

## IFZ/AMP Asset Management Study 2019

### Executive Summary

The financial sector is a strong pillar of the Swiss economy. While Switzerland is well-known as a world leading wealth management location, asset management is establishing itself as an important sector of the financial center with a differentiating value proposition. In this study, asset management is defined as the production and management of investment solutions in the form of collective investment schemes or individual, institutional mandates. The key role for the asset management industry is to provide a link between investors seeking appropriate savings vehicles and the financing needs of the real economy. Asset management firms have a fiduciary duty to act in the best interest of their clients and provide investment solutions that are in line with their clients' needs.

Based on a survey conducted among asset managers operating in Switzerland, the IFZ/AMP Asset Management Study 2019 provides an overview of the scope and breadth of the Swiss asset management industry, capturing the facts, current industry dynamics as well as the most important challenges and opportunities faced by Swiss based asset managers. Moreover, in the context of a PEST analysis, the political, economic, social, and technological environment is analyzed with the aim to highlight the most important developments affecting the industry. An integral part of this study is a hub ranking, which assumes an international perspective in comparing the conditions in Switzerland to other asset management hubs globally.

### **Switzerland is a strong asset management hub and asset management matters for the economy**

Switzerland offers favorable conditions for asset management companies to thrive. In particular, a stable and reliable political/legal environment and a strong education system with a highly skilled labor force are identified as key success factors. In terms of the market size, the total volume of assets managed by banks, fund management companies, securities dealers, and FINMA-supervised asset managers in Switzerland at the end of 2018 amounted to CHF 2'161 billion, which is approximately three times the size of the Swiss GDP and about twice the amount of assets held in Swiss pension schemes. Our estimates further indicate that about 9'900 jobs (3% year-on-year growth) are directly related to the asset management industry in Switzerland, while about 45'600 people are indirectly employed by the industry in the wider scope.

### **Though regulation is important, it is also costly**

Regulatory compliance with international standards is a fundamental requirement to be able to export Swiss asset management abroad. Global markets offer great potential for Swiss asset management as significant growth is forecast for assets abroad. Swiss-based asset managers must be able to provide their products and services competitively out of Switzerland to other countries. In this context, 90 percent of the surveyed Swiss based asset management firms evaluate the compliance of Swiss regulation with international regulatory standards as either important or very important for the exportability of Swiss asset management services and products. However, the results of the sentiment analysis among Swiss-based asset managers indicate that regulation is perceived as the most pressing challenge. In this context, about 70 percent of the respondents think that the relation between regulatory costs and regulatory benefits is unbalanced and a majority of the surveyed asset management firms consider regulatory costs to be high. Asset managers in Switzerland see potential for regulatory improvements in the abolishment of the stamp duty and in a reduction of the withholding tax.

### **Product specialization and sustainable investments are seen as opportunities for the Swiss asset Management industry**

In order to have a competitive advantage in the asset management industry it is important to choose a business model where the focus is either set on cost leadership (passive investments) or product specialization. Our analysis shows that Swiss-based asset managers see the largest opportunities in product specialization and sustainable investments and the least opportunities in passive investments. From a strategic perspective, this implies that Swiss asset management firms are positioned as specialists with clearly defined core competencies.

### **Active management dominates the business model and the asset allocation of Swiss-based asset management firms**

About 70 percent of the assets managed in Switzerland are actively managed and 30 percent are passively managed. Among discretionary mandates, about two thirds of the assets are actively managed while for collective investment schemes about 80 percent of the assets under management are managed using an active approach. These numbers corroborate the finding from the sentiment analysis, that Swiss-based asset managers focus on specialized, actively managed products in order to establish a competitive advantage. Moreover, asset managers in Switzerland have a strong exposure to alternative asset classes, which very often follow active portfolio management strategies.

### **Robo-advisory is not yet an important distribution channel for Swiss-based asset managers**

Robo-advisors are potentially an interesting distribution channel for asset management companies. However, despite the growing importance of digital investment management, the robo-advisory market in Switzerland has not yet gained momentum. A major drawback of Swiss robo-advisors is their high costs. With an average total fee (all-in fee plus product costs) of 0.95 percent, Swiss robo-advisors are substantially more expensive than their US peers. Apart from a generally higher cost environment in the Swiss market, where both all-in fees as well as product costs are twice as high as in the US, Swiss robo-advisors do not benefit from the economies of scale necessary to further reduce fees or enhance profitability in the robo-advisory market. Robo-advisors potentially offer asset managers access to new technologies and would enhance their distribution channels.

Chart 1: Assets under management in Switzerland (in CHF billions).

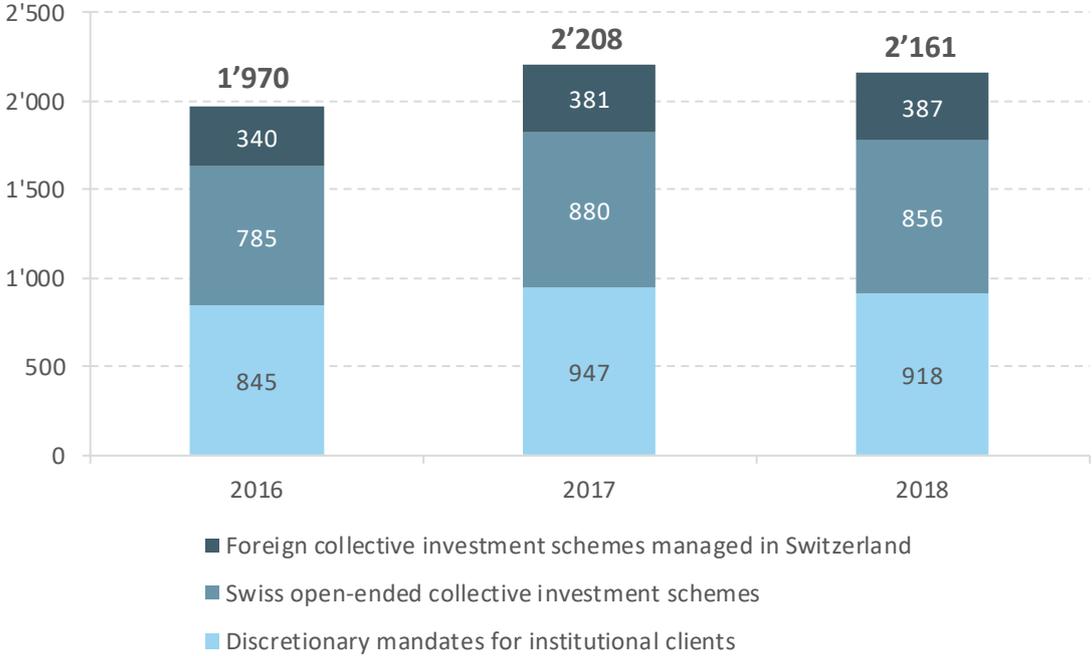


Chart 2: Opportunities identified by Swiss-based asset management companies

