

## Financial Market

# Fund Market Switzerland – Top Five with Upward Potential

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Gérard Debreu – Nobel price laureate in economics in 1983 – wanted his prize awarded book to be sold at all department stores around the world, and a banker friend of mine longs to see funds being offered at the corner shop. Visions or illusions? The demand for highly mathematical economic theories has so far remained rather limited, and even investment funds are not offered for sale alongside soft drinks and chocolate bars.



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Nevertheless, the fund industry in Switzerland has come a long way. Who would have thought – just a decade ago – that there would be an exhibition on investment funds in Switzerland? Yet there has been one, and the “Fonds’04” – as this year’s exhibition in Zurich was called – has become a focal point for fund specialists. Strolling through the exhibition you realize how diverse the world of funds has become, and it is this diversity which made the exhibition worth a visit. The variety of well-known foreign fund providers in the Swiss fund market is astonishing. They make our fund market a truly international place, both because of their physical presence in Switzerland and because of the products they offer. Foreign providers of financial services are crucial in completing a country’s product range. Their products incorporate know-how on their home turf – markets, industries and specific firms – which local competitors do not have. Thus they add new elements to the existing funds offered by their Swiss competitors and contribute significantly to the depth and scope of the Swiss market.

The Swiss fund market is the fifth largest European market for investment funds with a volume of nearly CHF 450 billion. The contribution of non-Swiss institutions to the success of this market is not yet fully appreciated: of the nearly 4,000 funds approved by the Swiss authorities, around two thirds have been placed by a foreign owned financial service provider.

But the Fonds’04 gives also food for some more fundamental thoughts. The international focus of the fund products – such as you find at the exhibition –

contrasts markedly with the strong national segmentation of different fund markets, as we experience every day. The Swiss fund industry would be well positioned to provide cross-border services. But cross-border financial services provision worldwide is at best in an embryonic state. All countries have their own set of rules and regulations – although they are quite similar, when compared to each other – to protect small investors. Funds and fund providers in each country are subject to an approval process – again they are all quite similar. This leads to the situation that funds and fund providers must undergo different approval processes if they want to be present in different national markets. But are investors really better protected if a fund provider or a particular fund is approved in the different countries according to roughly the same rules?

The harmonization of national regulation should lead to a single licence extended among countries with equivalent supervisory standards. Unfortunately, investor protection is still used as trade barriers (even within the European Union), designed not so much to protect investors but to protect local service providers. This harms investors, since it prevents the fund industry to develop its full potential. Without a change in attitude, we may find Debreu’s book sold in department stores before we find investment funds for sale there. But look at it this way: a more widespread reading of his book may increase the conviction to abolish trade barriers and create a large market for funds – after all, the message of his Nobel prize winning book is to let the people choose the products they want. ○