

SECTOR SPOTLIGHT:

Switzerland: The New Model of Offshore Business

SWITZERLAND

The New Model of Offshore Business

● In recent years wealth managers in Switzerland have faced challenges so great that some thought the country might be knocked off its spot as the world's biggest offshore centre. New regulatory and tax developments have certainly had an impact; however Switzerland is adjusting well and has managed to remove itself from the stereotypical offshore image, i.e. a haven for undeclared assets.

Acquisition International speaks to leading experts to examine the new offshore industry that now exists in Switzerland.

Prof. Dr. Joachim Frick, LL.M./J.S.D. (Yale) is a partner of Baker & McKenzie in Zurich and frequently advises banks, insurers and other financial intermediaries on all aspects of financial, corporate and contract laws. He heads the Swiss insurance practice of the Zurich office of Baker & McKenzie and is a member of the Steering Committee of Baker & McKenzie's European Financial Services and Insurance Practice.

The current wealth management landscape in Switzerland is characterized by substantially increased regulatory and compliance requirements. They are the result of additional requirements set by the Swiss regulator in particular to further regulate cross-border financial services, to improve consumer protection, and to implement the strategy of the Swiss financial market to avoid tax crimes and money laundering ("Weissgeldstrategie"). Affected are all players of the financial services industry but also high net worth families and individuals. The new rules aim to ensure that only those companies who comply with the new legal framework will in the long run be successful.

Most affected is the private banking industry and other players who serve this industry, including independent asset managers and insurance intermediaries. The new regulatory framework will make it necessary to adjust the business model, the distribution channels and some of the products. One has to hope that the focus will be on material improvements and not on imposing bureaucratic formalities

Philipp Ochsner is the founder and CFO of IndexInvestor Ltd. He is responsible for the ETF (Exchange Traded Fund) selection and the asset allocation using ETF and Index Funds.

Mr Ochsner noted that wealth management in Switzerland is very heterogeneous and it has not changed much in recent years. However, he believes that the wealth management landscape in Switzerland remains stronger and deals with the current trends better than many of its competitors.

"There are various challenges like lower margins, pressure from foreign countries and increasing regulation to master," he observed. "Another big challenge to all wealth managers globally is the fact that asset managers in aggregate underperform index performance. The question remains whether clients are willing to pay high margins for traditional wealth management services when they nowadays can invest with index solutions at a fraction of the cost."

According to Mr Ochsner, Switzerland provides an outstandingly stable economic, political and legal environment. He noted that the Swiss Franc is known internationally for its stability.

"Another fundamental advantage of Switzerland is its neutrality," he commented. "Independent asset managers

which only increase costs but do not significantly improve quality. The aim to impose a level playing field for all players in the market should not neglect the differences which exist looking at products and clients. It hardly makes sense to impose formalistic consumer protection rules regardless of the complexity of the products concerned and sophistication of the targeted clients. Only an attractive legal and regulatory framework will ensure that Switzerland can keep its place in an ever more competitive environment. It would be unfortunate if key players of the industry and experts having the respective knowhow would leave Switzerland to find a future in foreign financial markets which rightly or wrongly are seem to be more attractive.

In view of the additional rules and regulations it is sometimes overlooked that the legal, regulatory and financial stability of Switzerland will remain the key factor to keep Switzerland attractive for the banking and insurance industry. One has to hope that the Swiss regulator is aware of the fact that small changes in the regulatory framework can have a very substantial impact on the industry and need to be carefully considered. Switzerland's approach of negotiating bilateral agreements has the advantage that the agreements can be customized to bilateral relations, their history and the specific needs of the persons concerned. The disadvantage is that it will become increasingly difficult for Switzerland to negotiate treaties which go less far than other treaties already concluded, as negotiating parties will want a most favorite treatment.

can additionally ensure that investors take the least amount of banking risks. Therefore Switzerland is a safe haven for many investors."

Discussing how wealth managers are improving the quality of the services they offer, Mr Ochsner highlighted the exceptional analysis possibilities currently available, "having at hand so much data even on the level of indexes". He stated that this allows for well founded and scientifically proven strategic asset allocation.

"With ETF we can own thousands of stocks and still maintain a relatively simple portfolio," he explained. "We can cover whole markets instead of single stocks, allowing us to ensure very broad diversification. At the same time transparency is improved since it is clear in which stocks and bonds their money is invested in and clients can view their Index ETF portfolio online."

Mr Ochsner noted that Switzerland continues to focus on its main strengths. These consist of: providing political and economic stability; legal security; privacy and the stability of the Swiss Franc.

"On top of that Switzerland offers index solutions that allow investing perfectly in the investors' interest. Because of the

Despite of an increased cost burden, resulting from the additional compliance requirements, there is no doubt that the Swiss wealth management industry will remain successful also in 2013, given Switzerland's unique position as a safe harbor under financial, political, social, and regulatory aspects and with a strong Swiss currency. Issues such as the need to transfer wealth from one generation to the next or from an unstable political or financial environment to a safe and stable environment will ensure that Switzerland remains attractive notwithstanding changes to the tax or compliance framework.



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stable framework that Switzerland provides I can imagine that Switzerland benefits from the uncertainty in the global banking system and therefore many investors invest more money with Switzerland's independent Asset Managers," he concluded.

IndexInvestor Ltd ensures that investors have some of the safest and best quality Index ETF in scientifically proven index portfolios. IndexInvestor is the Swiss specialist for index investments, providing independent Asset Management and is based in Zurich, Switzerland.



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