SwissBanking

January 2009

Wealth Management in Switzerland

Impressum
Published and Printed by: Swiss Bankers Association, Basel

Foreword

"Wealth Management in Switzerland" was first published in January 2007. This updated edition is primarily based on statistics available at year-end 2007 and therefore particularly considers the situation before 2008.
At the time of writing, the ongoing financial crisis and its fallout on world financial markets make it difficult to forecast future developments in wealth management. Business models as well as margins could be subject to change in the near future. Given the current environment, investors are understandably extremely cautious and are above all demanding unsophisticated and low-risk financial products, behaviour which will put wealth management margins under pressure both in the short- and medium-term.
However, we do not assume that there will be significant changes in market share. In the short- to medium-term we expect the value of assets under management to decline, primarily because of negative developments in equity prices.

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 position among global wealth management centres. Importantly, Switzerland provides wealth management banks that are a 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.

Private banking 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 banking

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 9.1% of global assets under management (AUM), Switzerland is among the world's leading trio of wealth management centres, alongside the United States and the United Kingdom. It is the world's leader in off-shore private banking, with a market share of 27%. The country's largest banks, UBS and Credit Suisse, rank among the world's largest wealth management firms.

- Global wealth climbed to USD 109.5 trillion in 2007 from USD 99.6 trillion in 2006. Private banking assets held off-shore account for USD 7.3 trillion. The amount of HNWI assets has been USD 40.7 trillion in 2007.[1]

- At the end of 2007, AUM in Switzerland (securities holdings in bank custody accounts) reached CHF 5.4 trillion, which is more than ten times the Swiss GDP. Due to the bear market, this figure decreased to CHF 4.1 trillion at the end of October 2008. In 2007, AUM grew by 8%. Swiss banks' global AUM are estimated at a total of about USD 10 trillion.

- Because of the turbulence on financial markets, 2007 wasn't as profitable as the record years 2005 and 2006. Cost-income ratio increased from 59% in 2006 to 65.8%, and after-tax return on equity dropped from 21.5% in 2006 to 6.8%. Due to the financial crisis, earnings are assumed to be considerably lower in 2008.

- Swiss wealth managers offer a wide spectrum of sizes and business models. At the end of 2007, Switzerland counted 2 global players (with each over CHF 1,000 billion AUM and over 10,000 wealth management staff), 9 large players (CHF 100-1,000 billion AUM and over 1,000 staff), 51 medium players (CHF 10-100 billion AUM and over 100 staff) and 79 small players (CHF 1-10 billion AUM).

- Swiss wealth managers - especially big banks - have aggressively expanded their international franchises. Branches held abroad and the number of staff abroad grew to 317 and 130 respectively. The stock of capital investments abroad has risen in the past decade by a factor of 6 to almost CHF 87 billion at the end of 2007.

- The stock of banks' capital investments in Switzerland in 2007 grew by more than 10% to CHF 36 billion. This shows that banks still use Switzerland to strengthen their client base and operations. The Swiss wealth management centre still stands for reliance, privacy and know-how.

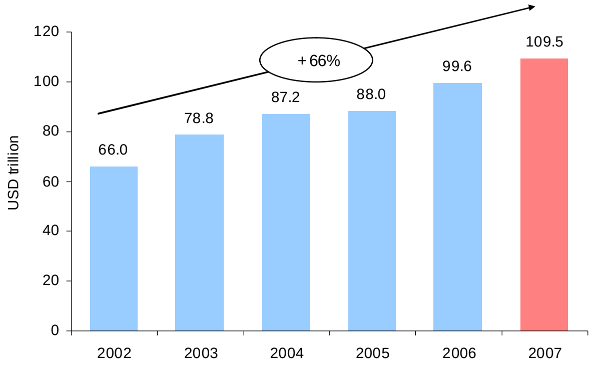
[1] HNWI only include clients from CHF 1 mn upwards. Thus, it doesn't represent the total amount of all private banking assets.

1 Global

1.1 Global market size

In 2007, global wealth grew about 9% to USD 109.5 trillion (Figure 1), of which private banking assets held off-shore account for USD 7.3 trillion. The share of assets held off-shore in private banking grew at a rate of 8.2%, in comparison to on-shore assets, which grew at a rate of 9.1%. Therefore the on-shore market tends to grow faster than the market for off-shore private banking.

Figure 1: Global wealth trend, 2002-2007



Source: Boston Consulting Group; SBA research.

Box 1: Key terms and definitions

The terms "wealth management", "private banking" and "asset management" are not employed uniformly by wealth managers. In this study the following definitions are used:

- Wealth Management

Wealth management is used as the generic term for the management of assets. This includes wealth management for private as well as for institutional investors. Wealth management can be divided into two sub-categories: Private banking and (institutional) asset management.

- *Private Banking*

In this study private banking is used as the term for the management of assets of private clients (households).

- *(Institutional) Asset Management*

The term (institutional) asset management is used for the management of assets of institutional clients (e.g. pension funds).

- Off-shore banking

Off-shore (also called cross-border) managed assets are managed in a country in which the owners of the assets are not resident.

- On-shore banking

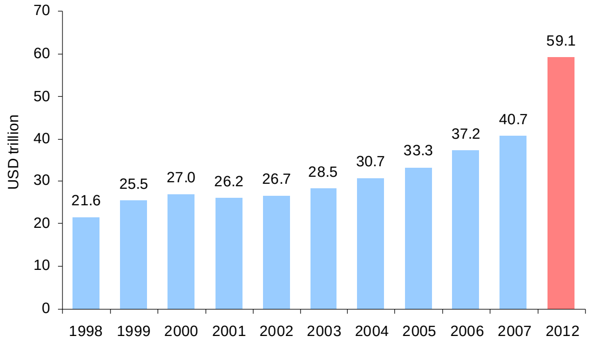
On-shore managed assets are managed in the country in which the owners of the assets are resident.

1.1.1 Global Private Banking

Wealth management ultimately depends on new money growth[2]. According to estimates by Merrill Lynch/Capgemini, global wealth of High Net Worth Individuals (HNWIs)[3] climbed to USD 40.7 trillion in 2007 (Figure 2), with a global population of HNWIs at 10.1 million.[4] North America is still the world's largest wealth management market, with 3.3 million HNWIs holding USD 11.7 trillion in financial assets. It is followed by Europe and Asia Pacific, totalling 3.1 and 2.8 million HNWIs respectively with financial holdings of USD 10.6 and 9.5 trillion. HNWI global wealth is forecast to reach USD 59.1 trillion by 2012, growing at a compound annual growth rate (CAGR) of 7.7%.[5] According to a study by Oliver Wyman, only about 50% of HNWI assets are professionally managed, so there is great potential for the wealth management industry.[6]

[2] Net new money (NNM) is the net amount of AUM of new or existing clients less client assets withdrawn. Interest and dividend income as well as market and currency movements on client assets are excluded from NNM results.
[3] HNWI only include clients from CHF 1 mn upwards. Thus, it doesn't represent the total amount of all private banking assets.
[4] Merrill Lynch and Capgemini, 2008, World Wealth Report.
[5] This forecast was published in mid-2008 so the effects of the financial crisis are not fully taken into account.
[6] Oliver Wyman, 2008, The Future of Private Banking: A Wealth of Opportunity?

Figure 2: HNWIs' financial wealth, 1998-2012

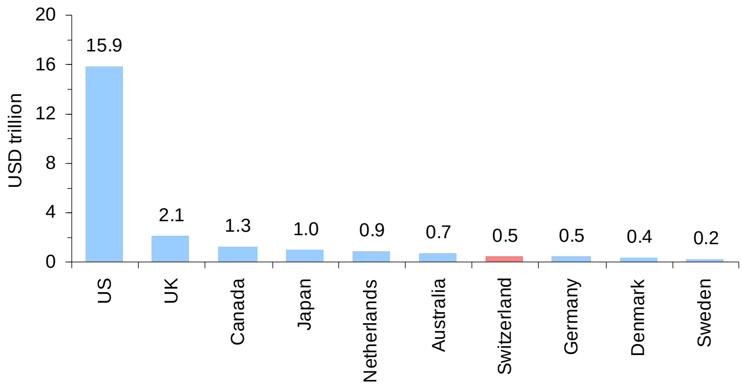


Source: Capgemini/Merrill Lynch; SBA research.
HNWI hold USD 1 million at least.

1.1.2 Global (Institutional) Asset Management

Driven in part by pension reforms, the institutional asset market is also experiencing rapid growth. A useful yet imperfect proxy is the amount of total assets accumulated in long-term savings and retirement systems (i.e. the sum of pension funds and life insurance).[7] In 2006, OECD economies totalled USD 24.6 trillion (2004: CHF 24.5 trillion) of pension funds and life insurance assets (Figure 3). Pension fund assets reached USD 16.2 trillion or 72.5% of GDP. With a total market share of 95.5%, ten countries dominate the pension funds and life insurance asset market. With total assets exceeding USD 15.9 trillion (USD 9.7 trillion of pension fund assets), the US is clearly the largest market. The Swiss market totalled USD 500 billion.

Figure 3: Largest country pools of institutional assets, 2006



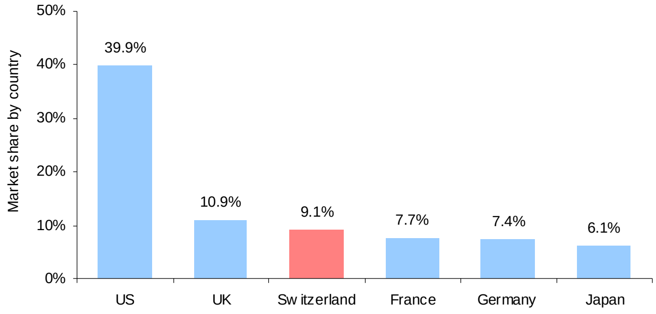
Note: Data includes pension funds and life insurance assets.
Source: OECD; SBA research.

[7] OECD, 2007, Pension Markets in Focus, November 2007. 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 Who manages global wealth?

With 9.1% of global AUM, Switzerland belongs to the world's leading trio of wealth management centres, alongside the US and the UK, which accounts for about USD 10 trillion (Figure 4). Switzerland's largest banks, UBS and Credit Suisse, rank among the largest wealth management franchises.

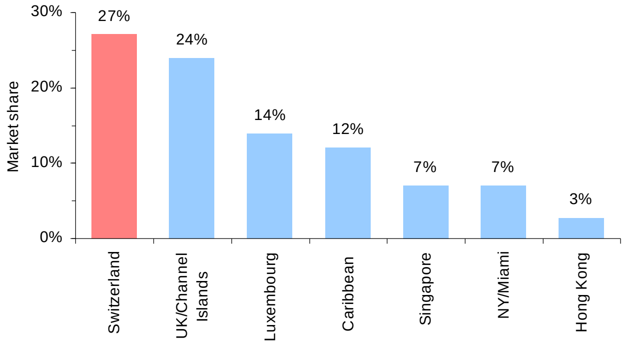
Figure 4: Market shares global AUM (on- and off-shore), 2007[8]



Note: Rest of the world=18.9%. Data sums the 500 biggest wealth managers' global AUM by their registered office. Data refers to year-end 2007.
Source: P&I/Watson Wyatt; SBA research.

With a market share of 27%, Switzerland is the biggest wealth manager for private assets that are managed off-shore (Figure 5). Global private off-shore managed assets grew in 2007 by about 6%.

Figure 5: AUM held off-shore in private banking, 2007[9]



Note: Rest of the world=6%. As of 2007, total USD 7.3 trillion of private assets was estimated to be held off-shore.
Source: Boston Consulting Group; SBA research.

Box 2: Overview of assets under management

	Total (USD trillion)	Off-shore private banking (USD trillion)
Global	109.5	7.3
Switzerland	10.0	2.0
Market share Switzerland	9.1%	27%

[8] This is merely an approximation. The figures are not based on total global assets, but only on the assets managed by the 500 biggest wealth managers.
[9] For the exact definition of "Off-shore AUM" see Box 1. The figures are based on an estimate made by Boston Consulting Group, 2008, and therefore differ from the Swiss National Bank's figures .

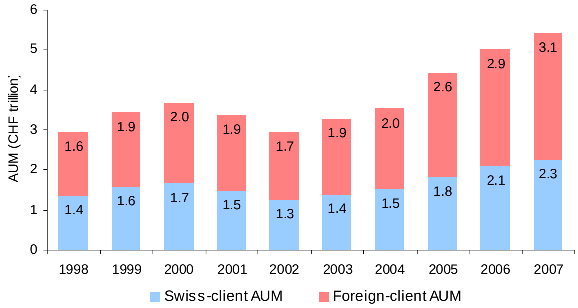
2 Switzerland

2.1 AUM in Switzerland

The classic figure of AUM in Switzerland, which refers to client portfolio holdings, reached an all-time high of CHF 5.4 trillion at year-end 2007, more than ten times the Swiss GDP. Assets under management in Switzerland grew in the last ten years at a CAGR of more than 6%. More than half of AUM (57%) is held on behalf of institutional investors, while 32% comes from private individuals and 11% from corporate clients. The breakdown by client domicile shows that more than half of AUM (58%) originates from foreign clients (Figure 6).

Developments on global financial markets have caused significant changes in the volume of AUM in Switzerland since the beginning of 2008. By October 2008 the total value of AUM had declined almost 25% to around CHF 4.1 trillion, a reduction accounted for by the extremely negative developments in share prices. Changes currently taking place on global financial markets could lead to changes in assets under management as well as to new trends in wealth management. At the time of writing it is not possible to assess these changes quantatively.

Figure 6: AUM with Swiss wealth managers, 1998-2007



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

Box 3: What is meant by assets under management (AUM)?

There is no uniform definition of AUM so differing systems of asset classification may be employed.

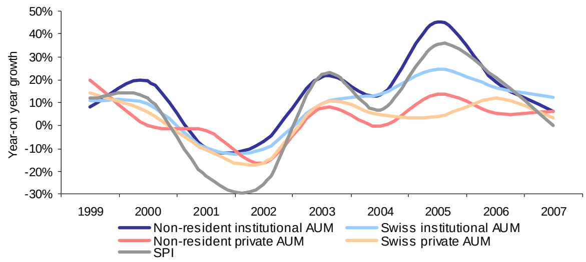
- The first possibility for evaluation - securities holdings in Swiss banks' custody accounts - only illustrates a fractional estimate of assets managed in Switzerland.
- As a second alternative, fiduciary deposits as well as savings and time deposits (without sight deposits) can be added. However, because of different survey methods, these figures can't be summed up easily. For instance, account deposits include branches in Switzerland as well as abroad, while securities holdings in bank custody accounts only account for branches in Switzerland.
- As a third possibility, assets managed by Swiss banks abroad (e.g. by subsidiaries) can be counted. This is, however, an estimate, because these figures are not collected statistically.

AUM include all client assets managed by or deposited with Swiss-based banks for investment purposes.[10] Therefore, the inclusion of savings and time deposits (CHF 0.9 trillion) and fiduciary deposits (CHF 0.5 trillion) raises the AUM figure to CHF 6.8 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 about USD 10 trillion at year-end 2007.

[10] In line with the Swiss Federal Banking Commission's Bank Accounting Guidelines.

Referring to client portfolio holdings, the developments in AUM closely relate to boom-bust cycles in financial asset prices (Figure 7). The institutional asset segments, Swiss and foreign alike, have slightly outperformed in 2007. In comparison with past years, the trends in all four segments have declined. Over 1998-2007, foreign- and Swiss-institutional-client AUM grew by respective CAGR of 10.5% and 7.2%, whereas aggregate AUM grew by 5.7% a year. As far as net new money is concerned, SBA research suggests that even the Swiss on-shore mature market appears dynamic. There is a relatively high positive correlation between AUM and the Swiss Performance Index (SPI) as can be seen in Figure 7.

Figure 7: AUM trends by client segment, 1999-2007



Source: SNB; SBA research.

2.2 Swiss banking sector

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 2007, balance-sheet assets totalled CHF 3.5 trillion (Table 2), corresponding to seven times the Swiss GDP. The banking sector generates a disproportionate share of net output, about 8.5% of GDP, twice as much as in e.g. the US or Germany.[11] Wealth management alone accounts for more than half of banks' value added. Consolidation has resulted in 33% fewer institutions over the past 17 years.

Table 2: The banking sector at a glance, 1990-2007

	1990	1995	2000	2005	2007
Number of institutions	495	413	375	337	330
of which foreign banks	142	155	148	150	152
Number of branch offices	5 762	4 945	4 037	3 839	3 834
of which offices abroad	216	276	228	304	317
Number of staff in Switzerland (1,000)	120	110	112	101	109
Number of staff abroad (1,000)	24	33	89	101	130
Number of total staff (1,000)*	144	143	201	202	239
Total balance sheets (CHF billion)	1 082	1 323	2 125	2 846	3 458
of which foreign assets (CHF billion)	389	514	1 196	1 849	2 320

Source: SNB; SBA research.
* Staff in foreign branches and staff in foreign subsidiaries.

In aggregate, Swiss banks had their most profitable years in 2005 and 2006. Due to turbulence on the financial markets in 2007, net profit as well as after-tax return on equity decreased while cost-income ratio increased for almost all banks (Table 3).

[11] Due to a revision of the Swiss national accounts ("Revision der Volkswirtschaftlichen Gesamtrechnung", 2007) in 2007, the contribution of the banking sector to value added diminished from 10.8% to 8.5% (in % of GDP).

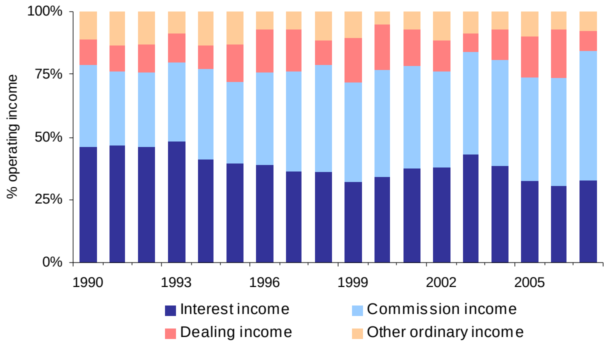
Table 3: Performance indicators, 1990-2007

	1990	1995	2000	2005	2007
Operating income (CHF billion)	28.9	37.8	68.7	68.6	70.7
Operating expenses (CHF billion)	17.3	22.6	37.5	38.9	46.5
Operating profit (CHF billion)	11.6	17.1	31.2	29.7	24.2
Net profit (CHF billion)	4.0	6.0	19.2	24.7	9.8
Cost-income ratio	60.0%	56.9%	54.6%	56.7%	65.8%
Net interest income (% of operating income)	46.0%	39.5%	34.4%	32.8%	32.5%
Net commission income (% of operating income)	32.9%	32.6%	42.1%	40.9%	52%
Return on equity (ROE)	5.5%	7.1%	16.3%	18.3%	6.8%
Return on assets (ROA)	0.4%	0.5%	0.9%	0.9%	0.3%

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.

The increasing importance of commission- and fee-based revenues in recent years has increased banks' aggregate exposure to financial market cycles (Figure 8). Dealing income has already decreased due to financial market turmoil. Both commission and dealing income will decrease further in 2008, which will negatively affect operating income.

Figure 8: Income composition, 1990-2007



Source: SNB; SBA research.

2.3 Wealth management industry in Switzerland

Among the banking population (330 banks at year-end 2007), most institutions offer whole or part of the value chain of wealth management. For example, two universal banks, 62 private banks (of which 48 are asset management banks and 14 are private bankers i.e. industry purists with a partnership structure), 130 of a total 152 foreign banks (including most major international banking groups) and most of the 24 cantonal banks are fundamental players in the Swiss wealth management industry. At year-end 2004, the number of independent asset managers reached 2,600.[12]

Table 4: Banking system structure, 1990-2007

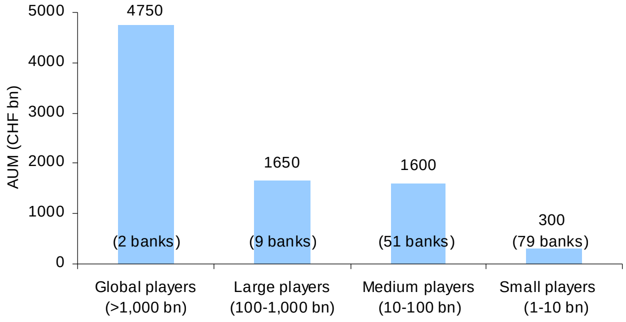
Number of banks	1990	1995	2000	2005	2007
Big banks	4	4	3	2	2
Cantonal banks	29	25	24	24	24
Foreign banks	142	155	150	150	152
Regional and savings banks	206	128	104	80	77
Asset management banks	51	54	57	56	48
Commercial banks	25	20	13	7	7
Private bankers	22	17	17	14	14
Other banks	5	5	7	4	6
Total	484	408	375	337	330

Source: SNB; SBA research.

[12] According to the Swiss Association of Asset Managers (SAAM), independent asset managers managed circa 14%, or CHF 750 billion, of client portfolio holdings deposited with Swiss banks' domestic offices in 2007.

Switzerland's two biggest wealth management franchises rub shoulders with a mass of smaller-sized players (Figure 9). 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 headcount. In comparison to 2005, particularly large players increased their AUM from CHF 900 billion to 1650 billion. The number of large players almost doubled from 5 to 9.

Figure 9: Typology of wealth managers, 2007



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, which were 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.

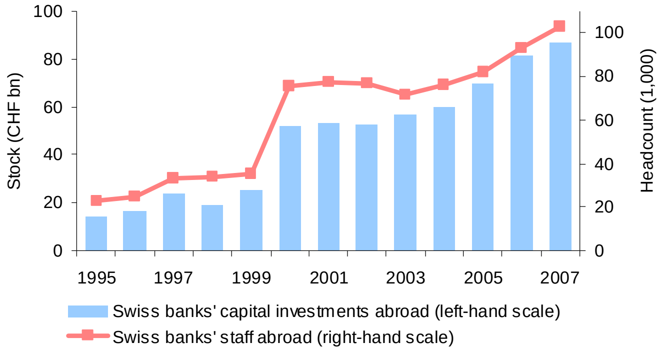
3 Strategic positioning

3.1 Foreign investments by wealth managers

In the past, particularly the BRIC states (Brazil, Russia, India and China) and the commodity-driven Middle East have received most attention for expansion in foreign investments. In future, wealth managers still want to invest particularly in Asia and in western as well as eastern Europe. The mature US-market will still represent one of the most important wealth management centres. Expansion in the US-market will, however, decline.[13] These investment decisions, however, strongly depend on the development in the different countries.
There are some barriers in on-shore banking in several countries, such as a lack of know how or regulation.[14] Therefore off-shore banking will still represent an important pillar of global wealth management.

The European on-shore strategy, which was initiated by the two global banks at the end of the 1990s, has become global. In 2007, the two big banks held 154 branches abroad (+45% over 2002-2007) or almost half of Swiss banks' foreign branches (317 or +33% over the same period). While significantly enhancing global execution capabilities, Swiss banks have increased the total of their foreign capital investments by almost a factor of 6 over the past decade, to CHF 86.8 billion (Figure 10). Smaller institutions have expanded more selectively, engaged in on-shoring products and strengthening distribution channels.

Figure 10: Swiss banks going global, 1995-2007

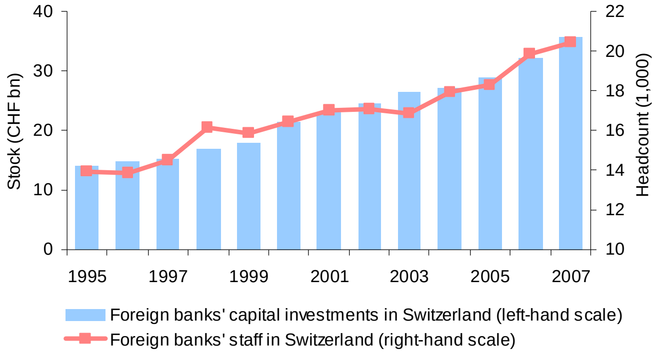


Note: The sharp increase in 2000 reflects the acquisition of Donaldson, Lufkin & Jenrette (DLJ) by Credit Suisse and of PaineWebber by UBS.
Source: SNB; SBA research.

[13] Solution Providers and University of St. Gallen, 2006, The Internationalisation of the Swiss Private Banking Industry
[14] The Boston Consulting Group, 2008, A Wealth of Opportunities in Turbulent Times

In the meantime, inward capital investments have more than doubled to CHF 36 billion, showing that foreign banks have constantly strengthened their client base in and operations from Switzerland (Figure 11). Foreign banks have indeed been the most dynamic providers of branches abroad (105 or +29% over 2002-2007).

Figure 11: Going Swiss, 1995-2007



Source: SNB; SBA research.

3.2 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 KPMG, the total number of merger and acquisition (M&A) deals worldwide amounted to 117 in 2006. Europe saw the most activity in 2006, with 63 deals. Switzerland came second after the UK (26), with 15 M&A deals. The primary reasons for M&A activities in 2006 were increased competition and the possibility to capture a new client base.[15] Because of the current financial crisis, we estimate that in the near future, thanks to wealth managers' declining profits, mergers and acquisition activity might increase.

The pace of consolidation in Switzerland mirrors international trends. With about 75 transactions involving at least one Swiss wealth manager party in the past seven years, the Swiss marketplace has witnessed fundamental structural changes (Table 6). On the one hand, larger players have typically engaged in serial, small-to-medium-sized domestic or cross-border acquisitions with a view to increasing 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. It is noteworthy that the number of acquisitions between 2006 and 2008 is higher than the number of mergers.

Table 6: Banking sector M&A deals in Switzerland, 2006-2008

Date	Transactions
2008	Announced merger of HSBC Guyerzeller AG and HSBC Private Bank (Suisse) SA in 2009
2008	Merger of BSI and Banca del Gottardo
2007	Acquisition of Anglo Irish Bank (Suisse) SA by Cantonal Bank of St. Gallen as a subsidiary company under the new name Hyposwiss Genève
2007	Acquisition of Swissfirst Bank AG by Bank Pasche LTD
2007	Acquisition of Lavoro Bank by BNP Paribas (Suisse) SA
2007	Rabobank takes over the majority holding in Bank Sarasin & Co. Ltd
2007	Merger of the banks Clariden, Leu, Hofmann and BGP Banca di Gestione Patrimoniale to Clariden Leu
2006	Acquisition of Banca Unione di Credito by BSI

Source: SBA research.

[15] KPMG International, 2007, Hungry for More? Global Update 2007.

4 Concluding remarks

Swiss wealth management has become global in the last decade. 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.

In the wealth management industry, there is not one business model alone that ensures efficiency. Being a pure wealth management player means being a kind of niche actor, in contrast to an integrated (wealth management) player. Being an integrated player might lead to useful synergies between wealth management and other business lines. Given the current uncertainty on global financial markets it remains to be seen how business models will evolve in the future.

Although on-shore banking is going to grow faster, cross-border banking will remain important in Switzerland, due to the fact that investors like to invest there. Firstly, there are many barriers in the on-shore banking of several countries. Secondly, the Swiss financial centre still stands out for its know-how and therefore will remain attractive for investors. Thirdly, the 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 become established as a global benchmark.

Looking forward, however, there is no lack of challenges. While players aggressively compete to capture wealth creation worldwide, margins are being eroded, client expectations are shifting, and regulatory pressures are increasing. As a global market leader, the Swiss financial centre participates in shaping the industry and leading its global transformation. Maintaining 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 its wealth management activities. The current financial crisis has made investors extremely cautious and they are above all seeking relatively simple low-risk financial products. As a result margins in wealth management are likely to fall in the immediate future. At the time of writing it is extremely difficult to make any forecasts about how the situation will develop in the long-term.

Swiss Bankers Association
Aeschenplatz 7
PO Box 4182
4002 Basel
Switzerland
T +41 61 295 93 93
F +41 61 272 53 82
office@sba.ch
www.swissbanking.org