



July 2022

# IAM Market Insights

**Will the licensing requirement for independent asset managers by the end of 2022 trigger the anticipated consolidation of the industry?**



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**Under new legislation entering into force at the end of 2022, all unregulated independent Swiss asset managers will have to be formally licensed by FINMA.**

# Key takeaways

**Our key conclusions based on our market research combined with the findings from a survey of 83 IAMs.**



## **1. Market size and players:**

Founded in many cases by former relationship managers at private banks, independent asset managers (IAMs) are the “small and medium-sized enterprises” (SMEs) of the finance industry and offering primarily discretionary portfolio management to a long standing base of clients with relatively healthy margins. The industry is granular and fragmented, with over 2,100 players, and until now has been relatively opaque in terms of publicly available information on matters such as assets under management (AuM) and the structure of their client portfolios. With the advent of FINMA supervision and increasing reporting requirements, however, we expect overall transparency to improve.



## **2. Licensing status:**

Most of the unregulated IAMs are in the process of being licensed or are delaying submitting their application until the last minute, which can take up to several months. A large number of demands are currently being processed by the Regulator. A failure to meet the hard deadline of 31 December 2022 could mean IAMs may face penalties and sanctions in order to be able to continue conducting their activities.



## **3. Key challenges:**

Forward-looking, the key challenges cited by the IAMs surveyed were pressure on margins driven by increasing compliance costs and regulations, organisational challenges to comply with the required segregation of functions setup, as well as the need to invest in digitalisation to address client expectations and improve the competitiveness of service offerings.



## **4. Merger & acquisition (M&A) activity:**

We anticipate a growth in M&A activity (as indicated by 8 transactions since the end of 2021/beginning of 2022), whereby most of the transactions occurred between IAMs. In general, in this industry transactions are a bilateral process rather than taking the form of an organised auction. Based on our survey, it appears to have an imbalance between IAMs considering acquisitions/ partnerships to further grow and the IAMs willingness to sell. This means that market dynamics will rather be driven by a “buyer’s market” with strong competition and scarcity of potential targets for sale, which could drive high valuations.

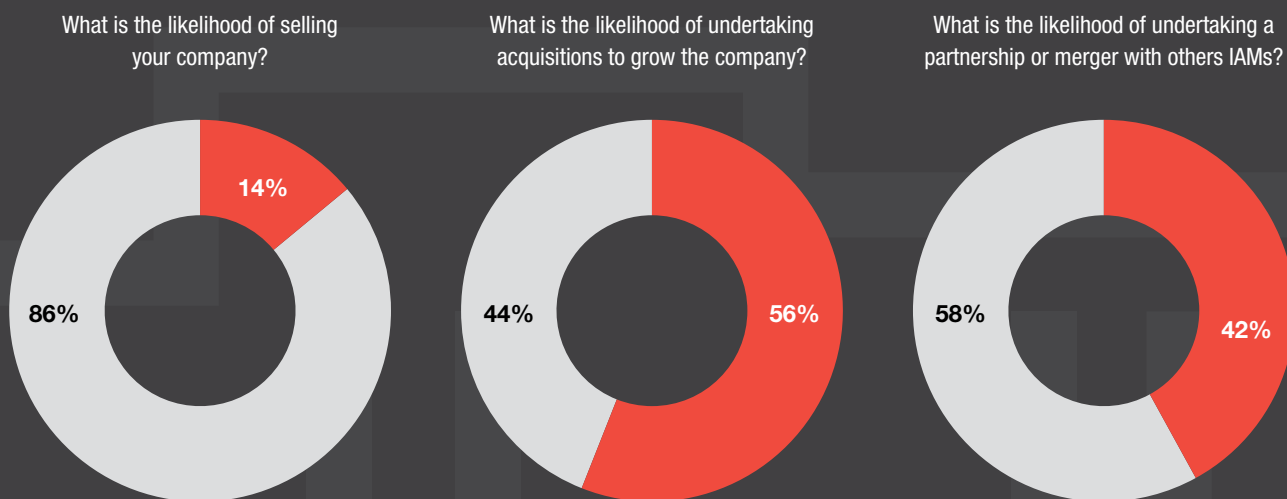


## **5. The three key motivations for acquisitions (similar response for potential merger or partnership) were:**

- i. the benefits of being a licensed IAM able to acquire IAMs that are exiting;
- ii. a chance to grow their AuM base and gain more size to be more attractive to hire talent;
- iii. and a desire to improve efficiency by achieving economies of scale and reducing costs.

The main success factors cited by IAMs considering a transaction included cultural fit (these are mainly family-run companies) and synergies (for example by enhancing product offerings and capabilities).

Figure 1: Summary of key answers to M&A appetite (83 IAMs surveyed)



Answers on a scale from 1 = "highly unlikely" to 5 = "highly likely"

- Likely (number of 3 to 5 answers)
- Unlikely (number of 1 & 2 answers)

(Source: PwC analysis)





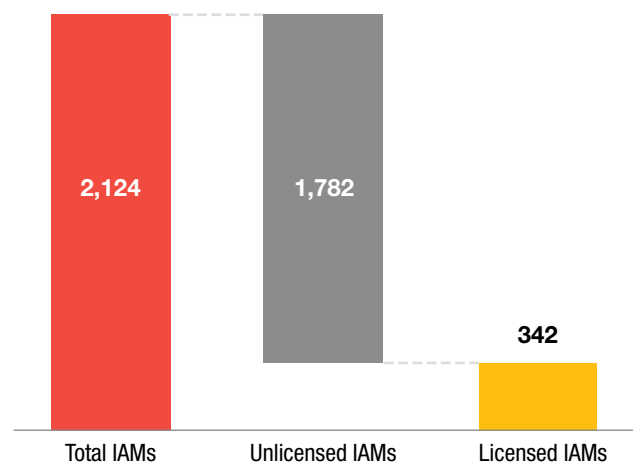
# 1. Overview of the IAM market and FINMA licensing timeline

Before we go into the findings in more detail, let's briefly describe the IAM market and FINMA licensing timeline based on statistics provided by the Swiss Association of Wealth Managers (SAM)<sup>1</sup> and information from the regulatory authority FINMA.<sup>2,3</sup>

The industry is granular and fragmented with over 2,100 players (estimated number of licensing demands as of year-end 2020) with around 1,800 unlicensed and just under 350 licensed as of 31 July 2022 (see Figure 2, Estimated number of IAMs in Switzerland).

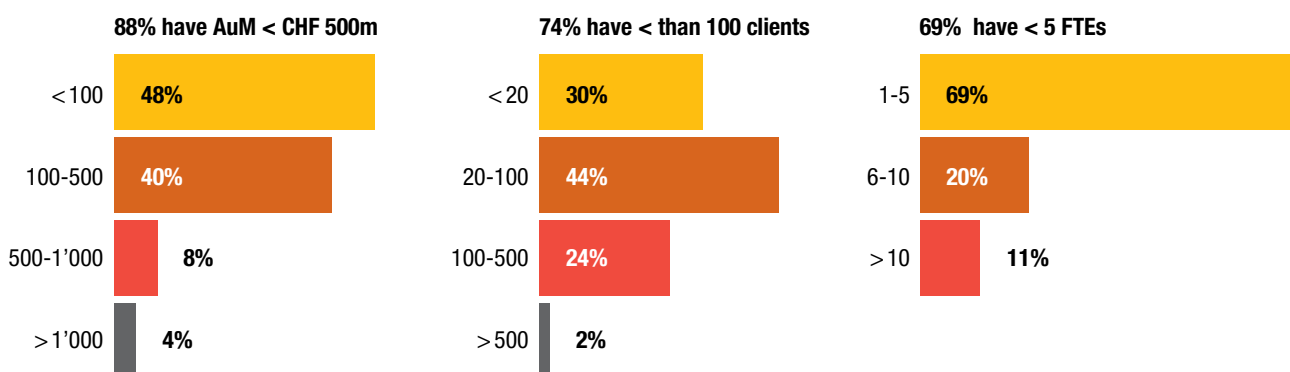
Many of them, according to the SAM statistics based on its active members (around 700 IAMs), have fewer than five FTEs and manage assets of CHF 500 million or less. While IAMs are generally asset-light, it is a relatively profitable business with healthy margins. Swiss IAMs primarily offer discretionary portfolio management to a long-standing base of loyal clients (for example families and their heirs) with 74% having fewer than 100 clients. They often focus on covering clients in a particular region such as Latin America or France or Germany (see Figure 3, SAM statistics).

Figure 2: Estimated number of IAMs in Switzerland



(Source: Swiss Association of Wealth Managers (SAM), 2021; FINMA, 2022)

Figure 3: SAM statistics



(Source: Swiss Association of Wealth Managers (SAM), 2021)

<sup>1</sup> Swiss Association of Wealth Managers (SAM). (2021). Yearbook 2021. Retrieved from [https://www.vsv-asg.ch/fileadmin/user\\_upload/Dokumente/Aktuelles/Yearbook/de/VSV\\_ASG\\_Yearbook\\_2021\\_DE.pdf](https://www.vsv-asg.ch/fileadmin/user_upload/Dokumente/Aktuelles/Yearbook/de/VSV_ASG_Yearbook_2021_DE.pdf)

<sup>2</sup> FINMA. (2022). List of portfolio managers and trustees licensed and supervised by FINMA & List of portfolio managers and trustees licensed by FINMA and monitored by a supervisory organisation. Retrieved from <https://www.finma.ch/en/authorisation/portfolio-managers-and-trustees/>

<sup>3</sup> Ukoh, K. (2022). Vermögensverwalter-Lizenz: Jetzt handeln! Retrieved from <https://www.vsv-asg.ch/de/0622finma>

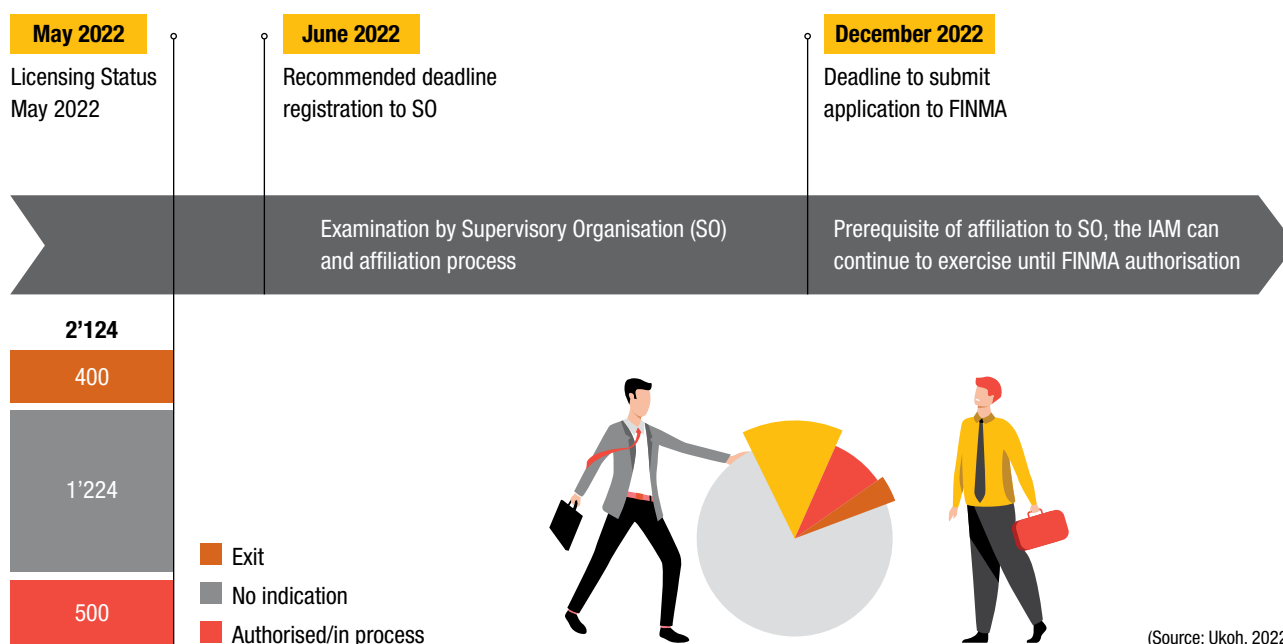


As Figure 4 (licensing timeline) shows, while around 500 IAMs already had a licence or an application in process as of May 2022, the vast majority (more than 1,200) appear to be waiting until the last minute to submit their application. However, the 2-step authorisation process could take up to several months i.e. pre-examination and affiliation to SO (ideally initiated no later than 30 June 22) and subsequent submission to FINMA, who will ultimately grant the licence.

A failure to meet the hard deadline of 31 December 2022 could mean IAMs will face penalties and sanctions in order to be able to continue conducting their activities.

Another crucial observation (also see Figure 4, Licensing timeline) is that according to Ukoh (2022), up to 400 existing IAMs will cease business and not apply for a licence, in most cases because of retirement.

Figure 4: Licensing timeline



## 2. IAM survey results

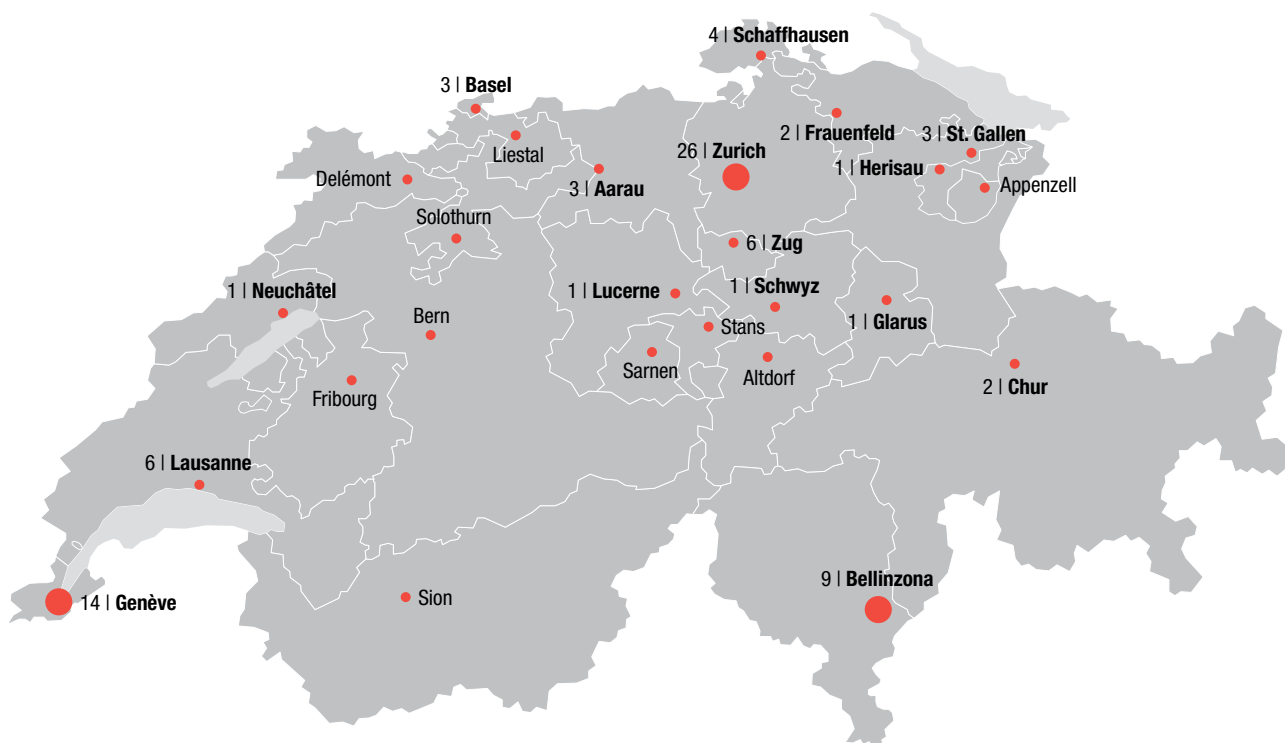
### 2.1 Methodology and key objectives

PwC commissioned the external agency Norstat to conduct a market survey of 83 “pure-play” independent asset managers (IAMs). Norstat collected responses online and via phone interviews from mid-May to mid-July 2022. The data was gathered on an anonymised basis and the results were aggregated. We would like to take this opportunity to thank the IAMs that participated for their time and their valuable input.

The questionnaire prepared by PwC comprised 11 questions divided into two parts aimed at gaining insights into datapoints (four questions related to location, product offering, AuM range and number of FTEs) and strategic outlook (seven questions relating to the licensing process, key challenges and appetite for mergers and acquisitions).

### 2.2 Key datapoints of the sample

Figure 5: Distribution by canton for all IAMs surveyed



ZH	GE	TI	VD	ZG	SH	AG	BS	SG	GR	TG	AR	GL	LU	NE	SZ	Total
26	14	9	6	6	4	3	3	3	2	2	1	1	1	1	1	83

As Figure 5 (Distribution by canton for all IAMs surveyed) shows, Zurich, Geneva and Ticino are the cantons with the most independent asset managers, each representing the financial centre of its respective linguistic region. Our sample of 83 IAMs surveyed includes 49 or 60% based in those cantons.

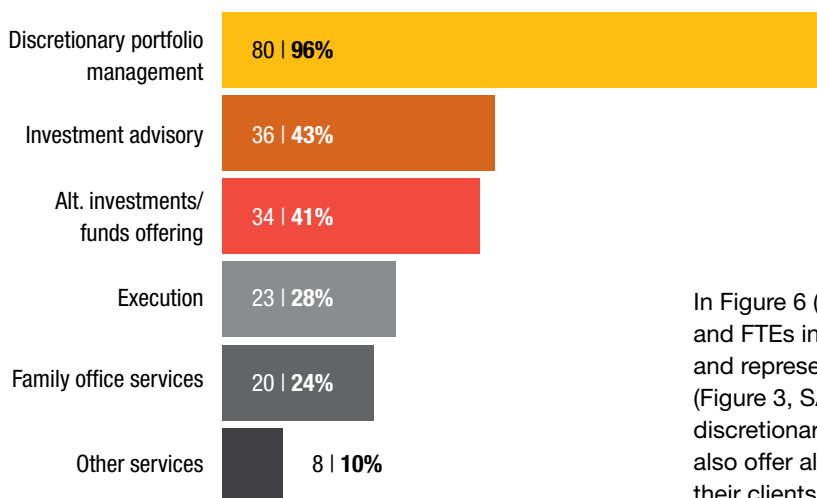
(Source: PwC analysis)





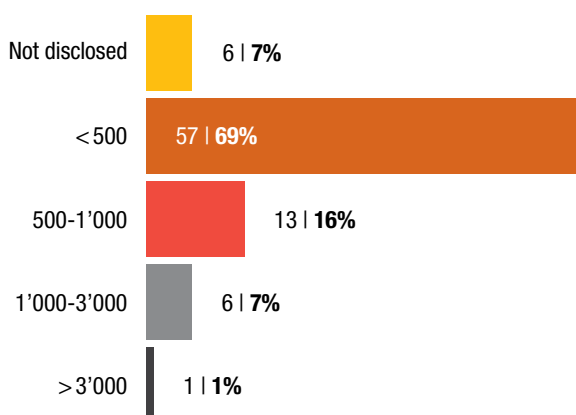
Figure 6: Sample statistics

#### Diverse service offering

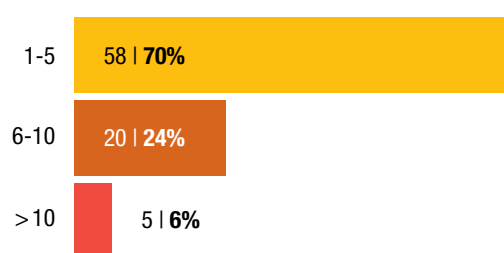


In Figure 6 (Sample statistics), the distribution of AuM and FTEs in our sample appears to be consistent with and representative of the statistics reported by the SAM (Figure 3, SAM statistics). The key service offering is discretionary portfolio management, while several IAMs also offer alternative investments or fund solutions to their clients.

#### 69% AuM < CHF 500m



#### 70% < 5 FTES

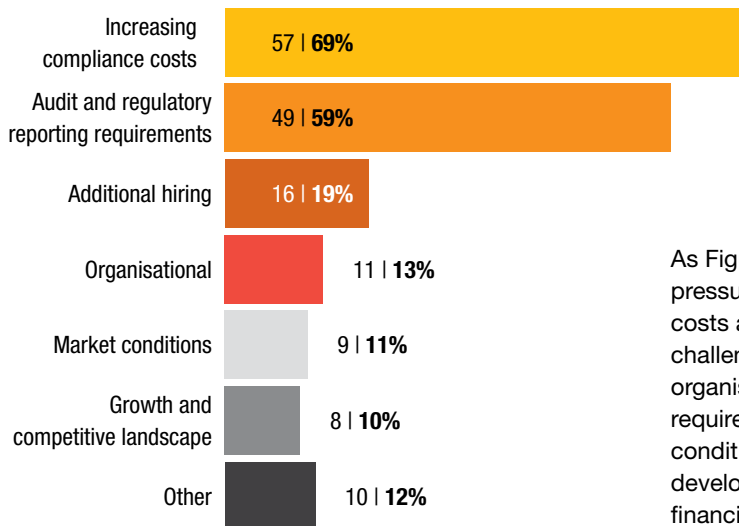


(Source: PwC analysis)

## 2.3 Detailed findings

Let's now look in more detail at the snapshot we gained of the IAM industry and our conclusions regarding the near future.

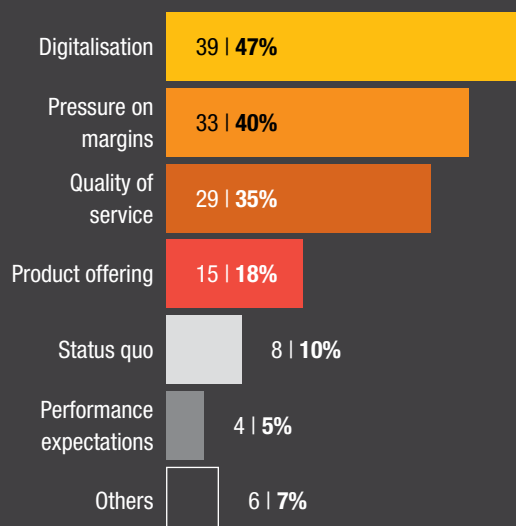
Figure 7: Q1: What are the biggest challenges you perceive in the mid to long term? (several answers possible)



As Figure 7 (Question 1) shows, IAMs are experiencing pressure on margins driven by increasing compliance costs and a growing regulatory burden. Other key challenges cited by survey participants include organisational challenges related to governance, i.e. requirement of segregation of functions, and market conditions stemming from unfavourable macroeconomic developments and Switzerland's waning appeal as a financial centre for clients. Also mentioned by survey participants in the "Other" category are challenges such as investments to modernise traditional operating models and concerns about any further increases in regulation.

(Source: PwC analysis)

Figure 8: Q2: In what areas do you expect your clients' demands/ expectations to change? (several answers possible)



According to responses to Question 2 in the survey (see Figure 8, Question 2), the main ways that changing client expectations are likely to create challenges for IAMs relate to digitalisation, pressure on margins and improved quality of service. Surprisingly, sustainable finance in the context of the product offering is barely mentioned and does not seem to be a top priority for IAMs.

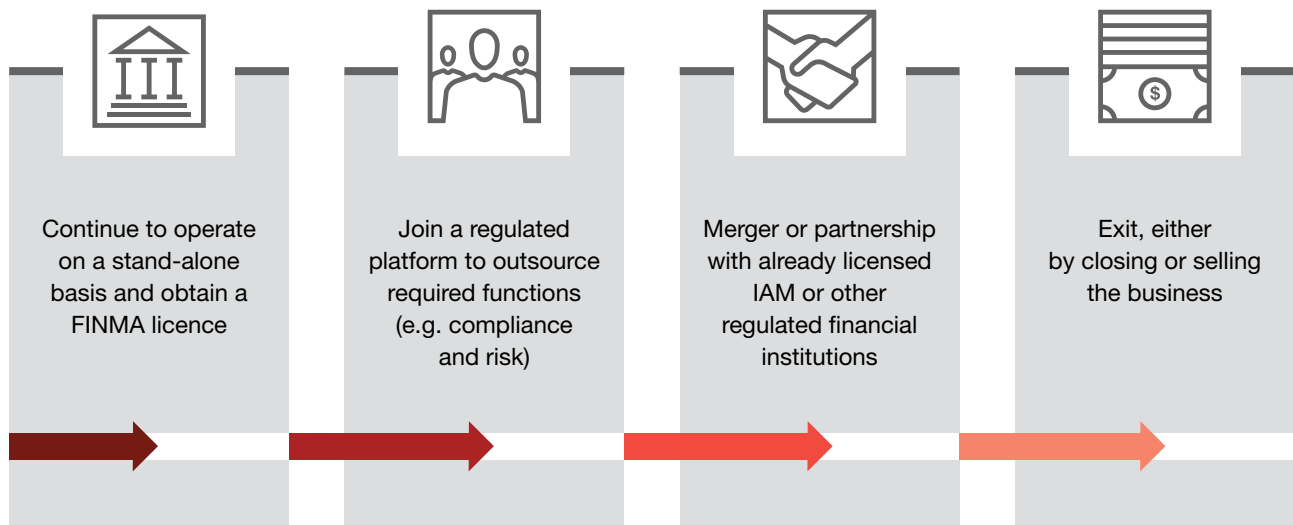
(Source: PwC analysis)



The entry into force of the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) on 1 January 2020 has led unlicensed IAMs to consider a number of strategic options if they wish to continue conducting their business after 31 December 2022. The options range from obtaining FINMA licensing on a stand-alone

basis, joining a regulated platform and then applying for the licence or entering into a partnership or merger with an already licensed IAM. If an IAM chooses not to apply for the licence, it will have to cease its activity, either by closing or selling its business. (See Figure 9, Strategic options in view of the imminent licensing obligation).

Figure 9: Strategic options in view of the imminent licensing obligation

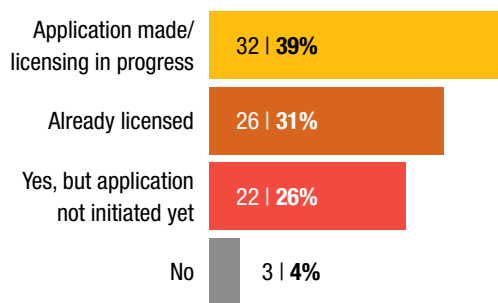


(Source: PwC analysis)





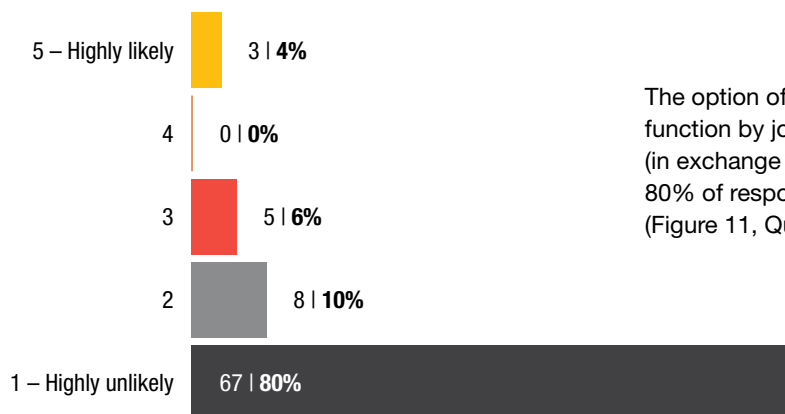
Figure 10: Q3: Will you be applying for FINMA licensing?



(Source: PwC analysis)

Licensing application costs do not by itself seem to be a hurdle for small IAMs. According to SAM, the SOs have a pragmatic approach for smaller structures and the administrative costs remain reasonable, if the IAM is well prepared<sup>4</sup>. As Figure 10 (Question 3) shows, 70% of survey participants responded that they are either already licensed or have taken the necessary steps to apply. 26% were considering applying within set deadlines.

Figure 11: Q4: What is the likelihood of joining a regulated platform?



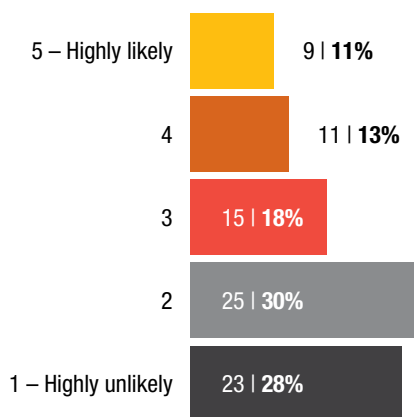
(Source: PwC analysis)

The option of outsourcing the compliance and risk function by joining a regulated platform such as Aquila (in exchange for a minority stake) is not popular, with 80% of respondents saying this was highly unlikely (Figure 11, Question 4).

<sup>4</sup> Swiss Association of Wealth Managers (SAM). (2022). Bewilligungsprozess von Vermögensverwaltern und Trustees: Die FAKTEN. Retrieved from <https://mailchi.mp/955500fc4c1e/bewilligungsprozess-die-fakten-5259008>

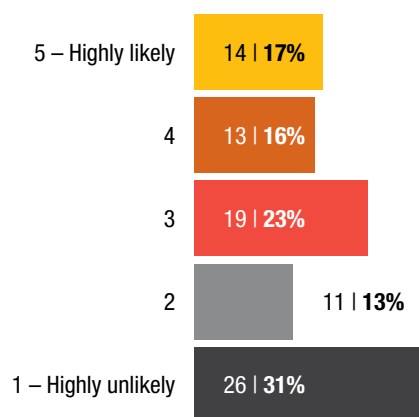


Figure 12: Q5: What is the likelihood of undertaking a partnerships or a mergers with other IAMs?



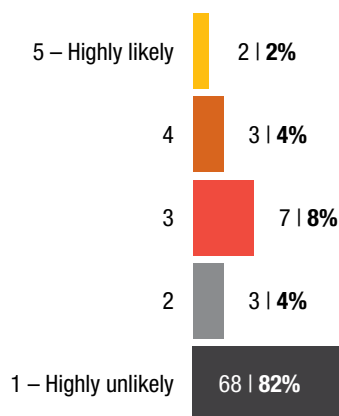
(Source: PwC analysis)

Figure 13: Q6: What is the likelihood of undertaking acquisitions to grow the company?



(Source: PwC analysis)

Figure 14: Q7: What is the likelihood of selling your company?



(Source: PwC analysis)



In terms of M&A appetite overall, our survey seems to suggest a mismatch between the number of IAMs considering a potential disposal (82% highly unlikely to sell; see Figure 14, Question 7) versus IAMs considering growing via acquisitions or partnerships (see Figure 12, Question 5; see Figure 13, Question 6). This means that we will see a buyers' market, with stiff competition and a scarcity of potential targets for sale driving high valuations. Note however that on the overall market, 400 IAMs have announced they will not apply for the licence (see Figure 4, Licensing timeline). This may include some potential targets arriving on the market by year-end if the IAM decides to exit via disposal.

Survey participants cited three key motivating factors for acquisitions (the response was similar regardless of whether a merger or partnership was potentially envisaged): the benefits of being a licensed IAM and the ability to seize the opportunity to acquire IAMs who are exiting; the opportunity to grow the AuM base and gain the size necessary to be more appealing to key talent; the chance to improve efficiency through cost reductions by achieving economies of scale.

# 3. Overview of recent M&A transactions in the independent asset management industry

At the time of writing, there had already been eight transactions since the end of 2021/the beginning of 2022 (see Figure 15, Recent M&A activity), and we expect

mergers and acquisitions activity to increase. Most of the M&A activity occurred between IAMs or via Management Buy Outs (“MBO”).

Figure 15: Recent M&A activity

Date	Buyer	Target	Description
June22	Management Buy-out	Fransad Gestion AG	Julius Bär has decided to sell Geneva-based Fransad Gestion SA to the management team of the independent wealth manager (Julius Bär bought Fransad in 2015). Fransad manages around CHF 1.5bn and has 20 FTEs.
May22	Quaestor Coach AG	Investarit AG	Quaestor (PE) has acquired Investarit, a Zurich-based international asset management boutique and partner for comprehensive wealth management services, and merged it with Diem Client Partner.
Apr22	Focus Financial Partners, LLC	Octogone Holding S.A.	Focus Financial Partners, in New York, a publicly traded company has acquired the independent asset manager Octogone Holding, Geneva, with CHF 5.3bn AuM. The transaction is expected to close in Q3 2022.
Jan22	Woodman Asset Management AG	PENTAGRAM Wealth Management SA	In January 2022 Woodman announced a merger with pure-play IAM Pentagram, and will be integrated under the Woodman brand with a combined AuM of CHF 3.5bn and 40 FTEs.
Jan22	Management Buy-out	Wergen & Partner Vermögensverwaltungs AG	Management buy out from Julius Bär (Julius Bär bought Wergen in 2017). Wergen & Partner became affiliated with Aquila in March 2022 in order to obtain the FINMA licence.
Jan22	Decisive Capital Management SA	Artorius Wealth Switzerland AG	Decisive Capital Management SA, Geneva (90 FTEs, AuM CHF 6.5bn) has acquired the Swiss operations of Artorius Wealth Switzerland AG in Zurich from parent company Artorius Wealth Management Limited in UK. Deal closed in January 2022.
Dec21	Bank SYZ AG	BHA Partner AG	In January 2022 Banque Syz announced the acquisition of independent asset manager BHA Partners AG in Zurich, with AuM CHF 1bn. Deal closed in December 2021.
Dec21	Quaestor Coach AG	Diem Client Partner AG	Quaestor (PE) entered the Swiss market with the acquisition of Diem Client Partners (Deal closed in December 2021). Quaestor had a similar buy-and-build strategy in the Netherlands with Auréus Group, and made seven takeovers between 2018 and 2021 with now total AuM of CHF 2.5bn.

(Source: PwC analysis)



# Outlook



The licensing requirement for Swiss independent asset managers as of the end of 2022 looks set to become a watershed moment. Strategically, on the one hand some IAMs have already decided not to apply for the licence and could consider disposing of their business. On the other hand, those who remain will be able to seize this opportunity if they wish to grow through acquisition,

attract promising talent and/or reduce their costs through economies of scale. Our research suggests that while plenty of IAMs are seeking mergers or acquisitions, relatively few are intending to sell. This promises a consolidation of the industry, driven by a buyers' market where prices are forced up by a scarcity of targets.

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