

BETWEEN REGULATION AND NEW TECHNOLOGIES – THE FUND MARKET IN SWITZERLAND



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Switzerland is renowned for its robust financial industry and recognised as a global banking leader. Its stability, well-developed infrastructure and investor-friendly regulations have made it an attractive destination for foreign asset managers to distribute their funds. Yet, as the Swiss banking industry undergoes a transformative shift, the rules of the game are changing and managers may have to adapt to a new paradigm.

REGULATORY TRANSFORMATION: MORE FRIEND THAN FOE

Switzerland boasts a straightforward and simple framework for investors and for foreign managers to distribute their funds under The Collective Investment Scheme Act (CISA) and Collective Investment Scheme Ordinance (CISO).

In 2020, the Financial Services Act (FinSA) and Financial Institutions Act (FinIA) were enacted and amended certain rules. The objective of the new legislation was to unify the regulatory framework and align Switzerland with MiFID rules, bringing more transparency and protection to investors. This created a more burdensome regulatory environment for some local actors, but it alleviated many hurdles for foreign asset managers and modified the approach to regulation of fund distribution at the point of sale, including repealing the requirement for local distributors to be regulated by FINMA. The change to the definition of investor type has also had a major impact on certain registration requirements and increased the number of investors that a foreign asset manager can approach.

THE DIGITALISATION OF DISTRIBUTION

There is a multi-channel approach to fund distribution in Switzerland. Historically, the main distribution channels have been institutional investors, intermediary wholesale, intermediary retail and direct retail. While traditional advisory remains crucial, digital technologies are changing the landscape, with a growing trend towards hybrid models that combine the expertise of investment advisors with digital tools such as robo-advisors and other data-driven analytics.

"This digitalisation of distribution will bring further efficiency and transparency to the sales process, facilitating transactions."

Delivery methods are also changing with the introduction of digital banks and the growth of fund platforms. Global institutional players, including Swiss banks, are investing in creating decentralised platforms based on distributed ledger technology. This digitalisation of distribution will bring further efficiency and transparency to the sales process, facilitating transactions.

L-QIF – THE NEW KID ON THE BLOCK FOR PROFESSIONAL INVESTORS

Swiss funds are often not investors' first choice, particularly alternative investments – Luxembourg, with its RAIF, and the Cayman Islands remain the jurisdictions of choice. Relatively high costs and extended time to market due to the approval process mean that Swiss clients often favour these foreign funds over their Swiss counterparts.

To become more competitive, Switzerland has created the Limited Qualified Investor Fund (L-QIF). This structure is available only to professional investors and does not require FINMA approval, allowing for a more cost-effective and timely launch. L-QIFs can be both open-ended and closed-ended structures and they offer managers more flexibility regarding asset class and investment strategy. The tax treatment of L-QIFs also presents a compelling case for Swiss institutional and professional investors.

THE SHIFTING BUT GROWING APPETITE FOR FUNDS

After a difficult 2022, the Swiss fund market is back in positive territory. As at the end of the first half of 2023, assets under management had increased to over CHF 1.3 trillion, an increase of CHF 53 billion or 4.1% since the end of 2022. This was both a result of increased performance (+3%) and net new inflows representing about 1%. Fears of a recession and continued inflation, together with rising interest rates, have caused a shift away from equity markets into less volatile money market funds.

Demand for funds not only remains strong but continues to grow, demonstrating the attractiveness of the Swiss investor landscape for foreign fund managers.

WITH CHANGE COMES OPPORTUNITY

Banking, wealth management, and asset management are all faced with a shifting paradigm. Switzerland is leading the charge and adapting to these transformations to secure its position as a fund distribution hub. It is creating a stable and sensible regulatory landscape, embracing technology, and creating new tools for market participants to enter the market. Regardless of macro challenges, Switzerland remains well-positioned to play a vital role in the distribution of investment funds on the global stage.



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