

PENSIONS IN SWITZERLAND

Consultants kept busy as regulation mounts

An ever complex legal framework and volatile markets in Switzerland has been a boon for the consultancy industry. **Rachel Fixsen** reports

Legal changes in Switzerland and choppy markets have kept consultants in the country fully occupied, as pension funds strive to maximise returns and keep up with what the regulators require of them.

The pensions environment is becoming more complex in many ways for clients, says Sven Ebeling, country head in Switzerland of Mercer Investment Consulting.

"Capital markets are more volatile, and the legal framework is more complicated," he says, with legislators and apparently keener than ever for each last detail of pensions activity to be regulated. The Swiss pensions market now has between CHF500bn (€314bn) and CHF600bn (€377bn) under management, and it is still growing.

"There is increasing pressure on pension funds to increase their returns or at least maintain the level of benefits," says Ebeling.

And it is these factors, combined with the expanding need for asset-liability management, that have led to an increased need for consultancy services, he says.

The first revision of the BVG/LPP Swiss federal law on occupational pensions was completed last year. Changes are set to take effect in three stages. Within the changes, there is a clear commitment to the market valuation of pensions assets, says Ebeling, which was not there before.

This feeds through into heightened competition in the pensions marketplace. "Mark-to-market creates a much high level of transparency... therefore employees are in a position to make much better comparisons between pension plans," he says

But limits on how much pension funds can direct into certain asset classes remain. Ebeling believes these should now be abolished and replaced with a 'prudent-man rule' as is used in the Anglo-Saxon countries. Pension funds should be allowed to determine their own asset allocation depending on their particular asset liability profile, he says.

Even though it is possible, under current Swiss law, to deviate from the limits set, pension funds have to justify in writing why they do so, and this all uses extra resources, he says.

Pension clients are commissioning consultants to carry out asset-liability studies, and there is also strong demand from them to find cost reduction measures. "Pension funds have become very cost-sensitive, so they are keen to create a very cost-efficient structure," says Ebeling.

There has been an intense interest in alternative investments, such as private equity, hedge funds and foreign property, for a number of years now, he says. Now there is a need for advice on these asset classes and, in particular, how to implement any strategies involving them.

Among the services consultants offer, Beat Zaugg, practice leader on the investment consulting side at Watson Wyatt in Zurich, says that right now clients are focusing particularly on global real estate, private equity, risk manage-



Zaugg: 'multi-consultant environment'



Fulop: 'create a professional lobby'

ment, manager research and selection. Julien Fulop, CEO of Vevey-based consultancy Coninco, says that on the whole, the main service pensions clients are now requesting from consultancies are ALM studies. Pension funds need the studies to be carried out more frequently in the future as a consequence of the first revision of the law, he says.

The ALM study is the starting point, and consultants are usually asked to follow this with modifications to the strategic asset allocation, then tactical adjustments and then manager selection, he says.

One particularly noticeable trend in the pensions consultancy marketplace is the increasing split between advisory and investment controlling mandates, he says.

"More and more, it seems to be the case that pension fund boards demand that the advisory and investment controlling side of the service be split," he says. He agrees that it does make sense to separate these two functions.

"Maybe as a result, if it is a sustained trend, it will lead to a more specialised focus among consultancy firms," he predicts.

How pension funds in Switzerland use consultants often depends on their size and level of in-house resources. Many of the larger plans tend to use more than one consultancy, trying to 'diversify' their sources of advice, says Ebeling. But the smaller or medium-sized funds usually prefer to have a broader relationship with a single firm.

There is a trend in the pensions industry towards a 'multi-consultant environment', says Zaugg. "Clients are looking for the best-qualified adviser in a specialized field," he says.

Zaugg says he sees four main trends at play within the Swiss consultancy business.

"The local providers – in the investment field – are primarily offering investment controlling, while the international firms offer a comprehensive advice service," he says.

Also, the marketplace is split between those consultants offering an integrated service and those who offer the individual components, he says. "Asset liability studies require investment experts and pension fund experts under the same roof. There are many consultancies that only know about assets, or only know about liabilities," he says.

There is a division between independent and tied advisers too.

"Some consultants are linked to banks and investment product providers, some demand

so-called database fees from managers, and managers also have to pay for the evaluation of investment products," he says. "This creates conflicts of interest. Pension funds are increasingly looking to see how independent consultants really are."

On top of this, banks are trying to compete with consultancies, he says. Banks also offer advice, he says, although this is driven by products and margins and is often financed out of revenue from product fees – therefore generally not transparent and free of conflicts.

There are moves within the Swiss consultancy market towards consolidation, and Mercer's recent move to acquire Pendia is evidence of this.

The market is still dominated by local consultancies, though the international firms are in an ideal position to meet the needs of international companies, says Ebeling.

International firms, says Zaugg, have access to far larger research resources than their local peers.

Since the revision of the pensions law, says Fulop, this sector is going through a new consultation process aiming at a redefinition and further reinforcement of the regulatory environment that the new law has created.

In this new environment, significant roles have been chiselled out for actuaries and auditors, but the same cannot be said for investment consultants.

"The role within pension fund management for actuaries and auditors is an ever increasing one," says Fulop, "whereas the specific profession of investment consultants is not explicitly defined."

In light of this, advisers on the asset side of the balance sheet are now endeavouring to get a legally recognised role for themselves within the pension fund industry, he says.

Business for investment consultants, however, is varied and flourishing. "But we would like our role to be carved in stone in the next revision of the law," he says.

Before this can be achieved, Fulop says practitioners will have to found a professional association among themselves. "The way forward is to create a professional lobby."

This would probably involve the 10 or so main firms in the business, he says, pointing out that in Switzerland, 20% of consultancy firms account for around 80% of the market.

"We need a visible, credible lobby to represent us in Bern – close to the deciding body," he says.

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