



THE ASIAN BANKER®

Switzerland Wealth Innovation Tour

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Post Event Report - What we learnt from the private bankers of Switzerland

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Executive Summary

Switzerland, home of wealth and private banking icons such as UBS, Credit Suisse, and Julius Baer Group, is renowned as one of the leading financial centres in the world with a mixture of tradition, innovation, entrepreneurship and effective investment structures. Zurich, the largest city in Switzerland is a major international financial centre, and one of the richest and cleanest cities in the world. Geneva, is a city that intertwines financial strength and humanitarian work, making it home to the United Nations. Basel is another leading city in the financial services industry, specialised in private banking risk capital and insurance. However, Switzerland's powerhouse does not end there; over the last few years the small town of Zug has become the "Crypto Valley" – world's leading blockchain and cryptographic technology ecosystems, placing Switzerland as one of the world's best financial technology (fintech) hubs.

The five-day tour featured a packed itinerary that allowed delegates to experience the latest competitive trends, industry disruption, regulatory impact, innovations that confront Swiss private banks, and ideas that will shape the future of the industry. The tour included site visits in Zurich, Basel, Zug and Geneva, to major leading companies in wealth and asset management, boutique family owned banks, successful companies with unique, cutting-edge business models, bank innovation labs, fintech firms, and native digital enterprise. During the course of this tour, much was gleaned from the transformational changes in companies looking to incorporate innovation into their business models, including innovative growth and monetisation approaches for digital platform business models.

A key feature of the tour was the facilitated dialogue with leading players in the local and international financial industry as well as with Swiss' leading experts, and innovators. These first-hand experiences and insights help participants to keep abreast of banking innovation.

I. Key Themes

The Swiss banking sector is characterised by its stability. There are many insights that may be gleaned from the tour and institutions visited that are useful for bankers to assimilate as they re-examine the lessons they have learnt, and moving forward, consider what steps they might take to improve and what they might do differently in the future. What follows are some key themes and learning point that we have summarised for the participants of the tour to reflect on or discuss, relating to key dialogue and briefing sessions as well as site visits on the tour.

1. Disruption of the traditional Swiss private bankers

- The traditional trusted advisor model of Swiss private banking is being disrupted by new regulatory measures aimed at eliminating the role of Swiss private banks as possible vehicles for tax evasion.
- This has precipitated a net outflow of investor funds, increased costs of compliance and exacerbated competition, which in turn have put significant pressure on margins and profitability leading to massive consolidation of the industry and the demise of many of the smaller partnership based private banker institutions which traditionally provided independent and objective investment advice.
- To survive these institutions are exploring mergers and acquisitions and transforming business/operating model as either a trusted advisor, product specialist, transaction champion or managed solution provider.
- While the larger institution such as UBS, Credit Suisse, Julius Baer, etc, are adopting the American universal banking model, providing a more holistic range of commercial, investment banking and asset management products and services.

2. Strengths of the Swiss private banks

- A reputation built on trust and stability – *“When the world is in crisis, Swiss private banking benefits”* - Robert Straw – *Swiss Finance Institute*
- Advisory capability on complex family and cross-border wealth management issues as well as diverse and alternative asset classes built on a legacy lasting over 200 years
- Executional and transactional capability that is claimed to be unmatched by institutions domiciled in other jurisdictions

3. Switzerland’s reputation as the world’s most innovative nation

- Switzerland invests close to 3.4% of its GDP in research and development (R&D). It spends CHF 22 billion on R&D. The private sector accounts for most of the funding and execution of this work (86% and 71% respectively).
- Swiss researchers produce roughly 1.2% of all scientific papers published worldwide, putting it in 17th place in international rankings. In terms of impact, Switzerland exceeds the global average of 17% and takes third position after the United States and the Netherlands.
- In 2013, Switzerland had 269 patent applications per million inhabitants. Only Japan files more patent applications per capita than Switzerland.
- The Commission for Technology and Innovation (CTI) supports applied R&D projects, in 2016, it provided subsidies of CHF 184.6 million to fund 539 projects.
- Switzerland’s two federal institutes of technology in Zurich and Lausanne are renowned worldwide for their cutting-edge scientific output. The Federal Institute of Technology Zurich (ETHZ) was ranked 8th in the 2016 QS World University Rankings.

4. The need for innovation in Swiss banking

- Generating profits requires competitive advantage. Innovation enables and addresses the transient nature of competitive advantage - *Claude Diderich, Diderich Consulting*
- Satisfy evolving needs of private wealth customers
 - o Contract-based advice
 - o New asset classes – cryptocurrencies?
 - o Service delivery – robo-advisors?
 - o Goal based investing
 - o Rise of passive products
- Leverage environmental constraints
 - o Economy
 - o Regulation
 - o Competition
- Exploit technological advantages
 - o Digital transformation

5. Industry collaboration and partnership with regtechs

- Increased regulatory burden creates opportunity for industry collaboration and partnership with regtechs – *David Bundi, Hypothekarbank Lenzburg AG*
- Changes already implemented or coming up will lead to more concentration on the market
- The obligation to implement different legislation and regulation increases the complexity of the task, but might also offer a potential for synergies
- The new AML, AEOI and MiFID II framework within financial institutions has to be highly industrialised in order to be compliant and cost-efficient at the same time

6. Proven business models are disappearing

- Institutions such as Swisscom and Roche recognise that existing business models and products do not last forever and will disappear at some point. That is why they are constantly investing in research and innovation to develop new businesses and products – to discover new “stars”
- Innovation is considered part of strategic business and primary role is for the generation of future revenue
- 70% of Swisscom current revenue result from products that did not exist 10 years ago. Similarly, for Roche, the period that it enjoys exclusive patents to new products typically lasts 10 years, before margins on these are eroded as exclusivity expires.

7. Blockchain enables asset transactions

- Blockchain or distributed ledger technology, that underpins cryptocurrencies, enables asset transactions – *Oliver Bussman, Crypto Valley Association*
- Internet exchanges information whereas blockchain exchanges assets
- Blockchain could dramatically reshape products and processes across all industries
- First blockchain movers are focusing on selective and existing cases into production with the highest benefit impact
- Crypto Valley is developing one of the world's leading blockchain and cryptographic technology ecosystems

8. Increasing demand for cryptocurrency and digital assets platform in the future

- Regulated financial service providers need a cryptocurrency and digital assets platform in the future – *Peter Hofmann, Swisscom*
- Growing demand for crypto-based smart-contract enabled digital asset platform for matching and settlement, especially due to increasing complex regulatory compliance requirements.
- Swisscom is developing a digital asset platform offering for regulated financial service providers delivered in a platform as a service (PaaS) model – Bond Marketplace

9. Robo-advisors will not replace private wealth managers yet

- Most robo-advisors today offer solution to a limited number of passive ETFs that are re-balanced automatically on a periodic basis. They have not achieved the level of sophistication to deal with more active management strategies or complex, alternative products or assets that may be less liquid, hence not able to meet the more sophisticated needs of private wealth clients - *Patrick Oberhaensli, Evolids Finance*

10. AI platforms increase efficiency of private wealth advisors

- New generation AI-enabled CRM platforms can help automate processes and operation to significantly increase productivity and efficiency of private wealth relationship managers.
- One example that the delegates visited and experienced is InvestGlass's Integrated Wealth Advisor Platform. Designed to support wealth advisors daily activities, as a white-labeled, client and prospect management platform for bankers, wealth managers and advisors meant to foster more efficient prospecting and onboarding of new clients, as well as the management relationships with existing clients.

II. Sites Visited

i. Crypto Valley Labs

Crypto Valley is an ecosystem established in Zug, Switzerland. Its mission is to establish the world's largest ecosystem for blockchain and cryptographic technologies. It achieves this aim through practices such as assisting start-ups and other businesses by making policy recommendations, conducting research projects, and hosting industry events.

The ecosystem was crystallised following the invention of Bitcoin in 2009 and the development of cryptographic technologies. Crypto Valley was thus borne out of Zug's pro-business environment and political stability, to offer companies economies of scale and network effects, as well as an abundant capital and talent pool. Some organizations drawn to this ecosystem include Ethereum, Monetas, Bitcoin Suisse, Xapo, ShapeShift, ConsenSys, and Tezos.

Crypto Valley, with its active connections to international centres of blockchain innovation in London, Singapore, Silicon Valley and New York, is quickly becoming a global centre where emerging cryptographic, blockchain and other distributed ledger technologies and businesses can thrive in a safe, supportive, and vibrant environment.

ii. F10 Fintech Incubator & Accelerator

Based in Zurich, the F10 FinTech Incubator and Accelerator was created to support and advise startup companies and coordinate their cooperation with international financial organisations. Focusing on Fintech, InsurTech and RegTech, the accelerator, which has an expertise in financial disruption, utilises its powerful network of members and corporate sponsors, to provide companies with know-how and investment through a culture of collaboration and the fostering of talent, providing optimal conditions for technological and business innovations. This is achieved as it is sponsored by the financial infrastructure provider SIX, the cornerstone of the Swiss financial industry that offers comprehensive global scale services.

The accelerator is ideally poised to foster worldwide collaboration between startups and international finance organizations, and it already has a proven track record of innovation, acceleration and product creation for financial services. It has attracted a varied pool of global entrepreneurs and boasts success stories such as APIAX, Xchain and Veezoo.

iii. InvestGlass

InvestGlass began with a simple idea: every investor should receive and individualised information at the right time and format. The reason behind it was because each investor is unique, their attention is precious, and engaging individuals is expensive. The platform is fully customisable helping wealth advisors meet their clients' needs while implementing complex compliance requirements.

The Integrated Wealth Advisor Platform was founded in 2014 in Plan les Ouates, Geneva, with the aim of supporting wealth advisors daily activities, as a white-labeled, client and prospect management platform for bankers, wealth managers and advisors meant to foster

more efficient prospecting and onboarding of new clients, as well as the management relationships with existing clients.

iv. Patek Philippe

Founded in 1839, Patek Philippe is the last independent, family-owned Genevan watch manufacturer. With a vibrant, uninterrupted operating history spanning nearly 180 years, the company benefits from a unique legacy of tradition and innovation. From Antoine Norbert de Patek's encounter with Jean Adrien Philippe to Thierry Stern's presidency, from the first pocket watches to the very latest super complications, Patek Philippe is an industry leader and is renowned for its innovation as an independent manufacturer with vertically integrated production, having its own research and development department and assembling its products in-house.

v. Roche

Roche, the world's largest biotech company is a global pioneer in pharmaceuticals and diagnostics and a leader in personalised healthcare, was founded in 1896 to search for better ways to prevent, diagnose and treat diseases and make a sustainable contribution to society. The company also aims to improve patient access to medical innovations by working with all relevant stakeholders.

Roche was one of the first companies to recognize the importance of external innovation, making these external partnerships the cornerstone of Roche's R&D strategy to transform novel ideas into medicine. Also, Roche created a venture fund that invests to develop commercially successful innovative life science companies. The company's efforts have led to an impressive track record of recognition as the Group Leader in sustainability within the Pharmaceuticals, Biotechnology; Life Sciences Industry eight years in a row by the Dow Jones Sustainability Indices (DJSI), as well as having twenty-nine medicines developed by Roche being included in the World Health Organization Model Lists of Essential Medicines.

vi. Swiss Bankers Association

The Swiss Bankers Association (SBA) is the voice of the banks in Switzerland. Founded in 1912 in Basel, boasting almost 300 member institutions and approximately 12,000 individual members, the Swiss Bankers Association acts as an umbrella organisation, representing almost all the banks in Switzerland. The primary objective is to promote optimal framework conditions for the Swiss financial centre in Switzerland and abroad. To this end, they represent the interests of the banks in industry, politics, and vis-à-vis the government, the authorities and the regulators. As a think tank for the framework conditions of the future, they anticipate the developments that will be relevant to the financial centre.

vii. Swisscom

Established in 1852, Swisscom is Switzerland's leading telecoms company and is one of its leading IT companies, named as one of the most sustainable companies in Switzerland and Europe. Today, Swisscom supports more than half of Swiss banks in matters of digitisation

and links start-ups and established banks in order to enable new digital offerings. Swisscom actively invests in FinTech start-ups and launched a CHF 10 million Fintech fund.

viii. Swiss Finance Institute

The Swiss Finance Institute (SFI) is a Swiss research and scientific educational institute in the areas of banking and finance. Organised as a foundation, the institute belongs to the most important knowledge pools of the Swiss financial centre and serves to foster the interaction between research and industry experience. Focusing on the areas within finance that have a natural interaction with mathematics, statistics, engineering, and science, namely, mathematical finance, financial econometrics, and entrepreneurial finance. It was established in 2006 to strengthen the Swiss financial marketplace to maintain Switzerland's international reputation as a leading financial center.

ix. UBS Wealth Innovation Lab

The UBS Wealth Innovation Lab was established in 2014 to identify and to test future products and services and to act as a centre of research and development to develop and incubate new ideas and concepts that have the potential to improve client services and generate added value into testable prototypes within a sandbox environment. These strategic insights and radical approaches allow UBS Wealth Management to create new business channels and engage more effectively with current and new clients as well as to map the future of wealth management.

For UBS, innovation and digitalization are key strategic priorities and they are investing heavily into those areas, including driving the development and integration of new technologies into their existing business model and investing in market research to understand what tomorrow's clients will expect. To support these efforts UBS is adopting the so called "permission-to-fail culture", opening to innovation and experimentation without immediate pressure of ROI.

WM Innovation Map focuses on four key pillars of New Advice, New Trust, New Choices and New Wealth. Mission to create "intrapreneur" – innovation from within and amongst its employees, examples of internally driven and developed initiatives – UBS Smart Wealth, Ask UBS and UBS Optimus Foundation Virtual Reality

x. United Nations Office

Housed at the Palais des Nations, the United Nations Office at Geneva (UNOG) serves as the representative office of the Secretary-General at Geneva and provides key infrastructure and support in the promotion of peace, development and human rights by building partnerships with civil society research, academia and other international actors.

In the financial field, the UN establishes that private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. The UN acknowledges the diversity of the private sector, ranging from micro-enterprises to cooperatives to multinationals, which can help by applying their creativity and innovation into solving sustainable development challenges.

III. Photo Gallery



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