



Trust services in New Realities

Implications for Swiss Trust Companies



Swiss Association of Trust Companies

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We would like to share with you an outsider's perspective on how Trust Companies might cope with new realities

Our outside perspective on **current strategic** and **organizational challenges** and their **implications** on Trust Companies

1 OBSERVATIONS



TODAY,

we would like to share with you our **perspective** on how you can cope with **new realities** in the trust service industry

2 EXPERIENCE

We have a differentiating focus: **design and implement** strategies **jointly with our clients** with a focus on business opportunities



3 WAY FORWARD

New Realities have created a new world for us – and our clients. Isn't it that this is the core of the structural change AND our opportunity

Our understanding of key changes and challenges

Fast global change to a consensus against non-compliant tax practices

- > **Non-compliant wealth** is no longer tolerated
- > Consensus against non-compliant tax practices – Conformity is enforced within a **short period of time**
- > Industry has been taken by surprise despite early warning signs – Addiction to the past in **thinking paradigms** has leads to paralysis

Financial and economic crisis resulting in governments' need for money

- > Financial crisis and the resulting surge in demand for taxpayers' money serve as the perfect **catalyst for the transformation**
- > Growing income and wealth disparities often legitimize the **fight against tax evaders** within the society

Increased privacy need for wealth owners with less possibilities to act

- > Developments in technology and globalization **increase the privacy** needs especially for wealth owners
- > **Clients have not yet understood the full extent of implications** resulting from the trend toward bona fide assets – The leeway in decision-making, however, is narrowing, forcing clients to act (e.g. with FATCA, tax agreements, etc.)

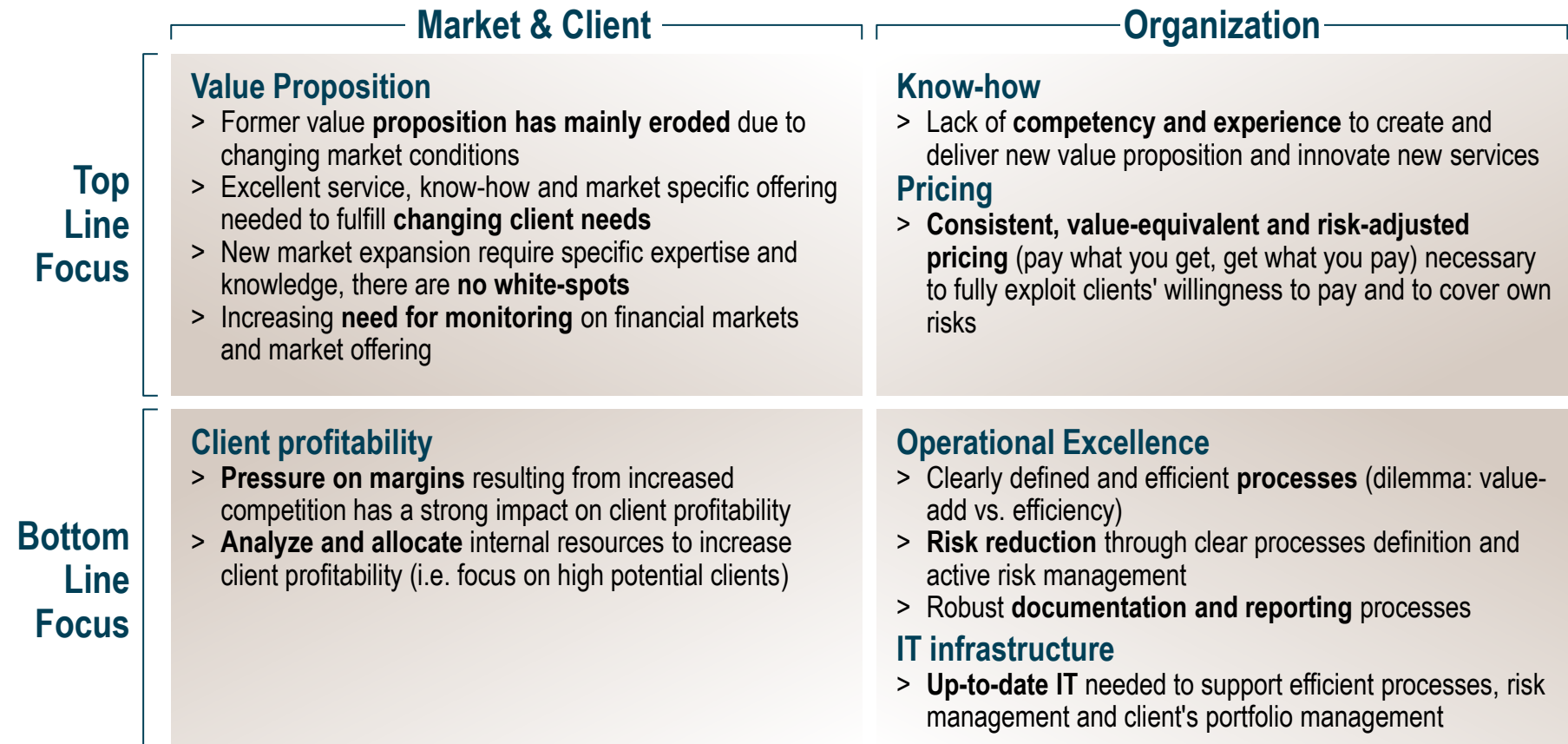
Regulatory changes and loosening of bank secrecy

- > Tightened regulation is increasing **complexity** in the industry
- > Drivers are causing a rapid **increase in costs and risks**
- > New rules of the game are increasing the **pressure to conform**
- > Benefit of location due to a strict **banking secrecy fading away**
- > Many jurisdictions moved towards **all crime money laundering legislation**



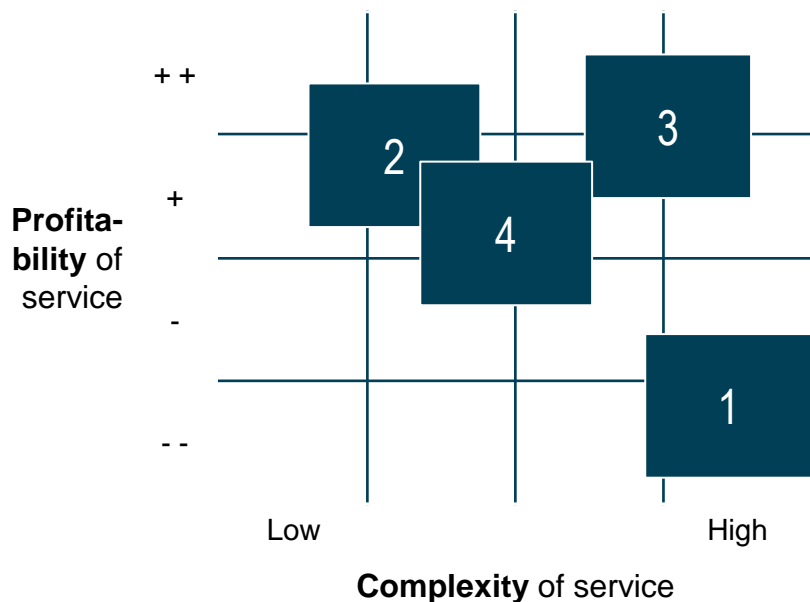
Trust services institutions face new organizational and market challenges due to fading advantages of regulatory context

Key challenges for Trust services institutions



A key challenge for Trust services institutions is the fact that the core of past services has lost its attractiveness – are there options?

Overview on dilemma of strategic optionality



Wealth Managers investment in client relations

1 International wealth managers invest in clients esp. in Wealth Management with services that are not profitable for them stand-alone – and they do have the money to invest in competence

Administrative or transaction related services decrease in margin

2 Standard transaction and administrative business has reduced with demand and loses its ability to generate attractive profits

Attractive niches in the market

3 Research shows that clients pay in case they are supported in the management of their complexity (e.g. succession): This does require specialization in the business model, differentiation and adequate pricing

Future non-complex standard trust business

4 Non-complex transaction and administration related business will not disappear but continue to exist – with increasing complexity (regulation) but with lower margins

The idea of a trust in its core is 'risk mitigation by governance' – Trust Companies will remain in demand for specialized know-how

POTENTIAL



- > A trust continues to be a **key instrument for management of wealth**
- > **Wealth/asset protection** remains to be a key client need, **documentation processes** and **market monitoring** become increasingly important for Trust Companies

OBSERVATIONS

We made the following observations

- > **Exposure** to financial **markets developments** and **volatility** increased significant within the last years
- > **More transparency** by **asset allocation** is required
- > **Trust structures** become **more complex** and **documentation** and **compliance guidelines** are increasing
- > Increasing pressure through **regulatory changes** and **tax debates**
- > **Wealth preservation** and legal **tax optimization** remain in the focus of client expectations – Trust Companies must actively take these expectations into account

CONCLUSION

- > **Trust Companies** will remain in demand for their **specialized know-how**, esp. as many banks are currently **realigning their offering in offshore markets**, but **risk management** needs to be addressed

Structural change and pressure on the Swiss banking landscape have led to the need of new value propositions for Trust Companies

POTENTIAL



- > **Trust companies** have a **window of opportunity** to position themselves as **independent trusted advisors** with **specialized knowledge** and **services**
- > Niche players prove that **winning new business** is possible: client needs exist

OBSERVATIONS

We made the following observations

- > Trust Companies are **fully independent** from banks and have **simple company structures** to keep things under control in an more complex market environment
- > **Changing regulatory environment** provides **opportunities** for innovative services to **fulfill certain client needs**
- > Market area of **Trust Companies** is less **regulated** – Potential to pro-actively shape future guidelines and rules through **self-regulation**
- > Call for **more transparency** and a **shift from B2B to B2C** demand for more client interaction – New set of skills are required

CONCLUSION

- > **Smarter rules** are needed to **prevent financial scandals** and **systematic risk** for the trust industry and regain confidence of clients in Switzerland and internationally – **Anti money laundering guidelines** as a first safe guard for the Swiss trust industry

Ambiguity might emerge as key challenge for both clients and TCs: isn't a trust a means to deal with ambiguity in a more transparent world?



DIMENSION

OBSERVATIONS

VOLATILITY

- > Increasing **asset density** and **interdependencies** intensify impact
- > **Power of regulation**: non-effective measures & pro-cyclical methods
- > Information **cross-linkage** as **volatility catalyzers**

UNCERTAINTY

- > Uncertainty of the **current and future economical environment**
- > **Interdependent system effects** (vs. black swan risks)
- > **Intelligence** demands the **ability to adapt** to changing context

COMPLEXITY

- > **Shift in geopolitical power** will result in a **fundamental change** of our future mind-set and "how we do business"
- > **Tension** between **national** (political, regulatory) and **global** (financial markets, economical) forces

AMBIGUITY

- > **Increasing unpredictability** of **legal context** in a multi-polar world
- > Danger of **misleading trust** in established **risk models**: even though a model is right and assumptions individually are reasonable, it can produce wrong results
- > **Illiquidity** despite high **speed of information** flow and **automated decisions**

MANAGEABLE
CHALLENGES
(using a systematic
approach)

KEY
CHALLENGE

Based on our experience, a combination differentiated strength in five key success factors determines the strength of a business model

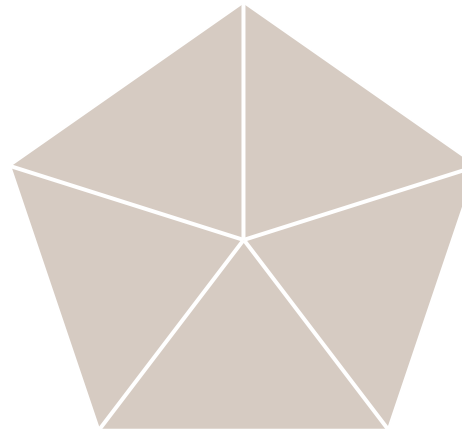
Five key success factors

A STRUCTURE/ SOLUTION COMPETENCE

- > **Proven intelligence** on financial market structure
- > Ability to repeatedly and **effectively leverage capabilities to develop solutions**
- > **Flexibility** and farsightedness to adapt to changing market environments

B SERVICE & PRICING EXCELLENCE

- > **Distinctive value proposition** for core product and/or service offerings
- > Excellent **pricing** of products and services
- > Professional **communication** on services



C PARTNERSHIP EXCELLENCE

- > Access to strong **internal distribution** network or **intimate partnership** with key stakeholder networks; **exclusive arrangements**
- > **Client-centric sales** model (tactical marketing communication)
- > Professional **management and controlling**

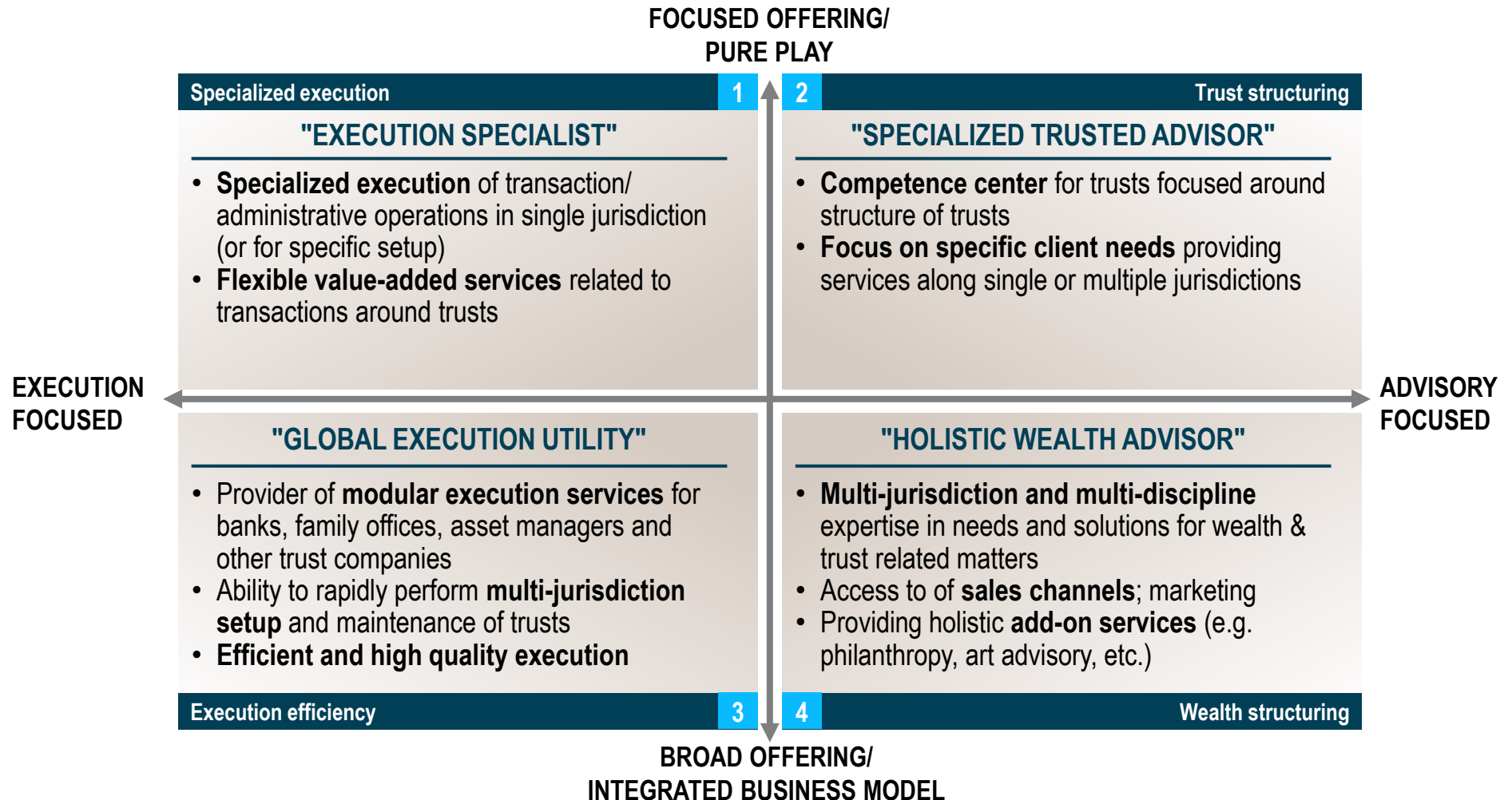
E OPERATIONAL EXCELLENCE

- > **Exploitation of synergies** in operations of complex business models
- > **Sustainable cost-effective operations** at all links of the value chain

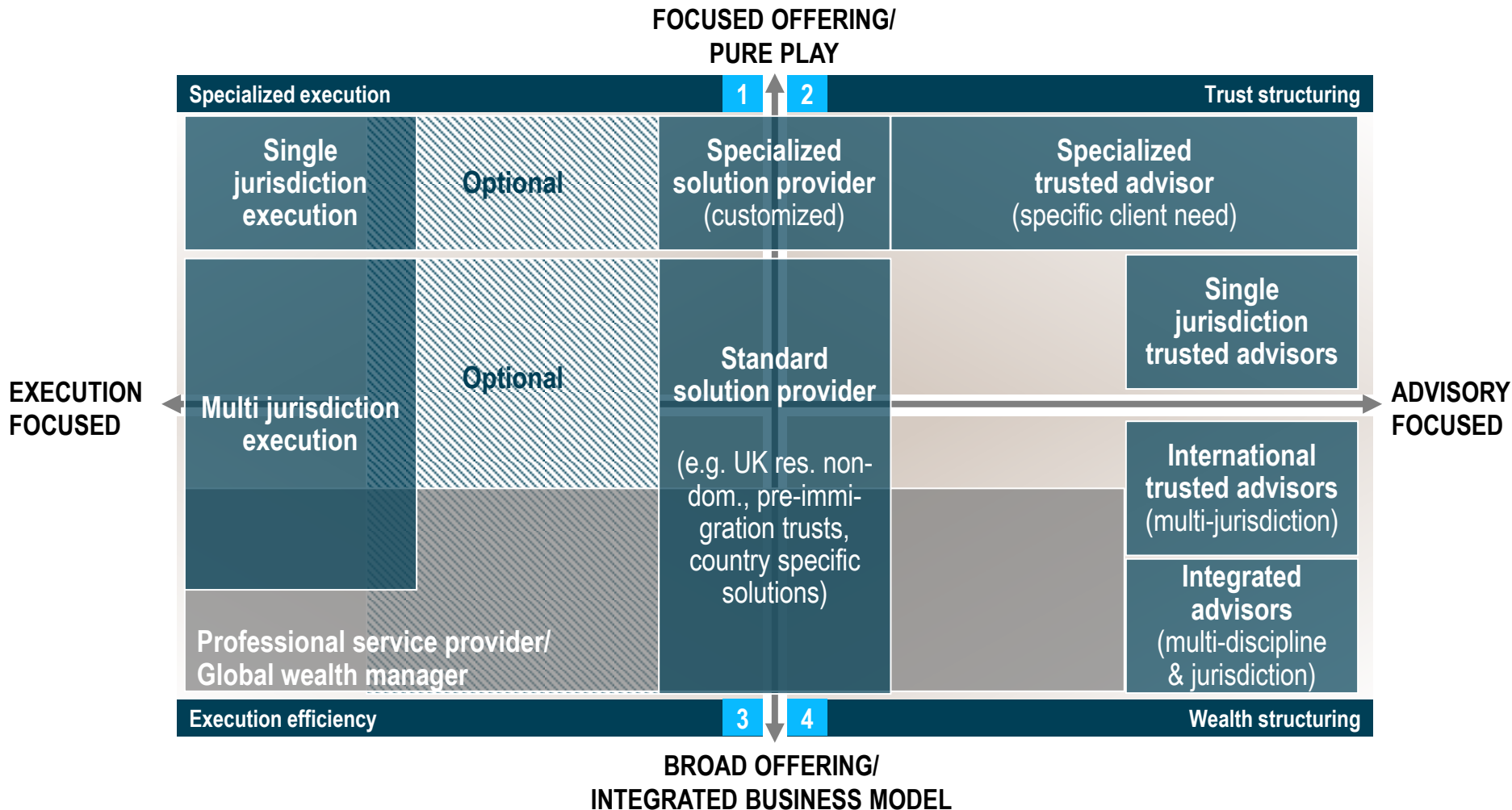
D BRANDING EXCELLENCE

- > **Strong, favorable and distinctive position** of organizational and product/offering brands
- > **Brand attributes** aligned to profile of target client group

Promising value propositions for trust companies can be defined based on key success factors



Potential business models in the future might look like this: the providers will specialize since execution loses its attractiveness



Potential solutions focus on the development of new value propositions, client focus and operational excellence

Potential solutions to master the strategic and organizational challenges

Potential solutions

Objectives

A Value proposition	<ul style="list-style-type: none"> > A credible segment-specific value proposition is the most important way to differentiate in mature markets with limited innovation potential 	<ul style="list-style-type: none"> > Address clients' concerns and pain-points > Communicate the value proposition through a conclusive story to promote clients trust
B Innovation of new services	<ul style="list-style-type: none"> > Innovative services to fulfill certain client needs (e.g. with regard to tax services) > Complex market environment provides opportunities of niche services for Trust Companies 	<ul style="list-style-type: none"> > Design specific offerings that focus on addressing clients' needs and priorities > Conform and robust with legal guidelines
C Risk management	<ul style="list-style-type: none"> > Enhance risk management practices and processes to create value for clients > Regulation still a serious concern since absence of regulatory framework for Trust companies 	<ul style="list-style-type: none"> > Align reporting and monitoring processes along the value chain > Increasing transparency and trust of clients through comprehensive risk management
D Pricing	<ul style="list-style-type: none"> > Introduce or enhance consistent and risk-adjusted pricing model 	<ul style="list-style-type: none"> > Exploit clients' willingness to pay > Appropriately cover involved risks

Key questions facilitate the development of the client model and its alignment to the value proposition

Value proposition – Client model

STRATEGIC

Vision

Values

Value proposition

Mission

Purpose

Core competencies

TACTICAL

Business model

Client model

Clients

I

Offering

II

Channels

III

Pricing

IV

Finance model

Value model

Organization

KEY QUESTIONS

I How to align the future client models?

- > Different business models for institutional and private clients?

II How to adapt the offering?

- > Individual offering for clients with different profiles?

III How to change the current channel-mix?

- > Referral practices and network approach changes?

IV How to adapt the current pricing?

- > Higher leakage for both institutional and private clients?

Some food for thought on the way forward

Food for thought

A What is your market?

- > How will **financial assets** and **profit pools** develop nationally and globally?
 - > What will be the impact of **regulatory changes** for Trust Companies?
 - > What **expertise** and **knowledge** is required to enter in **new markets**?
-
- > In what direction are **clients needs** and decisions evolving?
 - > What is key to gaining **access to clients**?
 - > How to **ensure innovation** and **development of expertise** to deliver customized services?

C What do your clients really want?

B How do your competitors operate?

- > How do successful Trust companies **position** themselves in the market?
 - > How can operations and processes be kept **sustainably cost-effective**?
 - > How can Trust companies best **leverage** their **capabilities** and **knowledge**?
-
- > Which **asset allocation and trust structure** are the most successful?
 - > What **values** can be added to satisfy clients?
 - > How can different **pricing models** be leveraged?

D What value do you offer your clients?

USP

Four fields of action to align the strategy to future challenges within the trust services industry

CEO agenda

DEFINITION OF A PERSUASIVE **MARKET POSITION AND VALUE PROPOSITION**

- > Definition of a **clear and persuasive value proposition** to close the expectation gap between clients needs and company offerings
- > **Align service and pricing strategy** to the selected business model



- > Optimization of **service portfolio** and **development of new services** to satisfy client needs
- > Align brand attributes with **profile of target client group** based on **value segmentation**

ENSURE MEASURABLE **ADDED VALUE FOR CLIENT**

FOCUS ON **RISK MANAGEMENT AND WEALTH PROTECTION**

- > Align **risk management** attributes with increasing complexity within the trust service industry
- > Define **robust processes** and **transparency** along the value chain

- > Optimize processes and **reduce complexity** in operations
- > Define **clear roles** and **responsibilities** within the organization to improve profitability

SUSTAINABLE **EFFICIENCY IMPROVEMENTS**

SATC has proposed to run two concurrent workshops to be facilitated by Roland Berger with each two questions

What are the **strategic options** that trust companies have in Switzerland?

What are the **business opportunities** in new realities?

1 WHERE TO PLAY



2 HOW TO WIN

What are **considerations and cornerstones** of future business models

What would be a convincing **value proposition**?

What are the **prerequisites** for a successful transformation?



TODAY,

we will consolidate the insights from the two workshops – Your hosts are Olaf Toepfer & Adrian Pfammatter

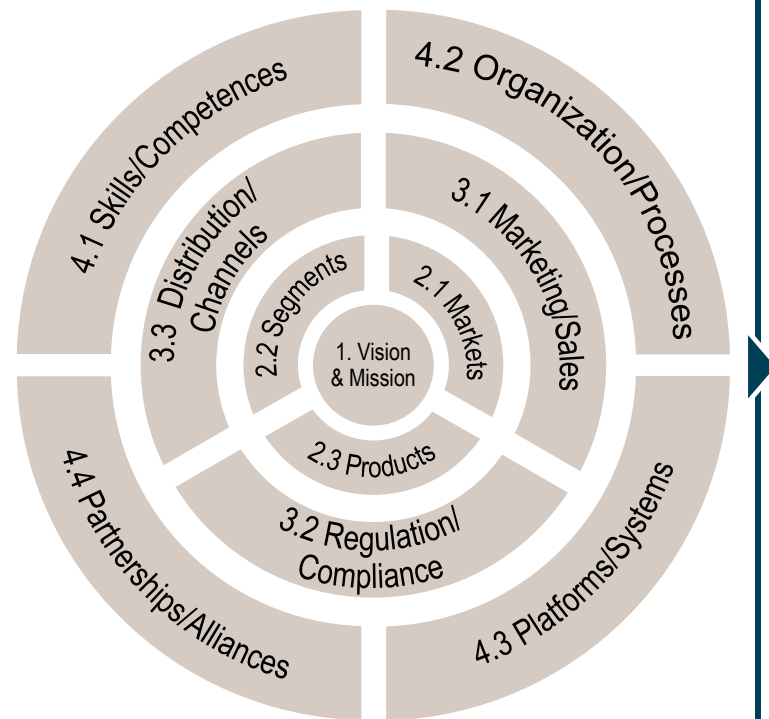
Appendix

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Strategy Consultants



Four typical elements for the development of a business strategy – Roland Berger strategic framework

Our approach for strategy development



Vision & Mission



Where?

- Where do we see ourselves in the **long term future**?

Strategic direction



What?

- On which **market, client segments and products** should we focus?

Business model



How?

- How are the products and services **marketed** to successfully penetrate the relevant market(s)?

Operating model

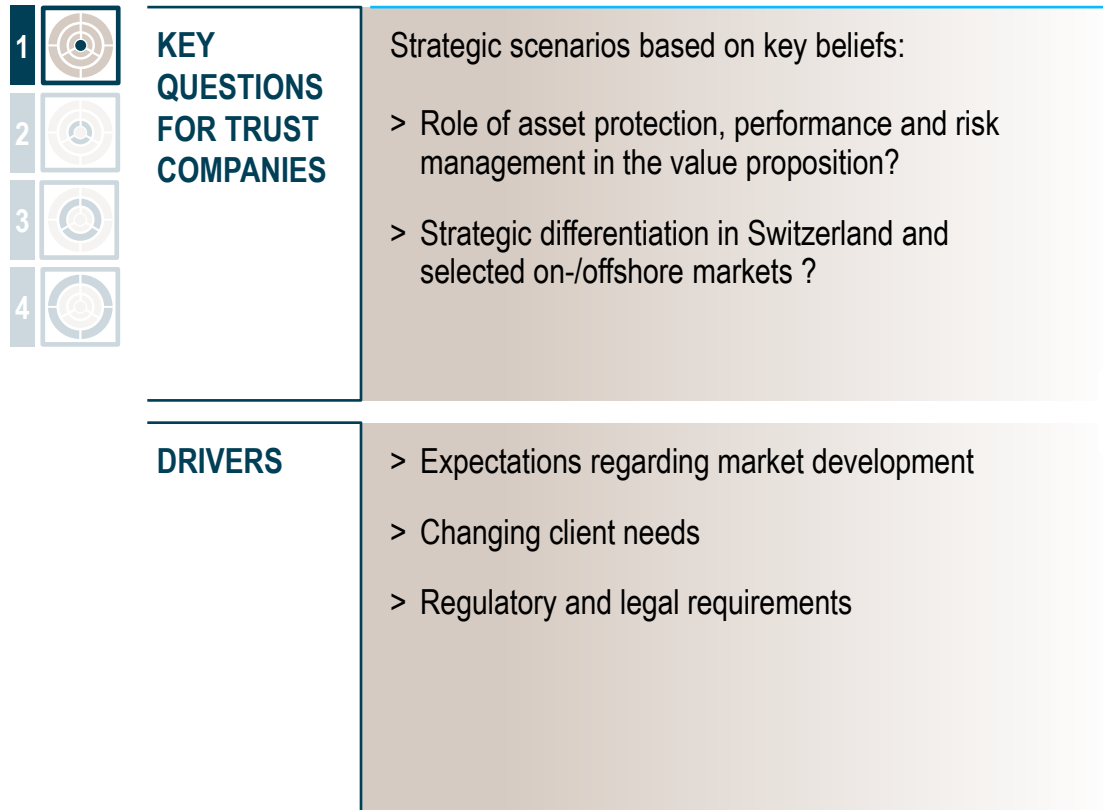


With what?

- With which **platforms, resources and processes** should we be operating?

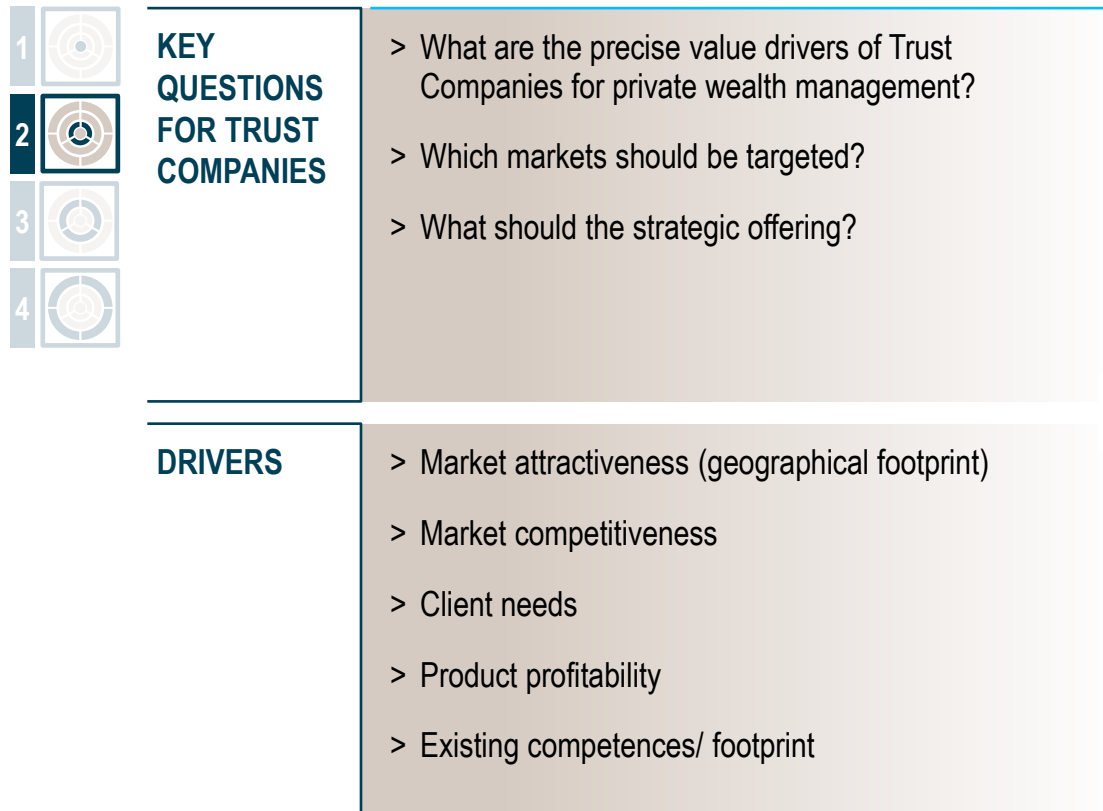
Key questions for Trust Companies to develop a sustainable strategy for the future

Our approach for strategy development – VISION & MISSION



Key questions for Trust Companies to develop a sustainable strategy for the future

Our approach for strategy development – STRATEGIC DIRECTION



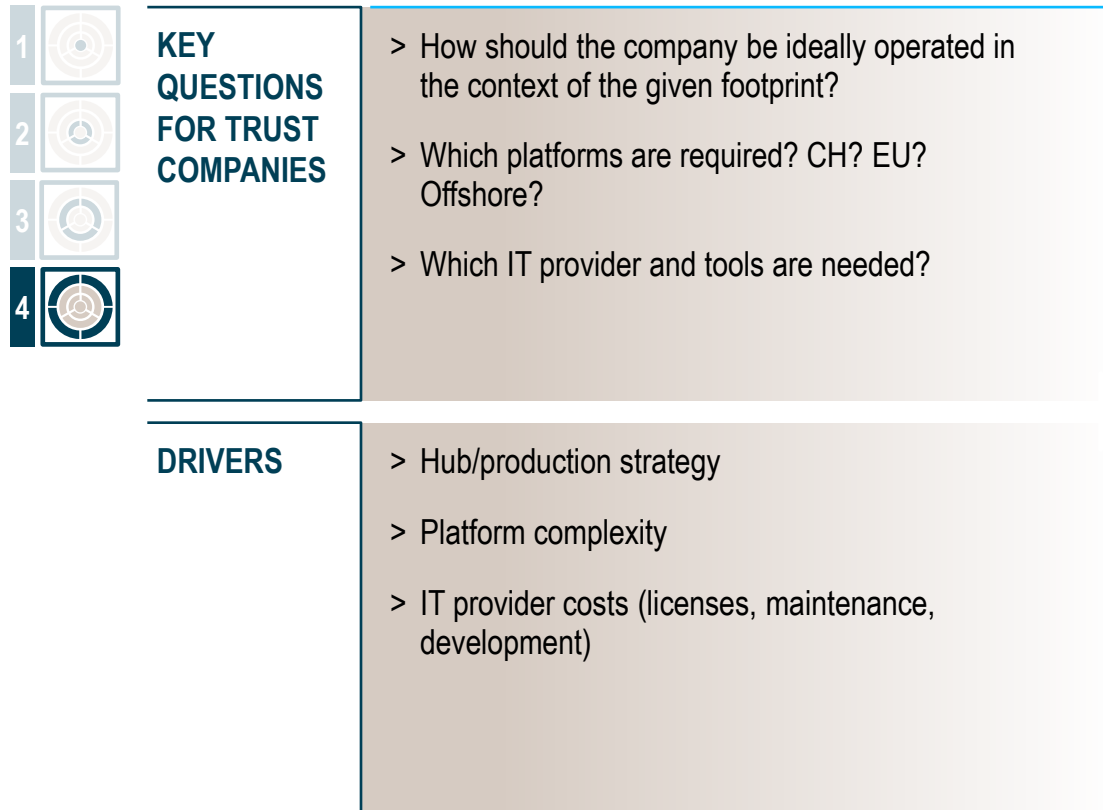
Key questions for Trust Companies to develop a sustainable strategy for the future

Our approach for strategy development – BUSINESS MODEL



Key questions for Trust Companies to develop a sustainable strategy for the future

Our approach for strategy development – OPERATING MODEL



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RECENT STUDY

WEALTH MANAGEMENT IN NEW REALITIES

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Study

Wealth Management in New Realities

From defense to offense: how to realign business models for opportunities resulting from structural change

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