Swiss Fintech Report 2016

The role of Switzerland as a fintech hub
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Digitization has long since become a common topic on the agendas of companies as they consider the consequences for their underlying business models, organizations and their people. Some industries took the lead as early adopters. However, the financial services industry is lagging behind, overwhelmed by the large number of innovative ideas targeting an end-to-end industry transformation, notably through new business models and customer strategies.

As the number of start-ups, associations and conferences in the fintech space reaches new heights, this report focuses on what is one of the most important considerations for start-ups: financing. EY defines fintechs organizations that combine innovative business models and technology to enable, enhance and disrupt financial services. The report examines the volume and types of financing available for start-ups, as well as some of the hurdles start-ups face in terms of the criteria they need to satisfy in order to get financing for their ventures.

This report thus looks at Switzerland as one of the main global financial centers, and its evolution in response to recent changes, such as the introduction of automatic information exchange. Furthermore, the report outlines the main criteria and reasons that speak in favor of starting ventures in Switzerland compared with the other financial centers, New York City, London and Singapore. The report is backed by several interviews we had the privilege to conduct with extraordinary entrepreneurs at different stages of their respective ventures, as well as one of the biggest reinsurance companies globally. Overall, the report indicates that Switzerland is making good progress on the journey to become an excellent place to start a venture. Widely recognized for its excellent education and world-class universities, together with a deep knowledge in the field of financial services, Switzerland remains attractive despite the high cost of living and the corresponding high salaries needed to attract the right talent. When it comes to financing, Switzerland is facing some challenges despite being one of the richest countries in the world. Because of its location at the heart of Europe, pan-European business models are typically expected from the outset of a venture, which can prove a tough proposition depending on the circumstances. As a result, venture financing can sometimes be more difficult to find in Switzerland compared with other countries with large domestic markets that allow operations to be scaled up more easily.

This report is intended as a starting point for discussions about how to best support entrepreneurs to ensure the success of their ventures, the overall parameters for start-ups in Switzerland, as well as the impact on incumbents and potential implications. We hope you enjoy reading the report and would be happy to discuss specific aspects in greater depth with you.

Adrian Widmer
Senior Partner, EY
Bernhard Schneider
Senior Manager, EY
John Hucker
President, Swiss Finance + Technology Association
Switzerland’s image has weathered dramatic changes
2.1 Loss of banking secrecy changes Switzerland’s position as financial center

Switzerland’s status as a financial center is integral to its national identity; few other countries stand out on account of the virtues of their financial services industry. More importantly, the industry is of crucial importance for the national economy. Financial services (including banking and insurance) contributed almost CHF81 billion to the economy in 2014, according to the Swiss Bankers Association. At 13%, that is a substantial share of the overall value added in the economy. In a small country with eight million inhabitants, financial services employ approximately 260,000 people.

Some of the reasons for the Swiss Financial Center’s appeal include its core value propositions of economic and political stability, universality, responsibility and knowledge excellence, as noted by the Swiss Bankers Association. Switzerland’s general advantages as a business location, including its strategic position in Europe, the high standard of living, its competitive tax conditions or its flexible labor market, also play an important role.

Banking secrecy, probably one of the main factors that have made the Swiss financial services industry what it is today and a major element of the Swiss value proposition as a financial center, has been significantly eroded in recent years. This development has not only directly impacted efforts to generate new business, the underlying regulatory requirements have also tied up the industry’s resources in recent years and the fallout has tarnished Switzerland’s reputation as a financial center.

There has long been a heated battle between leading financial centers, which is tracked annually by the Global Financial Centers Index (GFCI). Recently, London surpassed New York City and became the new leader. Switzerland is not only among the leading ranks, it has two cities with strong positions. Zurich currently ranks seventh (second-highest in Europe after London), but has dropped from sixth and has seen its overall score fall by four points. Meanwhile, Geneva has maintained 13th place and has seen its score increase by five points. Switzerland continues to hold impressive rankings, however, challengers from rapidly growing centers in emerging markets continue to make advances. For example, Singapore is perched on the fourth place, has a heavy focus on wealth management and is rated most likely to gain in importance. On the other hand, Zurich is slipping in the rankings due to the development in the financial sector during the financial crisis (down four places) and its reputation in general (down two). As a result, Zurich now only ranks seventh overall.

Switzerland has lost its unique proposition as a financial center, which was shaped and protected by banking secrecy. This highlights the importance of future-proofing the sector and playing an active role in innovations reshaping the financial service industry.

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2 swissinfo.ch/ger/schweizer-bankenplatz_ist-die-schweiz-wirklich-das-land-der-banker-/40548006
3 swissbanking.org/en/4-kernwerte.htm
4 Many of these points were mentioned by Xapo, a high-profile fintech company that has relocated from Silicon Valley to Switzerland.
5 longfinance.net/images/GFCI18_23Sep2015.pdf
6 longfinance.net/images/GFCI18_23Sep2015.pdf
2.2 Switzerland as leader in innovation

Innovations in the financial services industry present an opportunity for Switzerland to compensate for the adverse effects caused by the loss of banking secrecy and turn innovation ability into a new unique selling proposition for the Swiss financial center.

The Global Innovation Index 2015, which is collaboratively published by WIPO, Cornell University in the United States and the INSEAD Business School in France, rates Switzerland as “a world leader of innovation,” awarding it the top position since 2011. Moreover, “Switzerland confirms its position as the overall innovation leader by continuously outperforming all EU member states. Switzerland's strong performance is linked to being the best performer in six indicators, in particular in ‘open, excellent and attractive research systems,’ where it has the best performance in all three indicators, and ‘linkages and entrepreneurship,’ where it has best performance in two indicators (‘SMEs innovating in-house’ and ‘public-private co-publications’).”

These results are remarkable considering that Switzerland, together with Japan, is the country with the lowest fraction of its national investment in R&D (research and development) financed by taxpayers, roughly 20% of the total, as compared with 40% to 50% in other Organisation for Economic Co-operation and Development (OECD) countries.

However, there are some weaknesses that are worth noting. On the basis of the European Commission’s Innovation Union Scoreboard 2015, “Switzerland’s relative weakness is in having below EU average shares in SMEs collaborating with others (9.4% compared with 10.3% for the EU), community designs (0.93% compared with 1.13% for the EU) and exports of knowledge-intensive services (25% compared with 49.5% for the EU). Performance has improved the most for non-R&D innovation expenditures (8.2%), international scientific co-publications (8%), license and patent revenues from abroad (7.4%) and SMEs innovating in-house (7%). The strongest declines in performance are observed in venture capital (VC) investments and community designs.”

Some controversial commentaries have been made on Switzerland as an innovation hub: “When you think of European innovation hotspots, you are not likely to think of Switzerland. There is actually a lot of innovation there ..., but it is a very different type of what is seen in most other innovation clusters. [...] On the one hand, it has some incredible technology and deep research facilities, but on the other hand the general ecosystem is risk averse and slow moving, ...”

Given that Switzerland is clearly a unique innovation cluster, the question arises as to what the overall entrepreneurial conditions are.

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3. [innovationmanagement.se/2012/11/14/innovate-switzerland/](http://innovationmanagement.se/2012/11/14/innovate-switzerland/)
5. [tech.eu/features/4719/switzerland-innovation](http://tech.eu/features/4719/switzerland-innovation)
2.3 Entrepreneurial conditions are not paying off in Switzerland

Switzerland, viewed from an entrepreneurial perspective, is a good location to start a business, considering the factors already mentioned like its commercial infrastructure, educational system, the strong knowledge and technology transfer and stable internal market dynamics.

Figure 3: Total early-stage entrepreneurial activity (TEA) rate (%)\(^{13}\)

![Figure 3: Total early-stage entrepreneurial activity (TEA) rate (%)](image)

Figure 3 above shows total early-stage entrepreneurial activity (TEA) rates, with Switzerland situated in the middle. Compared with other innovation-based economies and breaking down the TEA rate by age group, Switzerland’s entrepreneurial activities and company foundation rate are still below average, however. Entrepreneurial activity among the youth (18-24) in Switzerland is the lowest of all comparable countries, whereas the 35-44 age group shows the highest entrepreneurial activity.\(^{14}\) According to a study conducted by Babson College together with the London Business School, Switzerland’s TEA rate for the 18-24 age group is the lowest at 3.4% and is significantly below the average rate (7.4%). Swiss entrepreneurs between 35 and 44 years have a rate of 10.1%, which compares to an average of 10.2% in innovation-driven economies. The TEA rate for people older than 55 years (senior entrepreneurs) is at 6.8%, above the average of 5.0%. Looking at total entrepreneurial activity, 18- to 24-year-olds reach a mere 6.2%. Only Finland and Japan show a lower activity rate than young Swiss entrepreneurs. In contrast to that, Germany and the United States have more than twice as many young entrepreneurs as Switzerland, and bordering countries such as Austria, Italy and France have considerably higher youth entrepreneurial activity.\(^{15}\) In retrospect, it seems that young talent receives entrepreneurial encouragement and education too late. More initiatives that open up entrepreneurial avenues are needed.

Financial center development, innovation hub and entrepreneurial framework are only some of the many criteria that can be drawn upon to compare different hubs. To obtain a better understanding of where the Swiss sweet spot might lie, comparisons need to be made with other established global hubs such as London, Singapore and New York City on the basis of additional criteria, including government support, regulatory conditions, economic stability and the educational system.

Switzerland’s strengths compared with other global financial services hubs

To define the potential sweet spot for Switzerland and address recent challenges, market conditions need to attract and support start-ups, companies and investors. In addition, competitive advantages compared with other financial services hubs such as London, Singapore and New York City, have to be clearly defined and communicated. The peer group was selected on the basis of financial strength and development, as well as geographical location and international reputation.

Table 1 above provides a broad evaluation of the different hubs under review and a summary of the main underlying assessment criteria. For a complete assessment, however, each topic needs to be evaluated using multiple lenses and taking into account additional information.

Table 1: Overview of key criteria for Switzerland, London, Singapore and New York City

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Switzerland</th>
<th>London</th>
<th>Singapore</th>
<th>New York City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and knowledge base</td>
<td>Highly competitive with its globally recognized universities and its financial and technological know-how</td>
<td>Large pool of experienced employees and qualified talent due to strong concentration of universities</td>
<td>Strong educational system and large pool of qualified employees due to strong financial sectors</td>
<td>Similar to the other locations, great access to many qualified individuals as many recognized institutes are located in the city</td>
</tr>
<tr>
<td>Economic and political stability</td>
<td>Famous for its strong political and economic system and the systems stability over the past few decades</td>
<td>Strong and stable political and economic framework for many years</td>
<td>Good reputation regarding legal, financial and political stability. However, changes in labor laws restrict employment condition for foreigners</td>
<td>Strong and stable political and economic framework for many years</td>
</tr>
<tr>
<td>Costs</td>
<td>Very high rent, insurance, salaries and cost of living leading to disadvantageous funding burn-rate</td>
<td>High costs of living in London, especially rents and taxes compared to salaries, inflexible leases for offices</td>
<td>Low tax rates but still very high costs of living. Very high rents but consumer products cheaper compared with other countries</td>
<td>Very high operating costs and commercial rents. However, other costs of living lower than in compared countries</td>
</tr>
<tr>
<td>Governmental and institutional support</td>
<td>No specific support recognized as regulators are still the main components on the agenda of government and institutions</td>
<td>Government and financial services authority are very collaborative and offer tax incentives and other benefits for start-ups</td>
<td>High commitment of the government to support start-ups and innovation in every industry with great incentives</td>
<td>US Government supporting entrepreneurship and trying to change some regulatory requirements to ease processes and change legal frameworks</td>
</tr>
<tr>
<td>Financing and funding</td>
<td>A lot of money stored in Switzerland, as it is the leading offshore wealth and asset management center but still not enough access to fintechs</td>
<td>Leading asset management center and generally high availability of funding, due to large numbers of private funding</td>
<td>Leading global financial center, with support of government and strong investor base, but currently a scarcity of attractive investment targets</td>
<td>Huge network of accelerators and business angels, continuous growth of venture capital. Already a very high rate of fintech investments</td>
</tr>
<tr>
<td>Overall</td>
<td>Switzerland has not yet benefited from its strong position as a financial center in Europe and there is clearly some room for improvement regarding governmental support</td>
<td>Although living in London is very costly, the city and the government managed to attract great start-ups with an entrepreneur-friendly environment, great offerings and benefits</td>
<td>The city state of Singapore offers an average entrepreneurial scenery but is still in a good position as the government and financial institutions are acting very supportive</td>
<td>The city state of Singapore offers an average entrepreneurial scenery but is still in a good position as the government and financial institutions are acting very supportive</td>
</tr>
</tbody>
</table>

Table 1 above provides a broad evaluation of the different hubs under review and a summary of the main underlying assessment criteria. For a complete assessment, however, each topic needs to be evaluated using multiple lenses and taking into account additional information.
3.1 Education and knowledge base

The Swiss dual-education system is unique worldwide. It combines apprenticeships in a company and vocational education in schools. With its widely recognized universities, Switzerland is one of the most competitive countries in the world with a pool of highly educated people with deep know-how in the fields of finance and technology.

London has one of the largest concentrations of universities and higher education institutions in the world. The university landscape consists of 48 universities, of which two are among the top 10 on the QS World University Ranking 2015. Additionally, London has one of the largest populations of overseas students of any city in the world.17

Singapore, likewise, has one of the leading education systems in the world. It has a considerable number of publicly funded and private universities, as well as national and branch campuses of foreign third-level education institutions. With its internationality, Singapore aims to emphasize the importance of learning English as a common working language. From a cultural view, Singapore values hard work and meritocracy. A culture of tech entrepreneurship has developed in recent years. Although the number of universities in Singapore falls short of the figures for the other peer cities, 2 of its universities rank among the top 15 in the QS World University Ranking.

The New York City Department of Education is among the largest in the world and comprises a vast number of public and private institutions, well-known libraries, universities and research centers. Compared with London, New York City has significantly more universities and colleges. Nonetheless, the best-ranked university only reaches the 22nd spot in the QS World University Ranking. Many universities have a strong focus on business administration, computer science and engineering, which provides excellent prerequisites for fintechs.

3.2 Economic and political stability

The Swiss economy is very stable, with a very low unemployment rate, a flexible job market and very high income per capita. Moreover, Switzerland's direct democracy has a long tradition and is renowned for its stability. One of the biggest concerns for the Swiss economy is the strength of the Swiss franc and the threat of production and research facilities relocating abroad.

London has always been Europe’s leading financial services capital. Every major bank and financial institution in the world has a presence there. In 2014, the financial sector contributed 8% to the UK’s total GVA (gross value added).18 A financial center for international business and commerce, the UK is considered one of the command centers for the global economy. Politically, London is deemed stable and the property market is considered robust. Unemployment is one of London’s greatest concerns. In November 2015, the unemployment rate stood at 6.2%, exceeding all of the other fintech hubs.19

Singapore’s economy ranks as most pro-business, most open and as seventh least corrupt economy in the world.20 Its GDP per capita is the third-highest in the world. These are all factors that make the highly developed, trade-oriented market economy unique. It is one of the major providers of foreign direct investment in the world. In retrospect, Singapore has benefited from global investors who were attracted to its political environment, among other factors. Singapore is a republic within the commonwealth, which has a strong reputation for its legal, financial and political stability. At a mere 2% in 2015, Singapore has one of the lowest unemployment rates in the world.

New York City is the largest regional economy and accounts for the majority of economic activity in financial services in the United States.21 It is among the world’s most sophisticated and diverse financial centers. In the Global Financial Centers Index 2015, New York City is ranked an excellent second place. Additionally, the insurance, accounting and law sectors are very influential. Politically, New York City is likewise viewed as a very stable city. On the down side, the unemployment rate (5% in 2015)22 is comparable with that of London.

3.3 Costs

According to the Cost of Living Index 2015, 7 out of the top 10 cities in terms of cost of living are located in Switzerland. This implies that Switzerland is by far the most expensive country in the world.

New York City and London are also among the top 25 in the index, ranking 15th and 22nd respectively.23 Singapore ranks 47th, thus offering a much friendlier environment for start-ups in this respect. This is based on a number of indicators, including the cost of food, public transport, accommodation and medical insurance, although Western products are excessively expensive.

Similar to London, the costs of doing business in New York City are also high. Both hubs lack affordable infrastructure, including inexpensive office space or accommodation. Additionally, operating costs and rent for commercial property in New York City are among the highest in North America.

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17 gov.uk/government/speeches/international-higher-education
18 researchbriefings.files.parliament.uk/documents/SN06193/SN06193.pdf
19 data.london.gov.uk/dataset/unemployment-rate-region
20 transparency.org/cpi2014/results
21 nycedc.com/industry/financial-services
22 labor.ny.gov/stats/nyc/
23 numbeo.com/cost-of-living/rankings.jsp
3.4 Governmental and institutional support

In Switzerland, there are some government-supported organizations, such as the Swiss National Science Foundation or the Commission for Technology and Innovation. These organizations are the most important sources of funding, but are also excellent sources of know-how, training and advice. Additionally, universities and the cantons offer valuable support in the form of subsidized office space, networking opportunities or innovation prizes. The tough regulatory landscape in Switzerland is less supportive, which is not contributing to the growth of fintech start-ups. In other countries, for example, it is possible to open a bank account much faster, compared with the bureaucracy and complexity involved in Switzerland. Financial organizations are currently too preoccupied with regulatory compliance to dedicate enough attention to fintech start-ups.

The UK Government actively supports and encourages entrepreneurship in a bid to accelerate overall economic growth. Start-up loan schemes, business finance partnerships or angel co-funding are only a few examples of the support programs initiated by the UK Government. Moreover, the UK Government attracts entrepreneurs from across the world through tax incentives and simplified visa schemes. Another approach concerns the regulatory framework. The refined legal requirements make it possible to readily export fintech models to other markets.

As is the case in London, the Government of Singapore is very committed to stimulating innovation in the start-up landscape. The government is among the most proactive in the world when it comes to the development of entrepreneurship. Accordingly, public authorities launch initiatives that channel full financing or co-investment financing purposefully to fintech start-ups or incubators. The authorities have also rolled out diverse funding initiatives, including cash grants, government-backed equity financing schemes or debt-financing schemes. Besides the generally low tax rates, the government has also created incentives specifically for start-ups. Furthermore, the efficient immigration system allows founders to get visas using simplified procedures. The government also offers state-backed co-working spaces. These provide an ideal platform for networking, accelerating and incubating. Another advantage of the hub is that intellectual property rights are protected by UK law. A risk currently threatening London’s start-up scene concerns recent changes to labor law that restrict the employment of foreign workers, thereby inhibiting recruitment conditions for start-ups. Finally, it is important to mention that, even though the government fosters various aspects of the start-up scene, most incentives focus on overall technology start-ups and not specifically on fintechs.

In New York City, strong funding support is provided at three different levels (center-, city- and university-level). However, the effective regulatory framework in NYC is not yet adequately supportive of fintech start-ups. The New York City State Department of Financial Services, for example, is already attempting to introduce bitcoin regulations. Similar efforts are underway as regards the immigration system. Currently, obtaining a visa without the Green Card is very difficult and complex. This stringent visa procedure impedes non-US citizens from founding companies.

3.5 Financing and funding

Generally, Switzerland has large holdings of cash that could be used for funding. However, Switzerland’s VC and incubator landscape is still at an early stage of development. Switzerland
has raised about one-third of the VC that London has. On top of that, the Swiss Government and the large established financial institutions lack commitment to provide financial support.

In London, there is a much greater availability of financial resources to fund fintechs compared with the rest of Europe. Especially, private funding has risen considerably. In the first nine months of 2015, VCs invested in London fintechs (US$554m), which has already surpassed the 2014 total fintech UK investments of US$467m. All these circumstances attract even more accelerators and incubators that bolster London’s start-up landscape.

A big challenge London is facing is the funding of developed start-ups. Most VC funding in London goes to first-round investments. Later-stage funding remains scarce.

In terms of VC funding in fintechs, Singapore is the clear number one in Asia. In contrast to London, Singapore also attracts many mature start-ups in later stages of funding. As already mentioned, the government is very proactive in financing start-ups. Between 2011 and 2015, funding of US$67 million was channeled to local early-stage start-ups by the government. Singapore experienced a boom of accelerators. Operators all over the world are taking advantage of the emerging Southeast Asian start-up scene.

New York City is one of the largest clusters around the world. Deal value grew in the period 2013–14 by 32% to a new peak of US$768 million. In 2015, venture funding across all sectors in NYC increased by 46%, although the number of deals decreased by 12% at the same time. Early-stage funding fell compared to 2014 while the city experienced a massive upturn in later-stage financing. The average deal size within seed stage was US$1.1 million, whereas ventures received an average of US$19.5 million at a later stage. Another factor weighing in New York City’s favor is the mature landscape of accelerators and business angels.

3.6 Summary

Having discussed the entrepreneurial conditions and analyzed the most important criteria underlying the choice of location, it is possible to postulate initial assumptions regarding a possible positioning of Switzerland as a start-up hub. Switzerland has the lowest TEA rate for the 18-24 age group, however, the rate for entrepreneurs older than 55 years is above average. Thanks to the excellent education system, founders have access to well-educated graduates. The economic and political stability of Switzerland might be especially important for founders aged 55 and older, given that they invest a portion of their assets and need to secure their retirement benefits. As senior entrepreneurs are typically able to finance the early stage without assistance and are often well-connected, they do not depend on government and institutional support in the same way as young entrepreneurs without assets to invest. Therefore, one conceivable strategy would be for Switzerland to focus on developing a hub for senior entrepreneurs within the financial industry.

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24 reuters.com/article/london-partners-idUSnBw076076a+100+BSW20151007
25 rvo.nl/sites/default/files/2015/03/2015-03%20Start-up%20Ecosystem%20in%20Singapore.pdf
27 alleywatch.com/2016/01/the-2015-nyc-venture-capital-analysis/
Regional start-up investment activities
Having discussed and compared the leading start-up hubs in general, we now provide more in-depth insights, especially regarding start-up investment criteria from an investor’s point of view and start-up investment activities with a focus on Switzerland.

### 4.1 Drivers of success in Switzerland – investment criteria

Investors are essentially injecting their money into a business run by relatively unknown entrepreneurs and can only base their trust on past experience and academic background. There are specific criteria that entrepreneurs need to consider when investing, such as entrepreneurial experience, financial state, differentiation of product or service, business potential and market size.

#### Entrepreneurial experience

Experience in previous ventures or in the ventures industry is key to raising funds for entrepreneurs. Investors are looking in particular for high-performing teams with strong leadership within the aforementioned industries or companies. Business angels, in contrast to VC funds or other investors, are chiefly interested in a sound relationship, as they usually have a much more hands-on relationship with entrepreneurs and their businesses.

#### Financial state

Of course, every investor is interested in the venture's financial situation and performance. Industrial and corporate investors are looking for excellent financial performances as they are less risk-averse than business angels and VC funds. On the other hand, angels and VCs seek to find businesses with high potential returns and favorable exit opportunities. Signs of growth are certainly as important to them as the ability to settle financial obligations on the basis of a clear debt repayment plan. It is essential that entrepreneurs present statements showing adequate liquidity, turnover rates, acquisition costs and revenue streams. Furthermore, they must be very attentive regarding the structure of their initial funding. VC funds are less inclined to support businesses with many shareholders. Entrepreneurs should therefore choose their investors very carefully.

#### Differentiation of product or service

Many new business models prove successful because of their differentiation or uniqueness in the market. Investors are looking for factors that exhibit a competitive advantage, including exclusive licenses and relationships, intellectual property protection and the development of totally new products and services from scratch.

#### Business potential

Investors need to know how the business creates profit and growth with a reasonable business model. All VC funds and business angels have their own ideas as to what constitutes a good business model, which means that it is very difficult, if not impossible, to present a one-size-fits-all pitch for every potential investor. To approach investors effectively, it is important to know them individually, and to adjust the pitch to fit their needs to the extent possible. For the same reason, the business plan also needs to be customized.

#### Market size

Market size is key to every investor’s funding decision. Business angels normally invest in products and services addressing major problems for significantly large target markets. On the other hand, venture capitalists look at market characteristics, such as significant growth and limited competition when investing. Companies that are able to grow quickly and manage their ability to scale up operations are more likely to attract funding from different kinds of investors. Additionally, the business must be capable of generating significant profits beyond the initial proposition with adequate financial projections and a plan to include multiple sources of revenue. As the Swiss market, with only eight million people, is small by comparison, investors want to see business cases that at least include a pan-European scope.

A comparison of the various conditions with other established global financial services hubs shows that Switzerland has clear advantages in a number of areas, including knowledge base, innovation capabilities and economic and political stability. However, the development of the global fintech landscape indicates that Switzerland still has potential to further support the industry and regain the top position in the field.
4.2 International

Experts have measured the financial support framework conditions of different countries and rated Switzerland as the third-best economy; only Singapore and Belgium have better ratings. Focusing on the important indicator of the presence of national and regional programs to support sector-wide new and growing businesses, Switzerland is again third-best, in this case behind Singapore and Austria.28

Global fintech ventures almost tripled from 2013 to 2014. The total volume of investment of US$12.21 billion reached in 2014 is clear evidence that the digital revolution has arrived in the financial services sector. Of this amount, the value attributable to the United States soared to US$9.89 billion, up from US$3.39 billion in 2013. The United States is thus the dominant player with its pioneering destinations: Silicon Valley and New York City. However, Europe experienced an even higher growth rate of 215% (year-on-year). The vast majority of Europe’s fintech deals took place in London. Despite this leading position in Europe, London’s share of total global fintech investments is still relatively small.29

Figure 4: Number and volume of global Fintech investments30

29 cbinsights.com/research-reports/Boom-in-Global-fintech-Investment.pdf
30 fintechinnovationlablondon.co.uk/media/730274/Accenture-The-Future-of-fintech-and-Banking-digitallydisrupted-or-reima-.pdf
4.3 Germany, Switzerland and Austria

Looking at Germany, Switzerland and Austria combined, fintech funding volume experienced a significant increase in 2014. According to the second fintech study of TechFluence Consult UG, fintech start-ups raised approximately US$50 million to US$60 million in 2011-13. In 2014, funding grew to US$175 million (excluding mergers and acquisitions), which is almost three times the amount raised in the three previous years.\(^{31}\) The US$175 million raised went to 24 fintech start-ups in GSA. This is the second-highest share of total fintech funding in Europe (nearly US$1 billion). London, with US$539 million, takes the European lead by a wide margin. London start-ups therefore, receive more than half of all investments, whereas GSA only accounts for one-sixth. Crucial for the enormous growth were lending and payment start-ups, which account for over 80% of total investments. One of the most successful stories so far is the German fintech start-up Kreditech, which received US$40 million in their third round of financing. This sum is the largest investment for a fintech and is among the largest investment rounds in Germany in 2014. Approximately half of all funding rounds were made by investors specialized in fintechs, such as CvH Ventures, FinLeap or Orange Growth Capital. Additionally, almost one-third of total funding rounds came from foreign investors.\(^{32}\)

When it comes to the allocation of investments, it is important to understand the criteria on which investors base their investment decision. Depending on the business models and factors, such as geographical reach, these criteria carry a different weight throughout the overall investment analysis. Overall, the people behind the business idea are the most important and, at the same time, the most difficult to assess.

4.4 Switzerland

In 2014, approximately CHF470 million venture capital was invested into Swiss start-ups. This is 10% more than in the previous year. In contrast to this growth in volume, the number of financing rounds remained almost at the same level. Figure 5 shows the volume of investment in Swiss start-ups.\(^{33}\)

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\(^{31}\) 2nd Study of fintech in Germany, Austria, Switzerland & CEE, TechFluence Consult UG, 17.

\(^{32}\) 2nd Study of fintech in Germany, Austria, Switzerland & CEE, TechFluence Consult UG, 10.

\(^{33}\) Swiss Venture Capital Report, startupticker.ch, Swiss Finance Equity & Corporate Finance Association, January 2015.
Of total invested capital of CHF470 million, 78% flowed into the life sciences sectors, which include medtech, biotech and health care IT start-ups. Information, communication and technology (ICT) start-ups only received CHF86.3 million,35 which is not even one-fifth of total investment. This amount diminished annually. In 2012, the amount stood at CHF123.8 million. The reason for this is the absence of larger early-stage investors in this sector. In contrast, the number of financing rounds in the ICT sector is distinctly ahead, with 45 rounds of the total 92. The number of rounds has risen considerably from 30 rounds in 2013.

Rounds with local-only investors fell. Of the top 20 financing rounds, more than half were closed without a Swiss lead investor. Despite the strong Swiss franc in 2014, two-thirds of investments stem from international capital providers. This excludes corporate venture capitalists, such as Novartis or Swisscom, as well as a few robust private investors such as BZ Bank or Varuma. Consequently, the purely institutional Swiss VC deals are decreasing continually.36 A notable example is Knip AG, a Zurich-based fintech start-up that is providing a platform for users to store their insurance policies, rates and services. The start-up recently closed the largest funding series within the Swiss fintech industry with CHF15 million; the lead investor was Route 66 Ventures, a US-based VC fund. Route 66 Ventures funded Knip together with other VCs based in Germany, the Netherlands and Switzerland.

In Switzerland, it is exceptional to complete financing rounds of between CHF2 million and CHF10 million. In 2014, the rounds in this range decreased again and led to the median of only CHF1.8 million for all financing rounds.37 Normally, investments under CHF1 million are most common, resulting in start-ups offering shares to multiple angel investors. This, however, is a dubious blessing, as having numerous shareholders limits future funding rounds with institutional VCs.38 Of the total 92 financing rounds, 8 rounds were seed, 45 early-stage and 39 later-stage investments. Investments in early-stage rounds came to CHF122 million and for later stages CHF344 million. The growth of total money invested is attributable to the larger number of later-stage financing rounds. Figure 6 provides an overview of financing rounds per sector.

“A insurance companies and banks are doing great and they make enough money, so the pressure of really changing something dramatically seems not to be there yet.”

Alexander Bojer, Founder — Anivo

35 A distinct mapping of Fintech investments is hardly possible.
38 EY research and analysis, expert interview.
Having described the Swiss funding activities, it is possible to presuppose a lack of funding especially in the fintech-related areas such as finance and ICT. ICT, in particular, owned 49% or 44 financing rounds in 2014 but could only realize CHF86.3 million of funding (18.3% from approximately US$470m), meaning that the ratio of funding per round is rather small compared with other sectors.

After having shown how start-ups got funded by their respective investors, established financial services incumbents are also investing in their digital future. One of the largest Swiss banks has already launched innovation labs in Europe and Asia and has recently introduced a P2P mobile payment application. Other Swiss regional banks, such as the Glarner Kantonalbank, launched an investment platform for exchange-traded fund (ETF) investments starting from CHF5,000 in January 2015. The Basellandschaftliche Kantonalbank, on the other hand, has introduced a P2P crowdfunding platform named “miteinander erfolgreich.” The SIX Group, the operator of the Swiss financial center infrastructure, has started its fintech incubator “F10.” PostFinance, the financial unit of the Swiss Post, has also launched a smartphone application for mobile payments called Twint. Insurance companies have also undertaken initiatives to think about how to benefit from the fintech momentum being more and more evident in Switzerland. Swiss Life, for example, has launched a digital customer platform for their clients and brokers. Another Swiss insurance company is awarding start-ups on a yearly basis for innovative ideas and business models, as well as offering business software, pro bono online legal service and start-up workshops.

Switzerland’s landscape has evolved slowly
The fintech landscape has begun to evolve somewhat in recent years. A comparison of associations shows a significant lack of fintechs, incubators and investors in the Swiss market. However, many big global players are actually in Switzerland and starting to boost the development that had started quite slowly, but has gained speed since 2014. The following sections specify how Switzerland’s fintech landscape has developed recently and provide additional information, including a comparison with other hubs.

5.1 The fintech landscape in Switzerland, London, Singapore and New York City

EY has introduced the Fintech Adoption Index, which is based on a survey of more than 10,000 digitally active consumers based in, among others, Singapore, the United States and the United Kingdom. The index not only describes adoption rates of fintech products, but also which users adopt which products and an outlook of future usage. The index shows that the adoption of fintech products is already relatively high. Among the three mentioned countries, the US shows the highest adoption rate with 16.5% of users using two or more fintech products. The US is followed by Singapore (14.7%) and the UK (14.3%).

Table 2 below shows Switzerland’s fintech landscape compared with other financial services hubs. Switzerland is moving in the right direction with regards to associations, fintech companies and investors when compared with financial services hubs like London, Singapore and New York City as will be discussed next.

### Table 2: Illustrative example of fintech landscape in Switzerland, London, Singapore and New York City

<table>
<thead>
<tr>
<th>Fintech hub</th>
<th>Associations</th>
<th>Fintechs</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td><img src="image" alt="Swiss Fintech" /> <img src="image" alt="Swiss Finance Startups" /></td>
<td>squirro</td>
<td><img src="image" alt="Go Beyond Early Stage Investing" /></td>
</tr>
<tr>
<td>London</td>
<td><img src="image" alt="Innovate Finance" /></td>
<td>TransferWise</td>
<td>Balderton Capital</td>
</tr>
<tr>
<td>Singapore</td>
<td><img src="image" alt="The Singapore Fintech Consortium" /></td>
<td>fastacash</td>
<td><img src="image" alt="Infocomm Investments" /></td>
</tr>
<tr>
<td>New York City</td>
<td><img src="image" alt="NYVCA" /> <img src="image" alt="Kensho" /> <img src="image" alt="Digital Asset Holdings" /></td>
<td>Moven</td>
<td><img src="image" alt="nyca" /></td>
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</tbody>
</table>

Until recent years, there was a relatively muted start-up activity of any kind in Switzerland outside the life sciences segment, which itself only developed in the past two decades. Cases began to emerge from the ICT sector, such as Doodle, Local.ch and Homegate, which seemed to spark the imagination of local entrepreneurs and observers.

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40 EY research and analysis
This slow emergence of start-up activity was not unique to Switzerland. Europe in general is often noted to lag behind the US when it comes to commercializing innovations. Beyond the United States and Europe, countless locations around the world have asked the question of how to recreate the magic of Silicon Valley.

Three locations working to create clusters of start-up activity are especially relevant in connection with fintech. The first, New York City, kicked off the trend in 2010 by focusing on financial services as an opportunity for local start-ups. London followed suit in 2013. Drawing on insights from New York City and with bold ambitions supported by the UK government to become global leaders, London launched numerous interconnected initiatives aimed at creating a fintech ecosystem. Finally, Singapore, which started more recently in 2015, has seen a very ambitious support from government, with the Monetary Authority of Singapore setting up the fintech and Innovation Group and a venture fund to support start-ups.

Zurich and Geneva have not seen comparable activity. Instead, the Swiss Financial Center has been largely distracted by reactive change triggered by the global financial crisis and the onslaught of new regulations such as FATCA, MiFID, bilateral tax agreements and automatic information exchange, which had been on the horizon for some time.

5.2 Swiss fintech development since 2014

While early signs of activity began to emerge in 2013 with the Finance 2.0 conference, more significant momentum was gained in 2014 when grassroots initiatives to foster the ecosystem began to take shape (e.g., Swiss Finance + Technology Association). In particular, 2015 saw a large wave of new developments that have shown promise that Switzerland can develop a vibrant ecosystem and have a place on the map of global fintech hubs. Table 3 below shows an overview of fintech-related activities that have been established over the past few years, proving the increase in domestic development and activities.

Recent initiatives in the Swiss market show additional evidence of fertile ground for a Swiss fintech hub. Various associations, incubators, accelerators and a variety of projects are shaping the financial services hub.

Table 3: Overview of recent fintech-related activities in Switzerland

<table>
<thead>
<tr>
<th>Activities</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiatives</td>
<td></td>
</tr>
<tr>
<td>Finance2.0</td>
<td>Finance2.0 hosted its first conference in October 2013 and has become the largest annual event related to fintech and expanded its offering to include crypto-currencies and plans for wealth management in 2016.</td>
</tr>
<tr>
<td>Meetups Zurich and Geneva</td>
<td>Started in June 2014 with the aim to offer networking and education, have been hosted at least once a month and now expanding as part of the Swiss Finance + Technology Association.</td>
</tr>
<tr>
<td>Fintech 2015 Boost Innovation</td>
<td>Finanz und Wirtschaft entered the picture in early 2015.</td>
</tr>
<tr>
<td>Swiss fintech Award</td>
<td>Finanz und Wirtschaft followed up with the Swiss fintech Award which wraps up in March 2016.</td>
</tr>
<tr>
<td>Digital Zurich 2025</td>
<td>Is an initiative aimed to strengthen the Greater Zurich Area’s position as a digital hub and to project those benefits across the whole of Switzerland, including a number of events.</td>
</tr>
<tr>
<td>Incubators and accelerators</td>
<td></td>
</tr>
<tr>
<td>Fusion</td>
<td>Is an accelerator that selects about 10 fintech start-ups from all over the world for its 12-month program based in Geneva.</td>
</tr>
<tr>
<td>SIX F10 Incubator</td>
<td>Is a center from SIX located in Zurich that develops prototypes and creates technology solutions for the four business areas of SIX Group.</td>
</tr>
<tr>
<td>BlueLion Incubator</td>
<td>Is located in the Zurich area and focuses on ICT, cleantech, and has launched several companies.</td>
</tr>
<tr>
<td>NexusSquared</td>
<td>Is in the process of launching a platform with a focus on blockchain technology and its application to financial services.</td>
</tr>
</tbody>
</table>

41 pfnyc.org/our-investments/partnership-fund-programs/
### Associations

**Swiss Finance + Technology Association**
Is a neutral, nonprofit association representing members from across the ecosystem with the aim to create a world-class fintech hub in Switzerland.

**Swiss Crowdfunding Association**
Gathers all the crowdfunding platforms in Switzerland in order to promote the domain, disseminate best practices, conduct applied research and disseminate information to the media and policymakers.

**Swiss Finance Start-ups**
Is a group of fintech and related companies that aims to unite start-ups to create synergies, gain exposure in the media, promote its members and support them in their journey.

**Digital Finance Compliance Association**
Is composed of industry leaders in Swiss digital finance with the stated purpose to bring together members in the industry, help create regulatory certainty in cooperation with the regulatory authorities – and to establish standards and best practices for a compliant and regulated digital finance industry.

### Cluster projects

**Sibos Geneva**
Geneva, a major wealth management hub, will host SWIFT's SIBOS conference in September 2016, which includes the well-respected Innotribe Global Start-up Challenge.

**Digital Circle**
Digital Circle is a project launched by *ICT Journal* and a group of different CIOs in the French-speaking part of Switzerland to boost and support the knowledge exchange between companies, users, start-ups and regional IT suppliers.

**IFZ Fintech Forum**
IFZ and its partners organize networking events on a regular basis where they present and discuss current fintech topics.

This raises the question of what could be done to help ensure this wave has a successful impact on the future of the financial services center. An additional key question for Switzerland is how to bundle these different initiatives and enable the market to build a fintech hub. Market conditions need to support this ambition, as well as collaboration interest from big players in the financial services industry.
The Swiss financial services center has weathered dramatic changes in recent years with the financial crisis and the end of banking secrecy. While tradition and stability have proven resilient assets, there is a clear need to future-proof the sector and play an active role in the innovation reshaping financial services. Switzerland is in a unique position to exploit the potential of fintech, given its knowledge base, innovation capabilities and its economic and geopolitical position. Moreover, it has the real need to reinvent its financial industry, and high potential to exploit the new opportunities presented. This report focused on Switzerland and its conditions for entrepreneurial activity and looked especially into the financing landscape and conditions of financing at early stages of fintech start-ups and ventures respectively. Key aspects of this report are summarized in the messages below.

**Swiss start-up activities have risen significantly**

Approximately CHF470 million in VC was invested in start-ups in 2014, up 10% on the previous year. However, the biggest share of financing went to the life sciences sector (78%), which is historically strong in Switzerland. Financial services start-up financing has been declining slightly since 2012, reaching CHF86 million in the fintech-relevant ICT sector in 2014. One reason for this is the absence of early-stage investors. On the other hand, the number of financing rounds for fintech start-ups has risen significantly. In 2015, there was enormous activity in the financial services market, not only through new ventures, but also through large financial corporations and fintech conferences, associations and initiatives like Digital Zürich 2025. This sheds a positive light on the prospects of the Swiss start-up sector in general and the fintech sector in particular making up ground on other hubs.

**Switzerland has an excellent pool of knowledge and a huge variety of ideas**

With its long tradition as one of the core internationally recognized global financial centers, Switzerland is an excellent starting point for start-ups, not least due to the wealth of experience and knowledge pooled in large metropolitan areas like Zürich and Geneva. Combined with a well-established education system and world-class universities, there is fertile ground to grow the new and sustainable business models that will shape the financial services industry going forward, as consistently confirmed by Switzerland’s top rankings as innovation leader year after year.

**Switzerland can add value by further incentivizing entrepreneurship**

We have looked at a set of diverse criteria of importance when starting a venture and compared them with other hubs globally. It turns out that Switzerland is in an excellent position, in view of its knowledge base and economic stability in particular. The costs of starting a venture are more or less comparable with other hubs like London, New York City or Singapore. A comparison of entrepreneurial spirit revealed some differences, for example Switzerland currently being a location for more senior entrepreneurs.

By further exploiting the huge potential available in Switzerland, providing financing and possibilities to connect at conferences and additional initiatives, Swiss Fintech start-ups can capture the opportunities ahead and build on Switzerland’s long-standing tradition as an innovation leader and a central hub for financial services globally.
Collaboration partners

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Swiss Finance + Technology Association is an independent member-based association that aims to serve as the hub for fintech in Switzerland. Our members are individuals connected to the Swiss Fintech ecosystem. The group is volunteer-led and engages with partners (i.e., corporates, associations, government, etc.) to pursue its aims.

DigitalZurich2025 is a cross-industry association that aims to position the metropolitan Zurich region as an attractive location for digital start-ups, companies and talents. The association was founded in 2015 by renowned Swiss companies, associations and representatives of the Swiss politics.

Interviewees

Krzysztof Gogól
Krzysztof Gogól is the CEO and Co-founder of Wealth Arc Inc. – a fintech company developing cloud-based solutions for independent asset managers. He won the Zurich Start-up Weekend 2013.

Oliver Werneyer
Oliver Werneyer is the Innovation Manager at international reinsurer Swiss Re. He is globally responsible for innovation-related projects, specialized on data and underwriting.

Alexander Bojer
Alexander Bojer is the founder of Anivo. Anivo is the first online insurance broker in Switzerland with personal consultation upon the customer’s request.
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Contact us

Adrian Widmer
Senior Partner, EY
+41 58 289 4610
adrian.widmer@ch.ey.com

Bernhard Schneider
Senior Manager, EY
+41 58 289 4220
bernhard.schneider@ch.ey.com

Christian Limburg
Consultant, EY
+41 58 289 4157
christian.limburg@ch.ey.com

Julius Scheidt
Consultant, EY
+41 58 289 4395
julius.scheidt@ch.ey.com

John Hucker
President,
Swiss Finance + Technology Association
+41 78 890 0805
john.hucker@swissfinte.ch

Boris Battistini
Board member, Secretary,
Swiss Finance + Technology Association
+41 78 749 9357
boris.battistini@swissfinte.ch