

The Deloitte Wealth Management
Centre Ranking 2013
Measuring competitiveness of
international private wealth
management in Switzerland



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Foreword

The competitive landscape for international private wealth management has changed over the past five years or so. The high standards of service provided by wealth managers were not enough to protect clients from the ravages of the global financial crisis. Moreover, the crisis and the subsequent slowdown in the US and Europe have widened the gap in economic growth rates between these mature economies and fast-growing economies of Asia. The crisis has also accelerated initiatives by western governments, especially in the US, to eliminate opportunities for their citizens to hold undisclosed wealth offshore.

All these factors have changed the market shares of competing wealth management centres. Continuing shifts in the competitive landscape point to further changes ahead.

These developments mean that Switzerland's wealth managers face a challenging future. In addition to the global economic slowdown, new regulations and increasing demands from clients are eroding both revenues and profit margins for cross-border wealth management.

Switzerland's competitive position in this demanding global environment will be determined by a combination of policy choices, by regulators and supervisors on the one hand, and by the actions of wealth managers themselves on the other. Maintaining Switzerland's traditional strength in this area will require both political vision and corporate action. Only by defining and implementing a shared agenda can Switzerland ensure the future for one of its most important industries; an industry that will design innovative products and services, attract client assets, generate employment and so continue to create a significant share of Swiss national income.

This report identifies the areas for improvement by the Swiss authorities and wealth managers, to strengthen Switzerland's leading position as a wealth management centre and meet the competitive challenge from both established and emerging centres. This report will answer the following **three key questions**:

- What are the **key success factors** for a wealth management centre?
- How does Switzerland rank on these criteria against its main **competitors**?
- What are the **strengths** and **weaknesses** of Switzerland as a wealth management centre?

This report also looks at the current rankings of wealth management centres by assets under management and administration (AMA).

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Executive summary

Leading international wealth management centres by amount of client assets

The Deloitte analysis shows that the rankings of the leading wealth management centres according to the total amount of assets under management and administration (AMA) remained fairly stable over the period 2007 – 2011:

- **Switzerland** maintained its position as the world's leading wealth management centre. However the country's competitive position is weaker. The amount of cross-border client assets fell by 27% over the period; this is slightly below the average decrease across all centres (-29%).
- **The United Kingdom** retained its number two slot in the rankings, but this disguises a 23% fall in its AMA.
- **Panama and the Caribbean** retained third place over the period but their amount of client assets fell by more than a quarter.
- Similarly, **the United States** suffered a fall of almost one quarter over the period, while retaining its fourth place in the rankings.
- Fifth-placed **Singapore's** client asset size also fell, but by only 14% over the period.
- In contrast, sixth-placed **Hong Kong** increased the amount of client AMA by 5% over the five years, in spite of suffering a setback at the beginning of the financial crisis.
- Should these observed growth trends continue in the future, **Hong Kong could overtake Switzerland** in the rankings as early as 2019!

Competitiveness across the leading wealth management centres

The new Deloitte international wealth management centre rankings show that the leading centres are very close rivals in terms of competitiveness:

- **Switzerland** comes top when assessed on a range of 47 success indicators, grouped into four main areas: business environment; provider capability; stability; and tax and regulatory factors.
- However **Singapore**, which is currently less than a third of the size of Switzerland in terms of cross-border AMA, runs the wealth management giant a very close second for competitiveness. This hints at future gains in market share to come. The island state scores well on financial and political stability, tax and regulation.
- **Hong Kong**, the fastest-growing wealth management centre over the five-year period, achieved third place in the Deloitte international wealth management centre rankings, just ahead of the UK. Hong Kong benefits from relative strength in financial stability, tax and regulation.
- The **UK** scores well on a number of competitiveness criteria, as one might expect given London's millennium-long history as a trading and financial centre. It compares well in terms of business environment, provider efficiency, capital markets and financial education, but compares badly with other centres for provider capability, stability and tax.
- **Panama and the Caribbean** shows the biggest disparity between the amount of AMA (currently ranked third) and its position in the Deloitte wealth management centre rankings. It ranks below the other eight centres in almost every broad category of competitiveness. This suggests that it could be vulnerable should bigger countries, such as the US or UK, adopt a less supportive stance.

- Deloitte's international wealth management centres rankings show that as many as **60% of the drivers of competitiveness** are the sole responsibility of the public sector; whereas just 6% are the sole responsibility of the private sector. The remaining 34% are the joint responsibility of the public and private sectors. The significant role of the public sector means that the Swiss authorities must get involved if the country is to preserve and enhance its competitive position.
- Making advances in competitiveness will take time. Wealth managers can deliver **short to mid-term advantages which are based on relative strength**, such as better quality of service and efficiency improvements. However **longer-term strategic improvements** in financial stability, tax and regulation, which are a relative weakness of Switzerland, will require a 'partnership' between Swiss public and private sectors.

About the research

Research process and methodology

This report summarises the findings of a major study based on an in-depth analysis of the main international wealth management centres.

Over the past three years Deloitte Switzerland has published a series of White Papers entitled **“The future for business in Switzerland?”**. The series proposed an agenda for change aimed at promoting Swiss business and enhancing its global competitiveness by outlining initiatives for growth creation. Within the financial services industry, a clear majority of the interviewed executives rated the initiative for creating growth in wealth management, **“Enhance Switzerland’s reputation as the global centre of wealth management”**, as the most important by far. In order to enhance this reputation, it is necessary to begin by recognising the factors that determine how Switzerland is assessed against rival wealth management centres.

The report therefore starts by identifying Switzerland’s main competitors (see Figure 1), and measures the value of AMA at each centre in the years 2007 – 2011 and the changes that have occurred in this period. This study differs from others by including assets held in fiduciary structures such as companies and trusts. This is important, since one of Switzerland’s competitive advantages is the sheer variety of legal entity structures that it offers to wealth management clients.

The report goes on to establish the Deloitte international wealth management centre rankings for competitiveness. It defines a set of success factors which provides the basis for a competitiveness measurement framework taking into account both quantitative and qualitative factors (see chapter: *Measuring competitiveness*). This proprietary Deloitte framework is then used to rank the main wealth management centres by competitiveness. Using these results, the report concludes with a profile of Switzerland’s strengths and weaknesses, in what could be described as an ‘internal analysis’ (see chapter: *Switzerland’s strengths and weaknesses*).

In preparing this report we have drawn on the expertise of Deloitte practitioners in Switzerland and our member firms throughout the world, on various industry experts, and on secondary data from a number of institutions.

Figure 1. Methodology international wealth management centre ranking

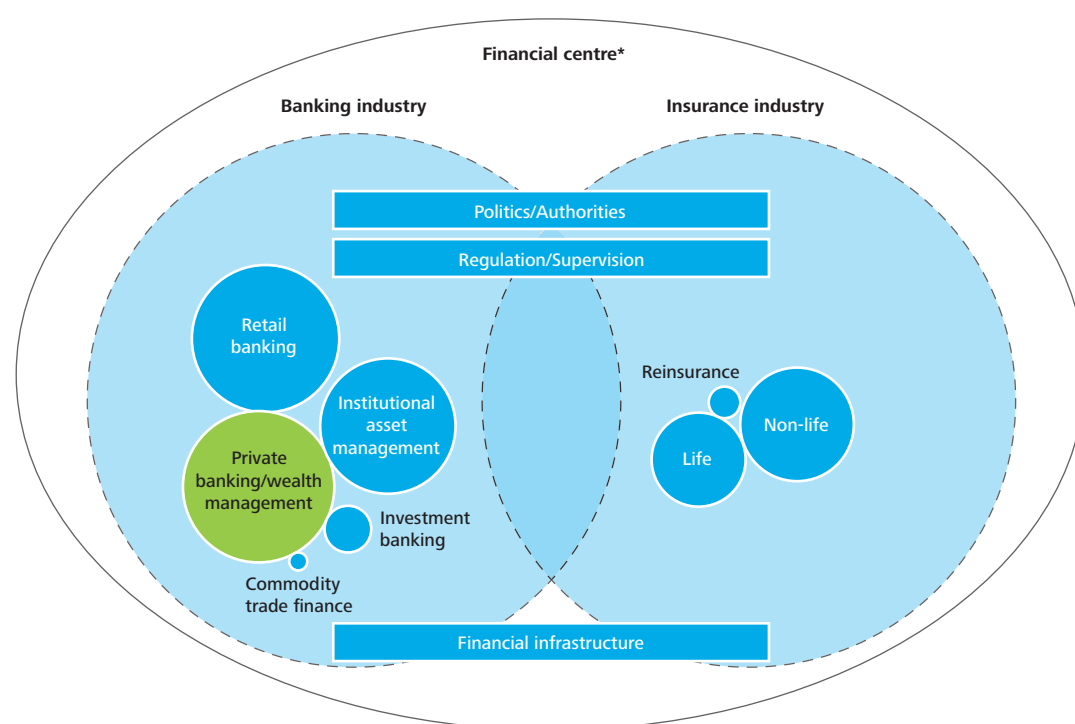
Steps	Approach	Key sources
1 Main competitors	<ul style="list-style-type: none"> • Specification of main competitors according to their size related to booked client assets. 	<ul style="list-style-type: none"> • Deloitte private wealth market sizing database.
2 Success indicators/factors Measurement concept	<ul style="list-style-type: none"> • Definition of success indicators and aggregation into success factors to measure competitiveness. 	<ul style="list-style-type: none"> • International private wealth management experts and Deloitte industry experts. • 3rd party data.*
3 Wealth management centre ranking Strengths and weaknesses	<ul style="list-style-type: none"> • Analysis of wealth management centres against success indicators. • Definition of a competitive ranking. • Analysis of relative strengths and weaknesses of Switzerland. 	<ul style="list-style-type: none"> • 3rd party data.* • Deloitte industry and competency experts.

* Among others: Bank of International Settlements, Economist Intelligence Unit, Euromoney, International Monetary Fund and World Economic Forum

Scope of this research

The structure of the Swiss financial centre is characterised by interdependencies between, and within, the banking and insurance industry. Government institutions and the financial infrastructure are cornerstones of the system, setting the scope for possible activities and providing the technical basis for the functioning of the whole financial centre. Within Switzerland's banking industry, **private banking/wealth management** is the most important sector in terms of contribution to GDP (see Figure 2).

Figure 2. International wealth management centre as part of the Swiss financial centre

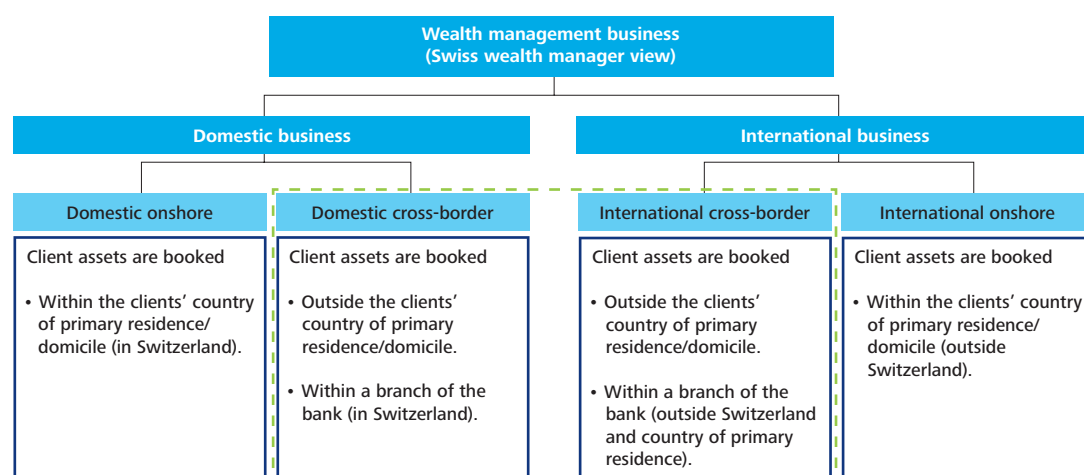


*The bubble sizes for each sector within the banking and insurance industry represent its relative contribution to GDP

In relation to this sector (but independent of the Swiss financial centre structure) **international wealth management centres** are defined in this report as countries or jurisdictions specialising in and attracting a large number of international private clients. The key feature of this definition is the provision on a significant scale of private banking/wealth management services to clients with foreign domiciles. Consequently, a large proportion of client assets in wealth management centres are cross-border assets, which are the focal point of this report (see Figure 3) and client assets are defined as the sum of AMA. The following asset classes are included: bank accounts (checking and saving accounts); debt and equity securities; and derivatives. This is not limited to millionaire households, but includes all households. Non-banking assets such as business equity, primary residences and art are excluded.

Various types of institutions provide wealth management services within the Swiss financial centre. The listed private banks, partnership private banks and a large proportion of the foreign banks focus almost exclusively on wealth management services, and universal, cantonal and regional banks serve wealthy private clients through dedicated wealth management divisions or departments. Non-banks, such as family offices and stand-alone asset managers, also provide wealth management services and contribute on a significant scale to value creation in the Swiss financial centre. All these service providers are included in this report.

Figure 3. Types of wealth management business



Focus of this research

Source: Deloitte classification

Measuring competitiveness

When examining the competitiveness of international wealth management centres, Deloitte Switzerland has addressed two key questions. First: which centres are the main international players? Second: what kind of methodology should be applied to assess competitiveness?

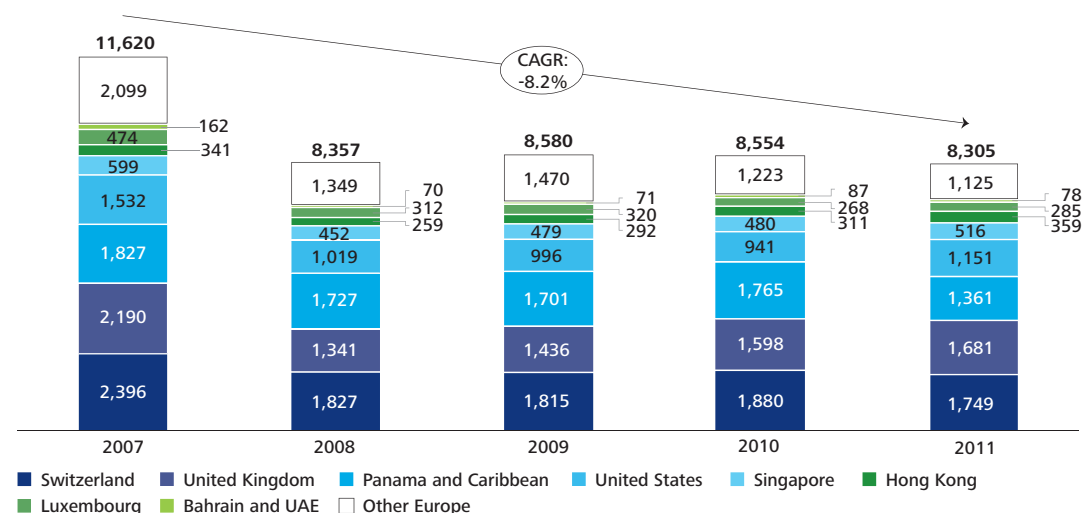
To answer the first question, centres were compared by size, as measured by the value of AMA.

The answer to the second question is to apply a Deloitte wealth management centre competitiveness framework.

Leading international wealth management centres by amount of client assets

Deloitte Switzerland studied 55 countries in preparing this report. Only a comparatively small number of countries attract sufficient international assets to qualify as international wealth management centres. To identify the key players in international wealth management, Deloitte Switzerland measured the value of client assets booked in those 55 countries and reduced the list to nine major centres. Figure 4 shows the changes in private client assets in these centres from 2007 to 2011.¹

Figure 4. International private client asset size in the leading wealth management centres (in USD bn and %)



Note: Compound annual growth rates are calculated on the basis of year-end values. AuM represent privately owned assets in USD. Assets held indirectly via financial vehicles are partially included.

Bahrain and UAE: Countries were calculated together due to lack of critical amount of client AMA

Other Europe: Belgium, Ireland, Monaco and Channel Islands.

Source: Deloitte analysis 2013, based on Deloitte Wealth Management Database.

Between 2007 and 2011, the total value of international private client assets in the main wealth management centres declined from USD 11.6 trillion to USD 8.3 trillion. The wealth management centres experienced substantial economic and regulatory changes during this period. The value of AMA fell in all centres during the worst of the financial crisis (from the end of 2007 to the beginning of 2009). In addition, centres with a large part of their assets denominated in GBP or EUR experienced significant falls in asset values measured in USD terms. In Switzerland, the UK, Panama and the Caribbean, Luxembourg, other Europe and the US, the decline was intensified by onshore providers enhancing their capabilities and competing more effectively against cross-border providers. Stricter regimes to enforce taxation compliance have also affected the value of client assets in some jurisdictions, as the perceived tax benefit of investing offshore has been diluted.

The relative rankings of the nine centres in terms of AMA remained fairly constant in the period under review (see Figures 4 and 5). Switzerland is the leading centre, followed closely by the United Kingdom and Panama and the Caribbean. These three centres together accounted in 2011 for about 60% of the total of client assets, and the top two centres accounted for 42%.

¹ Panama and the Caribbean, Bahrain and the United Arab Emirates (UAE) and 'Other Europe' are shown as regional aggregates to simplify presentation and avoid problems with data availability.

The US and Singapore were ranked 4 and 5, and Hong Kong overtook Luxembourg for sixth place in the rankings for the first time in 2010. On average, the value of international assets in the wealth management centres fell by 29% between the peak in 2007 and 2011. The average decline between 2010 and 2011 was 3%.

Figure 5. Evolution of client assets per wealth management centre

Booking centre	Measures	2007	2008	2009	2010	2011	Overall '07 – '11
Switzerland	Rank	1	1	1	1	1	Ø 1
	Δ absolute	377	-569	-12	65	-131	-647
	Δ %	19%	-24%	-1%	4%	-7%	-27%
UK	Rank	2	3	3	3	2	Ø 3
	Δ absolute	436	-849	95	162	82	-510
	Δ %	25%	-39%	7%	11%	5%	-23%
Panama and Caribbean	Rank	3	2	2	2	3	Ø 2
	Δ absolute	384	-100	-26	64	-404	-466
	Δ %	27%	-5%	-2%	4%	-23%	-25%
United States	Rank	4	4	4	4	4	Ø 4
	Δ absolute	212	-513	-22	-55	210	-380
	Δ %	16%	-34%	-2%	-6%	22%	-25%
Singapore	Rank	5	5	5	5	5	Ø 5
	Δ absolute	135	-147	27	2	36	-82
	Δ %	29%	-25%	6%	0%	7%	-14%
Hong Kong	Rank	7	7	7	6	6	Ø 7
	Δ absolute	98	-81	32	20	47	18
	Δ %	40%	-24%	12%	7%	15%	5%
Luxembourg	Rank	6	6	6	7	7	Ø 6
	Δ absolute	31	-162	8	-52	17	-189
	Δ %	7%	-34%	3%	-16%	6%	-40%
Bahrain and UAE	Rank	8	8	8	8	8	Ø 8
	Δ absolute	42	-91	1	15	-9	-84
	Δ %	35%	-56%	2%	21%	-10%	-52%
Other Europe	Δ absolute	269	-750	121	-247	-98	-974
	Δ %	15%	-36%	9%	-17%	-8%	-46%
Total	Δ absolute	1'984	-3'262	224	-26	-250	-3'314
	Δ %	21%	-28%	3%	0%	-3%	-29%

Ranking of wealth management centre according to client asset size in 2011

Δ absolute: Change from previous year consisting of Net New Assets (NNA), market performance and FX effect, in USDbn

Other Europe: Belgium, Ireland, Monaco and Channel Islands

Source: Deloitte analysis 2013, based on Deloitte Wealth Management Database

Winning centre

Regressing centre

Losing centre

Hong Kong is the only **winning centre**, showing positive growth (+5%) in the period 2007 – 2011. **Regressing centres** (Switzerland, the UK, Panama and the Caribbean, the US and Singapore) experienced a drop in client assets during the same period, but this was below the average fall of 29% for all nine centres taken together. Except for Switzerland and Panama and the Caribbean, the regressing centres reversed their downward trend and showed an increase in client assets between 2010 and 2011. **Losing centres** were Luxembourg, Bahrain and the UAE and Other Europe; they experienced an above-average fall in client assets between 2007 and 2011. Luxembourg was the only one of these three centres that reversed the decline between 2010 and 2011.

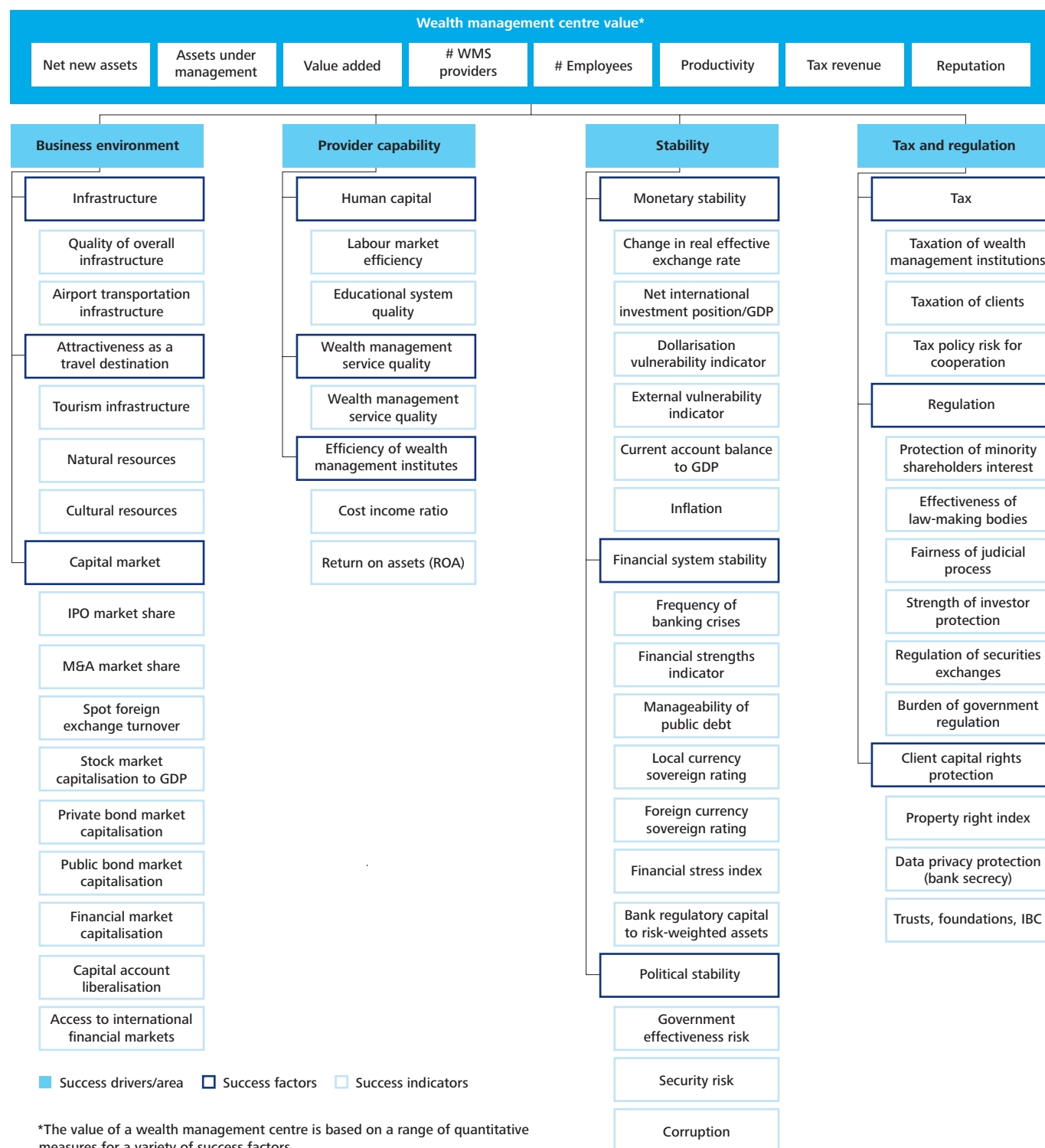
In conclusion the largest centres, Switzerland and the UK, may seem to hold a commanding lead over rivals, but there is no room for complacency. If Hong Kong, Singapore and the US continue to grow at the rates they achieved between 2010 and 2011, the gap between them and the top wealth management centres will narrow, and the competition for market share between the centres will increase. In particular at current rates of growth, Hong Kong could overtake Switzerland in 2019. The Middle Eastern centres, in contrast, do not currently represent a significant threat to the established centres in terms of amount of client assets. Specific reasons for the relative change of the centre rankings and their underlying drivers will be discussed in the chapter “Wealth management centre rankings”.

Measuring wealth management centre competitiveness

The value of wealth management centres is evident in several quantitative measures, such as the amount of net new client assets per year, value created and the number of employees in the centre. In order to increase value generation, it is necessary to understand the drivers of competitive success. These drivers are the broad areas of competitiveness. Within each broad area there are a number of key success factors, and for each success factor there are several indicators for measuring success. Deloitte has developed a value map for international wealth management centres (see Figure 6), based on Deloitte’s Enterprise Value Map that brings all these drivers, factors and indicators together in a structured manner.

Hong Kong is the only winning centre, showing positive growth (+5%) in the period 2007-2011.

Figure 6. International wealth management centre value map



Source: Deloitte analysis 2013

The research identified a total of 47 success indicators as the basis for analysing competitiveness. These indicators were selected for their relevance to international wealth management and checked for completeness with 25 international wealth management experts. They represent government institutions, financial infrastructure providers and global leading private wealth management companies. The success indicators were then grouped into 12 success factors that drive competitiveness in four broad areas: business environment, provider capability, stability and tax and regulation. Weightings for the relative importance of each success factor were decided by the above mentioned international wealth management industry experts, as follows:

Figure 7. Empirical weighting of success drivers and factors

Success drivers/area	Weight	Success factors	Weight
A – Business environment	10%	A1 – Infrastructure	2.5%
		A2 – Attractiveness as a travel destination	2.5%
		A3 – Capital market	5%
B – Provider capability	30%	B1 – Human Capital	8.75%
		B2 – Wealth management service quality	12.5%
		B3 – Efficiency of wealth management services providers	8.75%
C – Stability	25%	C1 – Monetary stability	9.5%
		C2 – Financial system stability	6%
		C3 – Political stability	9.5%
D – Tax and regulation	35%	D1 – Tax	10%
		D2 – Regulation	15%
		D3 – Clients capital rights protection	10%
Sum	100%		100%

The wealth management centres were given rankings for each of the 12 success factors. The overall competitiveness score for each of the centres was then produced as the weighted average ranking for all the success factors rankings. See appendix for more details on how the success factors were assessed.

Competitiveness does not change overnight. Some indicators and (by implication) the corresponding success factors, such as human capital and infrastructure, can only be influenced in the long term, which for the purpose of this study is defined as three to five years. Other indicators and success factors can be influenced in the medium term (one to three years) or the short term (less than a year). Responsibility for each of the success indicators may rest with the government and regulators, or with the wealth management service providers, or with both of them. Responsibility for more than half the success indicators—28 out of 47 (60%) lies with the public sector. Only three out of 47 indicators (6%) are mainly the responsibility of the private sector. Responsibility for the remaining 34% is shared between the public and private sectors. Many of the indicators for which the public sector is responsible are long term in nature. In contrast, many corporate decisions can be implemented quickly, and many of the related success indicators are therefore more short-term. For more information on the categorisation please see appendix.

Wealth management centre rankings

Switzerland and Singapore are in a virtual dead heat at the top of the Deloitte wealth management centre rankings for competitiveness. Switzerland just takes first place thanks to strength across the board, topping the rankings in the areas of business environment and provider capability. However the difference in competitiveness with Singapore is insignificant. The lead over Hong Kong and the UK is bigger; Hong Kong benefits from strength in the areas of stability and tax and regulation, while the UK scores well for its business environment and provider capabilities.

Figure 8. Wealth management centre ranking by success area

Overall ranking	Wealth management centre	Success areas				
		Competitiveness score (weighted)	A – Business environment	B – Provider capability	C – Stability	D – Tax and regulation
1	Switzerland	2.5	1	1	3	3
2	Singapore	2.7	4	4	1	1
3	Hong Kong	3.7	5	6	2	2
4	United Kingdom	3.8	3	2	5	5
5	United States	5.0	1	3	6	7
6	Bahrain	5.2	7	5	7	4
7	Luxembourg	5.7	6	8	4	6
8	UAE	7.2	8	7	9	8
9	Panama and Caribbean	7.4	9	9	8	9

A comparison of these competitiveness rankings² with the asset size rankings (see Figures 4 and 5) shows that the centres with the most AMA are not necessarily the most competitive. The five most competitive centres in the Deloitte wealth management centre rankings also compare well in terms of the value of assets managed and administered. However, there are some notable differences.

The rankings of the centres in terms of amount of client assets are clearly affected by external factors such as the euro zone crisis and the economic rise of Asia. However, when examined in conjunction with the rates of growth in AMA (see Figure 5), the Deloitte wealth management centre rankings for competitiveness offer clues to changes in the relative asset rankings of the various centres, and hint at further changes to come.

Switzerland's position at the top of both the competitiveness league table and the assets league table should not encourage a false sense of security. The global financial crisis undermined the country's long-standing reputation for stability. Post-crisis regulation has put banking profits under stress, and a high-profile conflict with the US and the European Union has compromised the country's much-vaunted banking secrecy. These factors contributed to the sharp fall (by 27%) in cross-border assets managed and administered in Switzerland between 2007 and 2011. In the worst period of the crisis, between 2007 and 2008, they fell by 24%, and failed to recover thereafter. Meanwhile rival centres gained at Switzerland's expense.

Singapore and Hong Kong come fifth and sixth in the assets league table. In 2011 the total assets managed and administered in these two centres together came to just over half of the total for Switzerland. Hong Kong was the only centre to increase its AMA between 2007 and 2011 (by 5%); this gain in market share was driven by its improving competitive strengths. Due to the strong competitive position of Singapore, a recovering centre, its total amount of client assets fell by only 14% in this period, much less than in the other centres with the exception of Hong Kong.

² As 'Other Europe' is not an international wealth centre per definition (see Chapter 'Scope of this research') it has been disregarded for the competitiveness assessment.

The UK is currently in second place in the assets table, in spite of coming just fourth in the Deloitte wealth management centre rankings for competitiveness. Its position has clearly been helped by London's history as a trading and financial centre. Its centuries-old favourable treatment of non-domiciles may be an important driver of success, but the UK has not explicitly pursued a strategy to become a wealth management centre. The UK may also have benefited from a 'flight to safety' during the global financial crisis and the subsequent euro zone crisis in mainland Europe. However the UK's position as a wealth management centre could be at risk if its government were to increase taxation for wealthy foreigners. For example, the government has introduced annual charges on those claiming non-domicile status, increased stamp duty (transaction tax) on expensive residential property (favoured by the international rich) and on homes held in companies, a device commonly used by wealthy foreigners³. In addition as an EU member the UK must comply with EU regulations, which may sometimes be harmful to its position as a financial centre.

There are warning signs in the Deloitte wealth management centre rankings for those centres at the top of the asset league table. The drivers of competitive success will become even more important in the future as the industry undergoes major changes. The following chapter provides a more detailed analysis of the competitiveness rankings for the success factors in each of the four success areas: business environment; provider capability; stability; and tax and regulation. This assessment of relative competitiveness will then be used to make a strengths and weaknesses analysis of the Swiss wealth centre.

A – Business environment

The three success factors within the area of 'business environment' are infrastructure, attractiveness as a travel destination and the local capital market. Whereas infrastructure and capital markets can be influenced by the government, regulators and the industry participants, the attractiveness of a wealth management centre as a travel destination is highly dependent on the nature and history of the country. Switzerland ranks highly for all three success factors in this area of competitiveness and as a result it leads the rankings.

Figure 9. Business environment ranking

Overall category ranking (weighted)	Wealth management centre	Success factors		
		A1 – Infrastructure	A2 – Attractiveness as a travel destination	A3 – Capital market
1	Switzerland	1	2	3
1	United States	4	1	2
3	United Kingdom	5	3	1
4	Singapore	2	5	5
5	Hong Kong	2	8	4
6	Luxembourg	8	4	6
7	Bahrain	6	8	7
8	UAE	7	5	8
9	Panama and Caribbean	9	7	9

³ Using companies as a vehicle for holding residential property is more common among foreigners than residents in the UK because residents can benefit from capital gains tax relief if they hold their principal home in their own name.

[A1] The physical **infrastructure** of a country – the quality of its transport and telecommunications networks – is crucially important for international business. Switzerland has excellent infrastructure and comes first in the rankings for this success factor. Its only weakness is the availability of air travel, for which the country is only middle-ranking. While the quality and availability of air transport in general is high, Switzerland does not provide as many routes or flights as other centres such as the US, UK and even Dubai in the UAE, which has an explicit strategy of becoming a leading logistics centre and air travel hub.

[A2] The **attractiveness** of a wealth centre **as a travel destination** is also important for competitiveness. An international client travelling abroad to visit his or her bank in person might prefer to visit an attractive destination, to make the business trip more pleasant or to combine business with pleasure. In addition, new business can be generated as a side-effect of clients' holidays, as they discover a potentially interesting wealth management provider at their holiday destination. Switzerland, with its excellent tourist infrastructure (hotels, rental agencies, ATMs), stunning landscape, clean environment and rich cultural heritage, is positioned well and ranks second after the US in this success category.

[A3] The UK and the US top the rankings table for the strength of their **capital markets**. Capital market strength is not just about size and liquidity; otherwise the US would win comfortably. It reflects a number of other factors such as foreign exchange turnover, the ratio of stock market capitalisation to GDP and the sophistication of the financial market. Switzerland ranks reasonably well for these factors, but lags far behind the UK and US in terms of the number of initial public offerings (IPOs) and the size of its bond markets. Traditionally Swiss companies have relied more on bank finance than equity finance, limiting the size of the Swiss equity market.

Switzerland has reasonably good access to the international financial markets. For wealth management much of this access is indirect and banks either access the international market via intermediaries or they use their international organisation and execute orders through their foreign subsidiaries. Only a limited number of Swiss banks have direct access to the international financial markets.

B – Provider capability

Success as a wealth management centre depends heavily on the capability of the local wealth management providers. How good is the quality of wealth management service to clients? How well-trained are employees of a private bank? How easily can talent be recruited by service providers? How efficient are the providers? These factors are critically important for attracting clients and their assets. They are also important from an industry perspective, since a well-developed wealth management centre will attract other wealth management providers who seek to benefit from the existing know-how and experience in the centre.

There are three success factors for this area of competitiveness: the quality of human capital, the quality of service from providers and the efficiency of providers.

Figure 10. Provider capability ranking

Overall category ranking (weighted)	Wealth management centre	Success factors		
		B1 – Human capital quality	B2 – Provider service quality	B3 – Provider efficiency
1	Switzerland	1	1	3
2	United Kingdom	3	3	1
3	United States	4	1	4
4	Singapore	2	3	6
5	Bahrain	6	6	1
6	Hong Kong	5	7	6
7	UAE	9	5	5
8	Luxembourg	7	8	6
9	Panama and Caribbean	8	9	n/a

Switzerland scores very well in the [B1] **quality of its human capital**. The labour market is open to the European Union, and this gives Swiss-based companies access to 500 million people, more than 60 times Switzerland's population, greatly extending the pool of specialist talent to hire. The Swiss labour market is also relatively flexible and employer-friendly. Industrial disputes are virtually unheard-of. Staff training is among as the best in the world, and excellent wealth management training programmes are available (see the Focus box). Switzerland also benefits from multilingualism among the population. However, although Switzerland currently scores well for the quality of its human capital, it cannot afford to be complacent. International employees that Swiss banks can attract are highly mobile and can leave again just as easily.

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Focus: How does wealth management education compare?

Many universities and institutions around the world provide education in finance, but only locations a large wealth management industry can support institutions providing education that is wealth management-specific. These are the institutions that will secure the supply of well-educated practitioners in the future and support the growth of a knowledge-driven industry. The difficulty in cultivating wealth management-specific education lies in the need to combine high-quality academic research and close co-operation with the industry to ensure the relevance of educational programmes. In Switzerland the Swiss Finance Institute, an educational facility founded and maintained under a three-way co-operative arrangement between the industry, top local universities and government, provides wealth management-specific education.

Focus table 1. Educational system ranking

Overall category ranking (weighted)	Wealth management centre	Indicators for quality		
		Citations and publications	Degrees and connectivity	CFA charterholder
1	Switzerland	2	1	4
2	Singapore	5	2	2
2	Hong Kong	3	5	1
4	United Kingdom	1	6	6
5	United States	4	4	5
6	Luxembourg	6	3	3
7	Bahrain	6	6	7
8	Panama and Caribbean	6	8	7
9	UAE	6	8	9

Academics in premier educational institutions undertake both global and location-specific research into the wealth management industry. Academic research and publications are important for developing an understanding of an industry and its future. The UK, with its international reputation as an educational and academic centre, tops the rankings table for the number of **citations and publications**. Switzerland also scores well, as traditional research-focused universities have supported the Swiss Finance Institute as a centre of academic excellence for finance and wealth management.

Switzerland ranks first in terms of **connectivity** between the Swiss Finance Institute industry, peer universities, finance infrastructure providers and the government. This is due to the importance of the finance industry in Switzerland especially in Geneva and Zurich. Educational initiatives are often launched in response to a specific request from the industry, and this has led to a wide range of wealth management-specific education, from practitioners' diplomas to Masters Degrees and PhDs.

The **number of Chartered Financial Analyst (CFA) charterholders** in a financial centre provides an indication of the density of finance practitioners with a globally-standardized certification. The number of CFA charterholders can be used as an indication for the number of wealth management practitioners. Hong Kong and Singapore top the rankings in terms of CFA charterholders as a percentage of the total population and Luxembourg comes third. However, all three centres are largely financial and or trade centres. By contrast Switzerland, fourth in the rankings table, has a much broader industry sector mix.

[B2] Service quality is the second most important success factor, with a weighting of 12.5% in the overall ranking (see Figure 7). It is assessed in three categories: the breadth and depth of general private banking services, client segment specific services and specialised services. General private banking services include relationship management, privacy and security or the range of advisory services. The assessment of 'client segment specific services' is concerned with how well wealth management providers within each of the centres are servicing clients across the different segments. Within the category 'specialised services' providers were ranked according to their ability to serve clients in areas such as family office services, Islamic banking or inheritance and succession planning.

In the overall ranking for service quality Swiss and US banks come first, leading the Deloitte rankings by a clear margin. Swiss banks come first in most of the indicators related to general private banking services and client segment specific services, and US banks follow shortly behind in these categories. The UK follows in third place for service quality, which is mainly due to its strong performance in specific services such as Islamic banking, yacht and aircraft financing and currency trading.

[B3] The UK and Bahrain top the ranking table for **provider efficiency** and Switzerland comes third. Swiss banks manage their costs well (as measured by the cost: income ratio of private banks and the private banking departments of larger banks). Nevertheless, Switzerland is ranked only fifth for profitability (as measured by Return on Assets). This is partly because of adverse exchange rate movements in recent years. Swiss-based banks have been affected by the strength of the Swiss franc because most clients choose to hold their investments in other currencies. The cost base for Swiss banks is therefore largely denominated in the strong Swiss franc, while its revenues are in weaker currencies.

C – Stability

Instability and uncertainty expose client assets to risk and clients therefore tend to favour stable locations for depositing their wealth. Stability is important for wealth management institutions looking to locate their business locations, as well as for offshore assets and for clients. From a wealth management perspective this study assesses three aspects of stability which are all success factors for business: monetary stability, financial system stability and political stability. Monetary stability and political stability are predominantly driven by the government and regulators, whereas financial system stability can be influenced by both the public and private sectors.

Figure 11. Stability ranking

Overall category ranking (weighted)	Wealth management centre	Success factors		
		C1 – Monetary stability	C2 – Financial system stability	C3 – Political stability
1	Singapore	3	1	1
2	Hong Kong	1	2	4
3	Switzerland	2	4	2
4	Luxembourg	7	3	3
5	United Kingdom	4	5	5
6	United States	6	6	6
7	Bahrain	4	7	9
8	Panama and Caribbean	8	8	8
9	UAE	9	9	7

[C1] **Monetary stability** is assessed by changes in the exchange rate for the local currency, the rate of inflation and the external trade position of the country. Hong Kong tops the rankings, due to its ability to attract foreign capital inflows and its relatively low historical inflation rate. Hong Kong seems to enjoy the best of both worlds with its 'one country, two systems' environment. It is used by foreigners as a familiar entry point into China, and for mainland Chinese entrepreneurs it offers an established and reliable banking system. Switzerland comes second in the rankings. Historically it has one of the strongest currencies, a low rate of inflation, a current account surplus on external trade and positive net international investment position. The average annual rate of inflation between 2001 and 2011 was less than 1%, and its current account balance on foreign trade has not been negative since 1980.

[C2] **Financial system stability** is influenced by the financial strength of both the public and the private sector. Singapore, Hong Kong and Luxembourg top the rankings table: all three came through the global financial crisis well. Switzerland also scores reasonably well for financial system stability, with good ratings for the financial strength of the private and public sector. However weaknesses in the performance of the Swiss financial sector were exposed during the financial crisis. Although the Swiss domestic market was not affected, internationally-connected Swiss banks were unable to isolate themselves from the crisis in 2007/2008. One large bank required government support; another foreign bank in Switzerland went bankrupt, and the national deposit insurance scheme was used to rescue customer deposits.

[C3] The indicators of political **stability** include security risk, government effectiveness and corruption. Singapore, with a government considered authoritarian by western standards, tops the rankings. However, Switzerland also has a very strong reputation in this area, especially in terms of government effectiveness and low security risk. Switzerland is also one of the least corrupt countries.

D – Tax and regulation

Taxation and regulation are two of the most important ways in which a government can influence the attractiveness of its country as a wealth management centre. These have grown in importance since the financial crisis.

Figure 12. Tax and regulation ranking

Overall category ranking (weighted)	Wealth management centre	Success factors		
		D1 – Tax	D2 – Regulation	D3 – Client capital rights protection
1	Singapore	2	1	4
2	Hong Kong	3	2	2
3	Switzerland	5	4	1
4	Bahrain	1	6	6
5	United Kingdom	7	3	5
6	Luxembourg	6	7	2
7	United States	9	5	8
8	UAE	4	9	9
9	Panama and Caribbean	8	8	7

[D1] With regard to **taxation**, Bahrain tops the rankings table, followed by Singapore, Hong Kong and the UAE. Hong Kong and Singapore are small island states that have enjoyed histories as trading ports. Bahrain and the UAE are also small, and have explicitly focused on the financial services industry as part of their economic policy.

Switzerland, which has a larger and broader-based economy, comes fifth in the rankings. The level of direct corporate taxation is dependent on both federal and regional taxes, which are variable. In Geneva and Zurich, the two main locations for wealth management in Switzerland, corporate taxes are lower than in most neighbouring countries, but higher than in some rival centres such as Bahrain. Indirect taxation in Switzerland is low by international standards. Tax rates on investment income are higher than in other wealth management centres, but rates are reduced for international clients thanks to double taxation treaties.

[D2] In the area of **regulation**, Singapore, Hong Kong and the UK top the rankings table and Switzerland is in fourth place. Switzerland allows a larger amount of self-regulation than other countries, which often results in a more pragmatic approach as well as in lower legal and regulatory costs for wealth management services providers. The high quality of the justice system is seen as another advantage.

However two problem areas are identified. First, Switzerland is weak in the area of investor protection and prominent cases of insider trading have come to light in recent years. Second, new financial regulations in wake of the financial crisis could make Switzerland less attractive as a business location for wealth managers. Swiss regulators have repeatedly stated that they intend to introduce tougher rules than the international standards (e.g. MiFID II, AIFMD, EMIR, etc.), the so called "Swiss finish", which might damage the competitiveness of Swiss-based institutions and result in an increase of legal and compliance costs in future. On the other hand, clients may value tougher regulations, if these are seen as supporting the long-term stability of the financial system. The changing regulatory landscape will be a key driver for the wealth management industry in the coming years.

Focus: How does regulatory competitiveness compare?

The overall competitiveness rankings for the wealth management centres is based on 47 success indicators, grouped thematically into four areas (see Figure 6). Of these 47 success indicators, 25 relate in some way to regulatory competitiveness and are 'owned' or influenced by regulators or politicians (see appendix and the column 'Agenda Owner'). Taken together, these 25 success indicators have a weighting of 36% in the overall competitiveness rankings.

Applying weighted average ratings to the wealth management centres for each of these 25 success indicators, an overall regulatory competitiveness ranking was produced, as shown in Focus Table 2 below.

Focus Table 2. Public sector influence on a wealth management centre

Regulatory competitiveness ranking (weighted)	Wealth management centre
1	Singapore
2	Switzerland
3	Hong Kong
4	Luxembourg
5	United Kingdom
6	United States
7	Bahrain
8	Panama and Caribbean
9	UAE

Switzerland is ranked second, after Singapore and before Hong Kong. Singapore's leading position is due mainly to strength in the three most heavily-weighted indicators in the analysis: strength of investor protection, regulation of securities exchanges and burden of government regulation.

Although Switzerland is ranked behind Singapore, the gap is marginal. Switzerland outranks Hong Kong mainly because of its relative strength with regard to the following indicators: security risk, fairness of the judicial process and property rights index. The gap between Hong Kong and fourth-ranked Luxembourg is considerably larger than the gaps between the leading three centres.

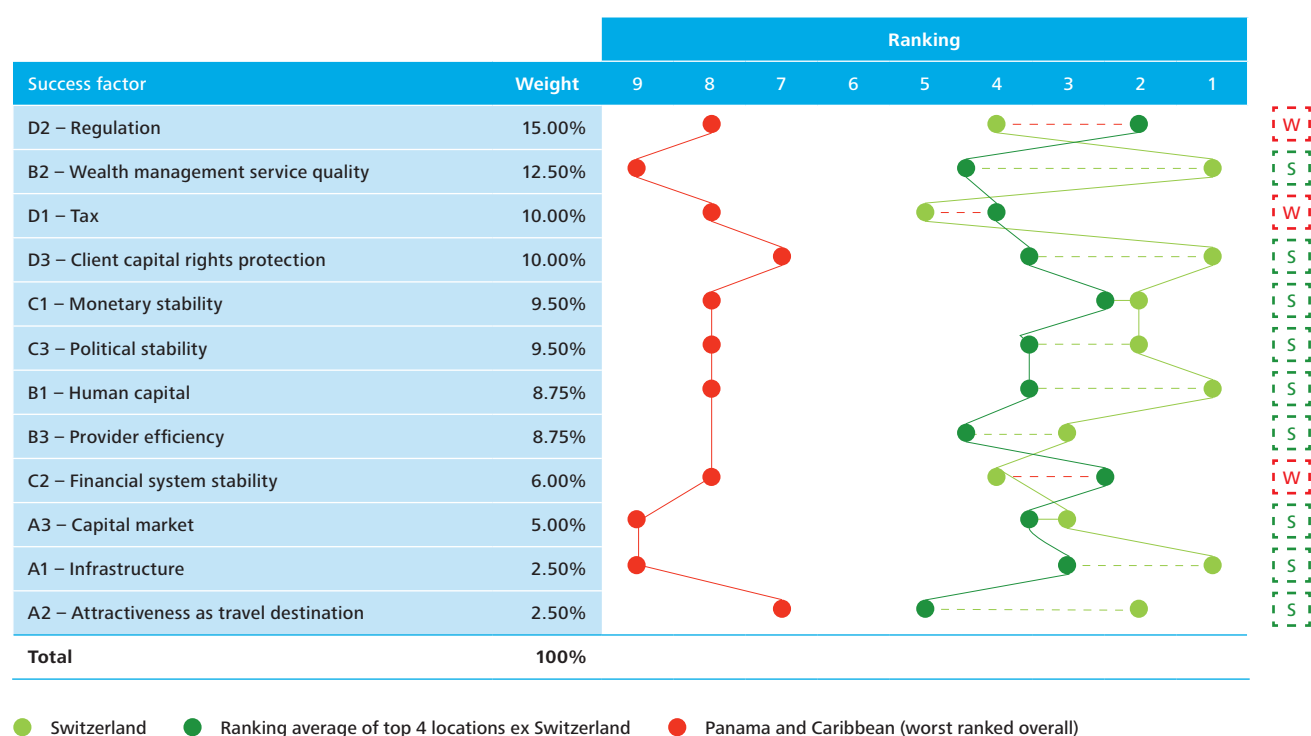
However Switzerland's regulator needs to monitor carefully the activities of the regulatory bodies in other wealth management centres. Singapore for example is currently reviewing its investor protection laws (its primary Securities and Futures Act (SFA) and Financial Advisers Act (FAA)). This would reinforce Singapore's leading position in the ranking for regulatory competitiveness.

[D3] For the purpose of this study, **client capital rights protection** consist of three success indicators: property rights, financial data privacy protection, and trust legislation. Switzerland scores well for protection of property rights, including rights regarding financial assets, but ranks lower for protection of financial privacy. Protection of privacy for financial data has been more of a key advantage for Switzerland in the past than for other wealth management centres. Therefore, recent concessions by the authorities in this regard weigh more heavily on the country's competitiveness. Switzerland also scores well with regard to trusts, foundations and setting up companies. The UK and Channel islands score better in terms of trusts, but the range of service options in Switzerland underpins its leading position in the rankings for this indicator. The combination of strong property rights and trust service options drive Switzerland's top ranking for the 'client capital rights' success factor.

Switzerland's strengths and weaknesses

The preceding chapters have analysed the competitiveness of wealth management centres on the basis of 47 success indicators grouped into 12 success factors. The rankings of the centres for these success factors can be used to make an assessment of relative strengths and weaknesses (see Figure 13). This is an assessment of the internal capabilities of each wealth management centre, as opposed to an external view of the threats and opportunities facing the wealth management industry as a whole. The analysis in Figure 13 shows the strengths and weaknesses of Switzerland and its rating for each success factor relative to the top four centres excluding Switzerland. The ratings for the 'worst in class' wealth management centre are also shown.

Figure 13. Strengths and weaknesses assessment



Note: – A success factor is a relative strength if Switzerland is ranked better than the top 4 locations (ex Switzerland) – as signified by the green dotted line plus [S]
 – A success factor is a relative weakness if Switzerland is ranked worse than the top 4 locations (ex Switzerland) – as signified by the red dotted line plus [W]

Source: Deloitte analysis 2013

Relative to the top four other centres, the **main strengths** of Switzerland are (in order of weighting) its wealth management service quality (B2), client capital rights protection (D3), monetary stability (C1) and political stability (C3). Switzerland also has relative strength in human capital (B1), efficiency of wealth management service providers (B3), capital market (A3), infrastructure (A1) and attractiveness as a travel destination (A2). In addition, its well-educated work force and cultural affinity for quality and excellent service have long provided Switzerland with a competitive edge in the wealth management industry.

However there are also some **weaknesses**. Recent political and regulatory developments have had a negative impact on regulation (D2) and tax (D1). These developments have led to a reduction in legal certainty and confidence in the tax regime. In addition, the recent financial crisis demonstrated the dependence of Switzerland as a financial centre on its large financial institutions, and this has implications for the stability of its financial system (C2). So compared with its main wealth management centre rivals, Switzerland shows signs of weakness in these three success factors.

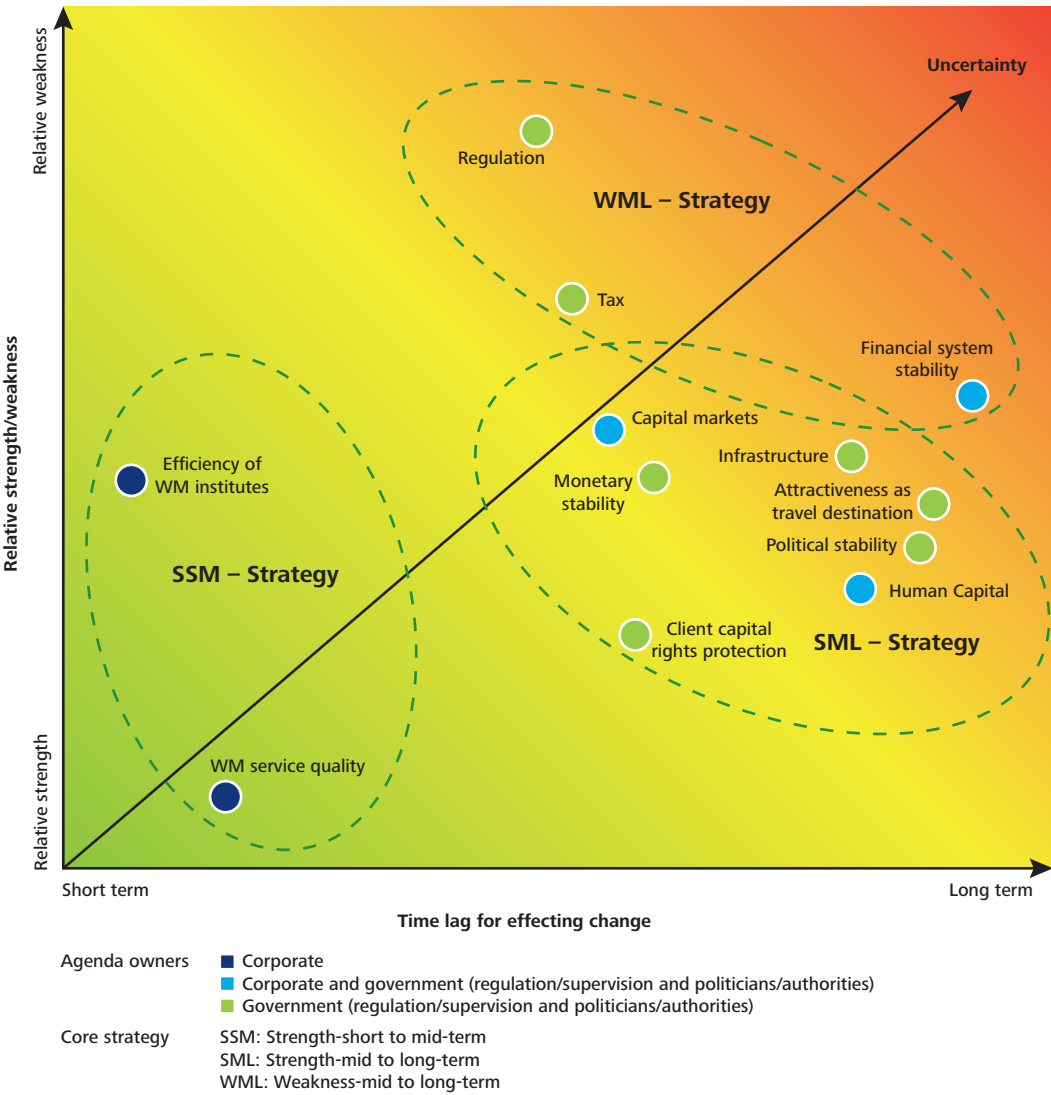
This analysis of strengths and weaknesses in internal capabilities brings three themes into focus for Switzerland (see Figure 14).⁴ **First**, the government has most or all of the responsibility for many of the factors that will determine the future success of Switzerland as a wealth management centre (see appendix, categorisation 'Agenda Owner'). **Second**, for most success factors change will require time to have effect; therefore changes should be built on an understanding of Switzerland's relative strengths and weaknesses. **Third**, when there is a lengthy time lag for change to have effect, the uncertainty is much greater and this must be considered when developing strategic initiatives for change. This means that in addressing the success factors shown in the red area of the heat map in Figure 14, more robust strategy measures have to be put in place and these should be underpinned by 'what if' scenarios and fall-back options.

In this overall context, there are three core strategies that will improve or maintain Switzerland's competitive positioning from an internal perspective:

- **SSM-Strategy:** A strategy which is based on relative strength in combination with a short- to mid-term time lag for change to have effect. This core strategy is owned by the wealth management service providers themselves and aims at increasing their efficiency and service quality. One of the aims is to re-engineer the cost side of the businesses – to produce a lower, flexible and more variable cost base. Another aim, just as important, is to exceed client expectations in terms of service quality, focusing on differentiating factors such as trustworthiness, provider's exclusivity and ambiance, depth and breadth of product and services, portfolio performance and investment advice.
- **SML-Strategy:** Another core strategy is based on relative strength in combination with a mid to long term time lag for change to have effect. This mainly involves success factors which are 'owned' by the government. The aim here should be to maintain the strength of Switzerland's success factors and keep them as attractive as possible so as not to lose ground in comparison with its main rival centres. Most of these success factors apply across different industries (see appendix and the column 'Relevance') and the government is likely to focus on measures to promote Switzerland as a location for doing business generally. In addition, wealth management service providers are collaborating with educational institutions to develop the strength of human capital in the industry. The aim should be to develop professional qualifications for the investment industry, such as certified relationship manager and certified operations manager. These should be introduced in addition to the more generic finance-oriented qualifications such as CFA that already exist.
- **WML strategy:** The third core strategy should be to reduce Switzerland's relative weaknesses on a mid- to long-term time frame. Among the success factors shown in Figure 14, regulation is by far the biggest weakness of Switzerland as a wealth management centre. So although the Swiss government needs to adapt the regulatory framework to meet international standards, it should also avoid over-regulation in comparison with its main competitors (which would also have a negative influence on the domestic market).

⁴ Note: the relative strength/weakness value of each success factor is a product of its absolute strength/weakness, weighting and the amount of difference from its top three competitors.

Figure 14. Success factor heatmap



Source: Deloitte analysis 2013

Conclusion and outlook

This report has identified and analysed competitive success factors and indicators for the wealth management industry. Using these as a framework, rankings were constructed to assess the relative competitiveness of the most important wealth management centres. The resulting analysis showed that Switzerland remains the world's most competitive centre, but other locations are catching up rapidly – especially Singapore and Hong Kong.

A closer analysis revealed the strengths and weaknesses of Switzerland as a wealth management centre in relation to its three top-ranked competitors. Switzerland is relatively strong in the areas of provider service quality, client capital rights protection, monetary and political stability. Additional relative strength (but less significant for its competitiveness) also exists in human capital, provider efficiency, capital market, infrastructure and attractiveness as a travel destination. However Switzerland is relatively weak in regulation, tax and financial system stability.

Improvements are needed in the most important areas of weakness in order to protect Switzerland's leading position. For example tax and regulation accounts for 25% of the success factor weightings. Success factors under the control or influence of the wealth management service providers, such as service quality, efficiency and human capital, account for about 30% of the success factor weightings. Improvements in these areas by the providers themselves will strengthen Switzerland's competitiveness. For those success factors where they both have influence or control, it is of the utmost importance that wealth management institutions and the government should form a community of interest to establish a way forward.

The international wealth management industry is undergoing unprecedented changes and Switzerland cannot assume that it will maintain its leading position in the industry. On the contrary, both the government and service providers need to identify the drivers of change that will affect the key success factors and success indicators, and the impact that they will have. The main drivers of change are political pressures, legal and regulatory changes, shifts in client demand, increasing dynamics in the competitor landscape and changes in client asset flows.

An external analysis of the threats and opportunities facing the wealth management industry as a whole, combined with the three core strategies for improving internal capabilities, will provide a platform for the transformation of Switzerland's international wealth management. This will be investigated in the next Deloitte Wealth Management Report.

The international wealth management industry is undergoing unprecedented changes and Switzerland cannot assume that it will maintain its leading position in the industry.

Appendix

		Categorisation				Evaluation
		Indicator type: Hard (H)/Soft factor (S) ⁵	Agenda owner: Regulation/ supervision (R) Politicians/ authorities (P), Corporate (C) ⁶	Time lag for effective change: Short- term (ST)/ long-term (LT) ⁷	Relevance: Cross-industry (CI)/Wealth management specific (WM) ⁸	Perspective: Governmental (GO)/ Independent private (IP)/ Corporate (C) ⁹
Indicator	Definition					
A. Business Environment						
A1. Infrastructure						
Quality of overall infrastructure	Quality of general infrastructure, for example transport, telecommunications and energy, which determine the ease and reliability of conducting business	S	P	LT	CI	C
Airport transport infrastructure	International accessibility (for example, airport density, number of operating airlines and available seat kilometres) which determine the effort and convenience in reaching destinations	H	C/R	LT	CI	IP
A2. Attractiveness as a travel destination						
Tourism infrastructure	Availability of tourism infrastructure, such as availability of hotel rooms and car rental companies, which determines the ease for clients of combining business with pleasure	H	P	LT	CI	IP
Natural resources	Degree to which a location features natural resources such as protected areas and known species, indicating quality as a tourist destination	H	P	LT	CI	IP
Cultural resources	Degree to which a location features cultural resources such as international fairs and exhibitions, indicating quality as a tourist destination	H	P	LT	CI	IP

⁵ Hard factor: Information derived from quantitatively measured data. Soft factor: Information obtained from expert interviews

⁶ Agenda owner: Party able to influence the indicator directly

⁷ Change effect lag: How long it takes for an indicator to change

⁸ Relevance: Some indicators primarily affect the wealth management industry, others affect the economy as a whole

⁹ Perspective: The rating of an indicator may be assessed from the perspective of:

- GO: International governmental organisation, such as International Monetary Fund (IMF)
- IP: Independent private organisation, such as World Economic Forum (WEF)
- C: Corporate view (executives)

		Categorisation				Evaluation
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Indicator	Definition					
A3. Capital Markets						
IPO market share	Attractiveness of a location in terms of raising equity capital, measured as three-year average of percentage of world IPOs	H	C/P	LT	CI	IP
M&A market share	Attractiveness of a location in terms of entering the market or growing local business, measured as three-year average of dollar value of M&A as a percentage of total global value	H	C/P	LT	CI	IP
Spot foreign exchange turnover	International connectedness in terms of foreign exchange (FX) market and transferred currencies, measured as a percentage share of global spot foreign exchange turnover	H	C/P	ST	CI	IP
Stock market capitalisation to GDP	Importance of the capital market as part of the overall economy, calculated as the value of listed shares to GDP	H	C/P	LT	CI	GO
Private bond market capitalisation	Attractiveness of a location in terms of raising debt capital, measured as the sum of domestic debt securities by corporates in billions of US dollars	H	C/P	ST	CI	GO
Public bond market capitalisation	Attractiveness of local public institutions in terms of debt capital participation, measured as the sum of domestic debt securities by governments in billions of US dollars	H	C/R/P	LT	CI	GO
Financial market sophistication	Maturity of the financial market and the ability to provide a wide range of products and services efficiently in comparison with international standards	S	C/P	LT	CI	C
Capital account liberalisation	Market accessibility of an economy based on the Chinn-Ito index, which measures a country's degree of capital account openness	H	C/R	ST	CI	IP
Access to international financial markets	Connectedness of local financial markets indicating international accessibility of funds and ease of conducting international transactions	S	C/R	ST	CI	C

		Categorisation				Evaluation
		Indicator type: Hard (H)/Soft factor (S) ⁵	Agenda owner: Regulation/ supervision (R) Politicians/ authorities (P), Corporate (C) ⁶	Time lag for effective change: Short- term (ST)/ long-term (LT) ⁷	Relevance: Cross-industry (CI)/Wealth management specific (WM) ⁸	Perspective: Governmental (GO)/ Independent private (IP)/ Corporate (C) ⁹
Indicator	Definition					
B. Provider capability						
B1. Human capital						
Labour market efficiency	Availability, flexibility and cost of local staff in terms of factors such as staff training, ease of hiring foreign labour and employment protection measures	S/H	C/P	LT	WM	C/GO
Educational systems quality	Indicators such as citations, publications, degrees and international connectivity, which determine the quality of locally-available staff	H	C/R	LT	WM	IP
B2. Wealth management service quality						
Wealth management service quality	Quality of services provided by local wealth management institutions based on indicators such as number of banks in global Top 25 and number of banks in the top 5 of service awards.	S	C	ST	WM	C
B3. Efficiency of wealth management institutions						
Cost income ratio	Cost efficiency of local institutions in providing products and services in relation to the generated revenue	H	C	ST	WM	IP
Return on Assets (ROA)	Ability of providers to maintain sustainable profitability on the managed and administrated client assets	H	C	ST	WM	IP

Indicator	Definition	Categorisation				Evaluation
		Indicator type: Hard (H)/Soft factor (S) ⁵	Agenda owner: Regulation/ supervision (R) Politicians/ authorities (P), Corporate (C) ⁶	Time lag for effective change: Short- term (ST)/ long-term (LT) ⁷	Relevance: Cross-industry (CI)/Wealth management specific (WM) ⁸	Perspective: Governmental (GO)/ Independent private (IP)/ Corporate (C) ⁹
C. Stability						
C1. Monetary stability						
Change in real effective exchange rate	Attractiveness of the local currency in international financial markets, measured as the average percentage change in real effective exchange rates from year to year	H	R	LT	CI	IP
Net international investment position to GDP (advanced economies)	Ability of a location to attract foreign capital investments, measured as the net international investment position as a percentage of GDP	H	R	LT	CI	IP
Dollarisation vulnerability indicator	Degree of exposure of local economy to a non-local currency and the associated external risks (such as the risk of default) originating from the presence of a large amount of dollars in the domestic banking system	H	R	LT	CI	IP
External vulnerability indicator	Exposure of locally-held assets to external economic developments, as indicated by the sum of several measures of external exposure as a percentage of foreign exchange reserves	H	R	LT	CI	IP
Current account balance to GDP	Ability to attract foreign investments and assets, as an indicator of the difficulty a country might have in mobilising the foreign exchange necessary to service debt	H	R	ST	CI	GO
Inflation	Stability of currency and purchasing power (indicating the risk of holding local currency) measured as average inflation rate over last 10 years	H	R	ST	CI	GO

		Categorisation				Evaluation
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Indicator	Definition					
C2. Financial system stability						
Frequency of banking crises	Number of crises of the local financial sector in the past (recent crisis are weighted more heavily)	H	C/R	LT	CI	IP
Financial strengths indicator	Stability of financial sector institutions, in terms of bank assets	H	C/R	LT	CI	IP
Manageability of public debt	Market perceived risk of default in the public sector and the potential chance of an economic crisis, indicated by the benchmark yields that sovereign states pay for 10-year bonds	H	P/R	LT	CI	IP
Local currency sovereign rating	Assessed risk of government insolvency, indicating default risk in local currency debt	S	P	LT	CI	C
Foreign currency sovereign rating	Assessed risk of government insolvency, indicating default risk in foreign currency debt	S	P	LT	CI	C
Financial stress index	Assessment of strains in the local financial system based on technical indicators (for example GARCH models on volatility, spreads, real effective exchange rates)	H	C/R	LT	CI	IP
Bank regulatory capital to risk-weighted assets	Strength of local financial institutions with regard to available capital to cover risk positions, measured as share of total regulatory capital after supervisory deductions	H	C/R	LT	CI	GO
C3. Political stability						
Government effectiveness risk	Degree of administrative burden and correctness of official procedures to conduct business, determined by factors such as quality of bureaucracy, cronyism and policy formulation	S	R	LT	CI	IP
Security risk	Perceived risk arising from criminal/terrorist activities, based on indicators such as violent demonstrations, kidnapping and armed conflicts	S	R	LT	CI	IP
Corruption	Adherence to proper and lawful means in conducting business	S	R	LT	CI	IP

		Categorisation				Evaluation
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Indicator	Definition					
D. Tax and regulation						
D1. Tax						
Taxation of wealth management institutions	Attractiveness for an institution to conduct wealth management business, as determined by corporate taxation and VAT	H	P	ST	WM	IP
Taxation of private clients	Clarity of international taxation situation; for example, the number of double taxation treaties and the amount of withholding taxes levied on private clients	H	P	LT	WM	IP
Tax policy risk (reliability of tax authorities)	Risk of negative dynamics in taxation policy (for example, stability of taxation terms and processes, equal applicability of taxes, legal security in taxation terms)	S	P	LT	CI	IP
D2. Regulation						
Protection of minority shareholders interests	Legal security and rights for protecting minority shareholders	S	P	ST	CI	C
Effectiveness of law-making bodies	Perceived ability of legislative body to enact effective measures in the interest of society, based on the effectiveness of the national parliament as a law-making institution	S	P	LT	CI	C
Fairness of judicial process	General adherence to due process in assessing legal terms and situations	S	R	LT	CI	IP
Strength of investor protection	Degree of applicable legal measures in protecting investor rights and interests (for example, client privacy, due process in surrender of assets in legal proceeds, ability of investors to invoke legal rights to protect assets)	S	P/R	ST	CI	C
Regulation of securities exchanges	Quality of supervision and regulation of local exchange markets	S	R	ST	CI	C
Burden of government regulation	Degree of effort necessary to comply with government administrative requirements to conduct business	S	R	LT	CI	C

Indicator	Definition	Categorisation				Evaluation
		Indicator type: Hard (H)/Soft factor (S) ⁵	Agenda owner: Regulation/ supervision (R) Politicians/ authorities (P), Corporate (C) ⁶	Time lag for effective change: Short- term (ST)/ long-term (LT) ⁷	Relevance: Cross-industry (CI)/Wealth management specific (WM) ⁸	Perspective: Governmental (GO)/ Independent private (IP)/ Corporate (C) ⁹
D3.Client capital rights protection						
Property rights index	Extent of property and asset right protection provided within a country (legal terms, enforcement of rights)	S	P/R	ST	CI	C
Data privacy protection (client identity sensitivity)	Degree to which client identities are protected by automatic information exchange, transparent client information, client privacy, client secrecy)	H	P/R	LT	WM	IP
Trusts, foundations, international business companies (IBC)	Means of legal framework to be able to set-up legal structures (i.e., legal entities) to pool and manage money for private clients	H	P	LT	WM	IP

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