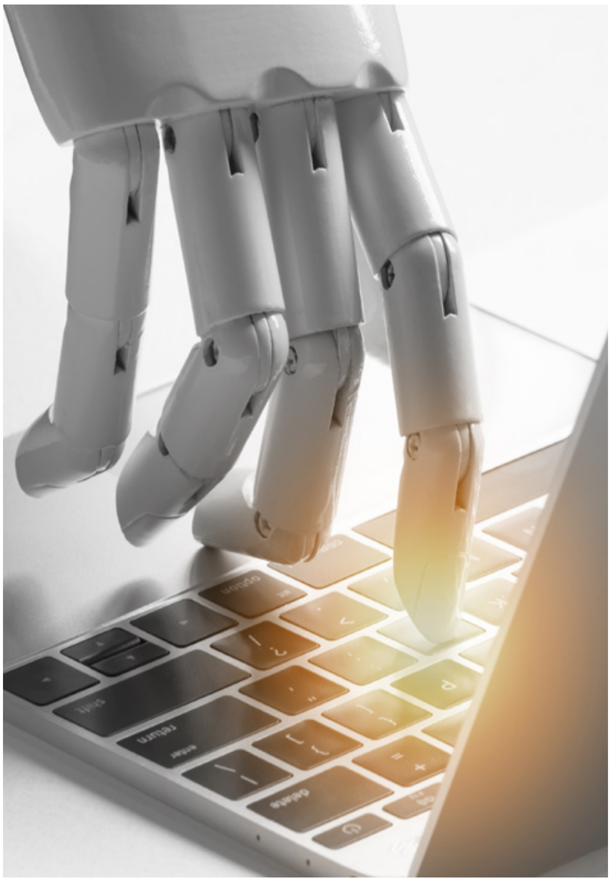
Fintechs or technology companies should not be competed with head on. Instead, specialisation and differentiation should be pushed further by focusing the services offered on personalised and bespoke services. Technology should be used to create collaborative tools, which will become the investor's partner by guiding and accompanying them in their decisions in a personalised and proactive way. Companies should be organised around the client and their specific expectations by creating hybrid – *Phygital* – services, which combine human contact and digitalisation, while protecting personal data at the same time.

Internally, wealth managers must use technology to assist them in their choices and when providing advice and making proposals to clients. It is also necessary, where possible, to optimise and automate tasks and processes in order to reduce costs and, above all, to free up time to concentrate on high value-added stages.

[8] Swiss Federal Council, 6 November 2019, "Le Conseil fédéral met en vigueur la LSFin et la LEFin" [The Swiss Federal Council implements the Financial Services Act [LSFin] and Financial Institutions Act [LEFin]: https://www.admin.ch/gov/fr/accueil/documentation/communiques.msg-id-76957.html

Lastly, it is essential to consider the increasingly demanding expectations of clients who are sensitive to the impact their investments have on society and the environment.

Although the use of a *robo-advisor* opens up the possibility to provide investment advice to less wealthy clients, this service also has its limitations and does not replace the importance of the human dimension specific to the profession. With its analytical and algorithmic approach to clients' needs, automated advice can be complementary but is no substitute for discussions and the interpersonal relationships created by tailor-made solutions. Indeed, it is the expertise and interpersonal skills of the wealth manager that create human relationships based on trust.



This "synergy" between the client and their advisor makes it possible to adequately understand the client's specific situation and plans, which enables unique choices and strategies to be discovered and considered.

As things stand at present, most clients still want to have a meeting with their advisors before making important investment decisions. However, according to audit and consulting firm Deloitte, Millennials are a majority (67 %) prefer robo advisory for investment advice, a much higher proportion than Generation X and (30 %) of baby boomers.[9]

We must bear in mind that over the next decade, we will see the largest transfer of wealth in history *(Great Wealth Transfer)*; approximately USD 80 trillion will be passed from *baby boomers to millennials*.[10]

Will their expectations and habits change tomorrow, when their wealth has increased and they are faced with more complex investment decisions?

The *fintechs* that have appealed to Thomas so far will change and inevitably seek to offer him wealth management services once his wealth reaches a certain level. At that point, will the traditional wealth manager be able to reach out and convince Thomas and his contemporaries to use his services?

The growing regulatory and administrative pressure and the investments needed for digitalisation mean that costs will increase.

Those unable to absorb these costs on their own will be encouraged to seek solutions for optimisation and economies of scale by outsourcing, subcontracting or pooling certain activities. Tools will be needed to establish these collaborations

[9] Deloitte, page viewed on 13 November 2022, "The future of wealth management in Switzerland": https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/deloitte-ch-en-the-future-of-wealth-management-in-switzerland.pdf

[10] Cerulli Associates, 20 January 2022; "Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2045": https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045

and create an ecosystem of partner companies that are able to offer a wider range of financial services.

Another solution for smaller players would be to specialise by targeting themselves at a specific customer profile and/or at niche markets in order to move upmarket and offer more complex services to be digitalised.

This business model overhaul will inevitably lead to a concentration of the sector. Some entities that do not succeed in overcoming these challenges will disappear or be absorbed through merger or acquisition.

We need to start thinking about our future world and become the global benchmark for sustainable financial services, combining the strengths of the Swiss financial centre with current and future technological tools. We will have to innovate, stay alert, rethink codes, consider alliances or *coopetition*[11], and most importantly offer a coherent *unique selling proposition* to meet tomorrow's potential clients on their own terms.

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[11] Collaboration or cooperation of circumstance or opportunity between different economic players who are otherwise competitors. This involves an entity collaborating with its own competitors in an attempt to achieve a common benefit. (Source: Wikipedia)