

WHY ARE BANKS STARTING TO OFFER DIGITAL ASSETS?

Developments at Maerki Baumann & the vision for digital assets:
An interview with Dr Stephan A. Zwahlen,
CEO, Maerki Baumann & Co. AG



Maerki Baumann launched services for clients to trade and store crypto assets on 1 June of this year. What is important about this service offering and the expertise and network your clients will benefit from, including partners such as InCore Bank?

We see the benefits of our crypto custody and trading services mainly for two client groups.

The first are our traditional private banking clients. We give them the confidence and ease of use for this new asset class. If they wish to invest, they have a competent partner that protects them from pitfalls and crooked counterparties.

The second are our institutional and corporate clients. We offer professional services comparable to the regulated and secure services they can expect from a Swiss bank. We leverage our network – for instance, our partnership with transaction bank InCore – and our bank security infrastructure for the clients' benefit. This allows our clients to have a seamless experience and participate in the exciting new world of digital assets.

What led you to decide to develop an offering for Maerki Baumann clients in this asset class? Was there a specific moment?

In 2018, I held an interview with an online media portal where I mentioned that we were open to accepting fiat money that was earned through crypto asset transactions. My statement was misquoted later, saying that Maerki Baumann was the first European bank to accept crypto currencies. Consequently, we were suddenly overwhelmed with hundreds of requests from all over the world.

We learnt from this experience that there is huge demand in the market. Luckily, we had already analysed the options that blockchain technology and crypto currencies offer to a bank like us. Our findings were clear. Firstly, blockchain and digital assets have the potential to change the way banking works. Secondly, many technically savvy and younger people – that are not easy for private banks to win over – are more interested in both the technology and in investing in digital assets. Finally, smaller and risk-conscious banks can capitalise on the fast-evolving regulation and the changing crypto landscape.

How did your employees react to the decision to offer crypto assets?

The reactions were mixed but mostly positive. A sound scepticism is fine when you enter a new business area and we used this scepticism to make our solutions water-tight and regulatory compliant. At the same time, we trained our staff to understand how the technology works and how digital assets can be used in wealth management. Our employees are also strongly committed to both following up on new opportunities that arise and growing the interest in digital assets among our traditional clients. Our belief in the synergies between private banking and our crypto asset business has helped integrate this new area into our company's culture.

How did your clients react?

The reactions from our clients were either neutral or positive. Clients are basically interested in new investment opportunities that promise additional returns and diversification potential. This is particularly the case in times where traditional asset classes such as equity or real estate are highly valued and bond yields are limited or even negative. Some of our older clients do not wish to bother with a new technical asset class, but some of them, including their children and grandchildren, are in discussions with the bank to understand the opportunities and risks they face better. Our corporate and institutional clients reacted very positively on the news that we offer regulated and secure crypto custody and trading. We believe that many family offices and asset managers have been waiting for a partner that can combine both traditional banking and innovative technologies in one comprehensive service.

When you look back, what surprised you the most when you introduced trading and storage for crypto assets? Would you do it again?

We would do it again, since we are convinced that it is not just crypto currencies, but also digital assets, which should become an integral part of professional asset

management. To some extent, we were surprised how few errors and flaws needed correcting during the test phase when we implemented our solution in partnership with InCore. Given the scope and the novelty of the technology, it went smoothly. One thing that might have helped here is that we tried to stick to existing processes wherever possible. Moreover, we found FINMA very cooperative and supportive towards our aim to become regulated in that specific business area. You could say that in this respect, Switzerland is a crypto nation!

How do you see the investor landscape in crypto assets evolving since you started developing services for this sector?

Since 2017 the ICO and STO activities went from boom to bust and made way for more professional projects. Equally, regulations evolved and gave more security to investors. Today, we observe more interest from institutional clients compared to three or four years ago. VCs have also grown and matured in this space meaning more professional investors have emerged. For good projects, we still see access to capital. At the same time, the general interest in digital assets has increased from private clients, particularly from those that are younger.

Are certain use cases or motivations for investments in bitcoin more important than others for your clients? If so, which ones?

Yes, I think so. There is the group of trading-oriented clients that focus on short-term profits. For them, the volatility in markets and the possibilities of arbitrage are important. Others believe more in the long-term value and growth of bitcoin and other crypto currencies. This comes at a time when we are seeing huge amounts of new debt being created across many countries to fight the economic downturn caused by the coronavirus. Given the fixed supply of bitcoin, high net worth investors also like the idea of being in the select group of early adopters of the "1-in-21 million bitcoin club".

Where do you see the price of bitcoin going by the end of 2020?

It is hard to make a reliable forecast, particularly over the short term. My personal guess is that bitcoin could reach USD 12,345 by the end of this year.

What potential and what developments do you believe lie ahead for stablecoins?

The success of stablecoins depends on several factors. The most important of these is whether digital money will be issued by central banks such as the projects currently underway in China, Sweden, France, Singapore, and others. The sooner these state-backed coins are available, the shorter the life span of stablecoins will be. On the flipside, we could see a boost in these instruments if central banks in Europe and Japan end their negative interest rate policy, which hampers the development of stablecoins for euros and Swiss francs. And, everyone is, of course, following Facebook's Libra project as to how this could evolve.

How do you see crypto assets evolving given the current market environment?

The negative interest rates seen in bond markets and the lofty valuations of some equities may drive some investors to seek alternative sources of return. If you take the number of new derivatives, funds, and innovative

solutions in decentralised finance, the demand for digital assets is set to grow. The recent reduction in volatility has made this new asset class more attractive compared to traditional asset classes. We therefore see considerable upside potential for crypto currencies such as bitcoin, as adoption increases.

Do crypto assets belong in the portfolios of certain investor types?

It certainly depends on the individual client's preference and risk profile. Generally speaking, a small amount of digital assets adds value to most portfolios, particularly if the investor is long-term oriented. Digital assets bring some additional volatility into the portfolio, but they also offer additional return potential from capital growth. We see more institutional clients considering crypto assets as part of their alternative investments and strategic asset allocation.

What vision do you have for the crypto asset offering at Maerki Baumann in the next two to three years?

We plan to extend our services to advisory and wealth management solutions that include digital assets. Our innovative Modular Investment Solution will be a particularly good basis to start.

We think, amongst others, tokenising specific modules could be a way for broader client segments to access Maerki Baumann's investment expertise with a small fraction of a well-managed portfolio. Given the demand from investors for new sources of cash flow, we will also have a look into topics like staking, lending, and loans on digital assets. We are committed to keeping abreast of the changes and offering regulated, compliant, and secure access.

About the interview

Dr Stephan A. Zwahlen (b. 1978) has been CEO of Maerki Baumann since 2016. He joined the private bank's executive board as Head of Investment Solutions and Services in 2009 and took over the additional role of Deputy CEO from 2010. In his previous position, Zwahlen worked at UBS Global Wealth Management, in the area of international mandate business. From 2005 to

2007, he was previously employed at Maerki Baumann and was responsible for the founding of Switzerland's first independent transaction bank. Zwahlen has held various board positions in industry associations and he has been involved in academic research and politics. He holds a master's and a doctorate degree from the University of St. Gallen.