

## STRENGTH IN NUMBERS



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Since 2023, Swiss external asset managers (EAMs) have been operating under the FINMA authorisation regime, following the implementation of the Financial Market Supervision Act (FINMASA) and the Financial Market Supervision Act (LSFin). This authorisation regime gives them long-awaited recognition and offers excellent prospects for external asset managers.

### A BUOYANT BUT CHALLENGING ENVIRONMENT

According to the latest statistics provided by FINMA, most asset managers and trustees authorised to date are micro-businesses, incorporated as limited companies, and employing fewer than three full-time staff. As of 31 December 2023, the total assets managed by the 1,187 authorised institutions amounted to approximately CHF 216 billion, with a further 600 authorisation applications still waiting to be processed at the end of 2023, several of which were large EAMs.

Despite the headline numbers of EAMs, the sector faces a number of challenges that will likely affect the evolution of the industry.

Firstly, increasing and demanding regulation has been pushing up both cost, and the time spent in meeting regulatory requirements, for the past decade.

Ownership and management structures are likely to present a further challenge in the next decade, with around a third of EAMs needing to consider their futures. Competition for talent will be fierce, with candidates being courted by both external wealth management businesses and banks.

A new generation of customers is also presenting new challenges as expectations change and EAMs are forced to invest

and innovate to meet their new demands.

Finally, there is a decisive next step for all licensed EAMs: the first FINMA prudential audit. In accordance with legal provisions, the frequency of this audit is determined by the risk profile assigned to each structure.

While the vast majority of EAMs will clear this hurdle, FINMA's high requirements, may prompt a number of EAMs to question their independence.

### ADDRESSING THE CHALLENGE

Establishing long-term collaboration between EAMs could lead to the pooling of support functions – such as financial research, back office, risk management, compliance, HR and payroll administration, IT tools, AI, and digital processes - through the creation of a joint service company. This would enable charges to be shared and costs to be optimised for each EAMs shareholder or client of the structure.

**"The next few years should prove profitable for Swiss external asset managers."**

Merging with another player may also ensure survival - albeit at the cost of some autonomy - for companies that are struggling to grow or to meet existing challenges. A merger can provide access to additional skills, a robust organisation, a complementary range of services, and new customers and markets.

### LOOKING TOWARDS THE FUTURE

The increasing demands of FINMA will undoubtedly force industry players to rethink their strategy and will likely accelerate consolidation in a sector that has seen little in the way of M&A. This development will affect EAMs of all sizes, since the issue of critical size in this sector remains difficult to quantify, given the variety of business models.

Notwithstanding the challenges, the new regulatory framework further establishes the external asset management sector as a key player in the Swiss financial centre. The quality of its players and the diversity of its offering, based on truly open

architecture, means that it has considerable potential for growth.

EAMs structures will continue to develop alongside their banking partners, because their business model is attractive and many of the players demonstrate a real capacity for innovation. Although there are still many challenges ahead, the next few years should prove profitable for Swiss external asset managers.



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