

“Americans are increasingly keen to invest abroad”

Swiss financial services will continue to be popular in future, whatever the tax aspects. This was the case even before Switzerland committed itself to attracting tax-compliant money, as UBS Swiss Financial Advisers (SFA) shows. This unit comes under both U.S. and Swiss law and has been servicing U.S. clients out of Switzerland since 2005. René Marty, CEO of UBS Swiss Financial Advisers, explains what it takes to be successful in this niche market and shows why his unit is increasingly popular in this turbulent market environment.



Interview with René Marty CEO UBS Swiss Financial Advisers

PRIVATE: Mr. Marty, several Swiss banks are currently involved in proceedings with the U.S. over possible tax evasion in cross-border business with U.S. clients. It remains to be seen whether Switzerland can reach an agreement with the U.S. and at what price. As everyone is aware, though, UBS put all this behind in 2010. Does it make you smile to see other people's problems?

Marty: Not at all. The interests of the entire Swiss financial market require a rapid resolution of this issue. When it became clear in early 2009 that UBS was shutting down its cross-border business with U.S. clients, SFA as a fully U.S.-regulated entity became a welcome alternative for tax-transparent U.S. clients.

PRIVATE: So the financial crisis passed you by?

Marty: SFA grew rapidly from the moment we opened for business in

2005. Progress was a little slower during the financial crisis in 2008 and 2009, but this year we are seeing solid growth again. The financial crisis has certainly affected our business. Nowadays investors have more prior knowledge, engage actively with the different investment options and have generally become more sceptical. They also attach far greater importance to total transparency about products and costs.

PRIVATE: Today UBS SFA is the largest provider in the sector in terms of assets under management and employees. What makes this niche market so attractive for clients? In other words why don't Americans just become clients of UBS in the U.S.?

Marty: For U.S. clients we are an alternative to a U.S. broker, because we can offer a broader investment universe. As a securities dealer licensed by Finma and an investment advisor regulated by the SEC, we are able to offer our clients something different when it comes to currency and location of assets. Our clients are private individuals and increasingly multi-family offices from around the world. Private investors and firms who want to divide their money by regions, markets, asset classes and currencies have a rapidly increasing need for “multishoring”. The diversification aspect is also becoming more significant in the current turbulence.

PRIVATE: Diversifying investments is nothing new, neither in terms of asset classes nor booking locations. Do U.S. investors have other incentives to invest in Switzerland?

Marty: We assume so. Our observation is that the sustained uncertainty about the performance of the U.S. economy has made Americans increasingly keen to invest their assets abroad. They have less confidence in their own banks, and the continuing weakness of the U.S. dollar has reinforced their desire to have some of their assets invested outside their own country and in other currencies. Our advantage over other financial institutions is that we can offer clients the product range, analyst opinions and accumulated experience of a bank with operations all around the world. It also helps that Switzerland continues to provide a stable political, legal and currency environment. The advantage of our location is very important, and we will have to continue to care for and make use of it.

PRIVATE: In the last two years several banks have set up U.S.-regulated units in Switzerland similar to UBS SFA. What do you think it takes to be successful in this market?

Marty: An investment platform for U.S. clients in Switzerland requires considerable technical investment expertise, as we operate in a complex, heavily regulated and demanding environment. It only makes sense to get into the business, if you can realistically expect to achieve a certain minimum volume of assets under management. You also need a sufficient number of potential clients to cover the up-front investment and the ongoing costs. A lot of new entrants are under heavy pressure to lay the foundations for longer-term profitability within two to three years. As UBS also offers asset management services in the U.S., we are able to capitalize on the benefits of co-operating closely with our colleagues on the ground. The extra specialist knowledge we pick up from this is much appreciated by clients. We do not believe many financial institutions will be in a position to operate sustainably in this business in the near future.

UBS Swiss Financial Advisers (SFA)

Swiss Financial Adviser AG is a legal entity separate from, but 100% owned by, UBS AG. It is regulated by both the U.S. SEC and Finma in Switzerland, and employs around 50 staff. Since 2005, SFA has been servicing out-of-Switzerland clients subject to U.S. taxation, who have investible assets in excess of 1 million francs; investment management mandates start at lower amounts. Total assets managed by SFA amount to several billion francs.

PRIVATE: What qualifications do you need to be a client adviser at UBS SFA? And is it hard to recruit the right people?

Marty: Client advisers have to know the U.S. market and be deeply familiar with investor mentality. Ideally they should have lived in the U.S. for an extended period, but they also need to know the Swiss market. Complete familiarity with the investment universe we offer and excellent social skills are essential. Our client advisers also need to be familiar with the regulatory framework in both countries, each of which is well known for having tough financial market legislation. This makes the work particularly complex, and it takes discipline to follow procedures and rules and keep on adapting to new situations. There aren't many candidates who can meet all those requirements.

PRIVATE: How have your clients' expectations of service quality changed?

Marty: In many ways the market has become much more dynamic. Clients are using rapid new technologies but they still expect their advisers to be one step ahead of them. Skilled advice and quick and reliable processing are called for. In addition, these days clients want to be able to communicate with their bank using all modern channels.

PRIVATE: What investments are your advisers recommending in the current difficult market environment?

Marty: Naturally everything depends on the individual investment strategy and the specific client portfolio. The

current high volatility in the price of gold offers some scope for interesting investment solutions. Gold should always be in a portfolio, for instance to diversify an asset management mandate. At the same time, it is important to bear in mind that gold, like the Swiss franc, U.S. treasuries and other "safe havens", has already risen substantially and no longer offers the same prospects for appreciation. In equities, defensive sectors remain in demand, especially companies with a strong balance sheet, a good credit rating and a high dividend yield. Lastly, now is a good time to consider investing into emerging markets.

PRIVATE: Finally, let's talk about the outlook: The U.S. Foreign Account Tax Compliance Act (Fatca) will probably come into effect in 2013. This means that banks will have to report clients who are U.S. persons, regardless of where in the world they live. What effect will Fatca have on your business?

Marty: Fatca will impose a duty on banks all over the world to hand over documents requested by the IRS relating to U.S. persons. The result will be a huge increase in administrative expense that will make it more expensive for banks to do business with U.S. persons. At UBS SFA, though, we do not anticipate any substantial impact on our day-to-day business. As a "qualified intermediary" we already have an agreement with the IRS that obliges us to disclose client relations – with the knowledge and consent of our clients, of course.

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