



## **What Strategic Priorities for Swiss Private Banks?**

Presentation by Yves Mirabaud, President of the Association of Swiss Private Banks and Senior Managing Partner of Mirabaud Group, Geneva

Bern, 26 January 2017

On 1 January 2017, a page of Swiss banking history was turned. On that day, the new global standard for automatic exchange of information aimed at combating tax evasion came into effect in our country, bringing an end to the policy of banking secrecy vis-à-vis foreign tax authorities.

This event is the most visible sign of the new paradigm now facing the Swiss financial sector in general, and private banks in particular. But it is by far not the only one.

From now on, Switzerland will have to take into account international standards when setting internal rules. This applies to the exchange of information on tax matters, anti-money laundering measures, consumer protection and the stability of the financial sector. Access to foreign markets will remain problematic until the new rules come into force and make Swiss regulations compatible with those of our commercial partners. That is not the only issue we face; a strong Swiss franc and negative interest rates have also impacted our bottom lines, not to mention the 2014 vote against mass immigration and the Brexit, which has slowed the pace of negotiations between Switzerland and the European Union (EU).

Several developments in the past year are cause for concern, and should incite us to take action.

- A KPMG study last August revealed that one in ten Swiss private banks did not survive 2015.
- According to the most recent SBA Banking Barometer, in the first semester of 2016, 3,454 banking jobs were lost in Switzerland. Meanwhile, Swiss banks created 6,700 positions abroad.
- Most banks reported a decline in profits in the first semester of 2016, according to the Geneva Financial Center Foundation's annual business survey.
- In September, it was announced that Zurich had fallen two spots and Geneva eight in one international ranking of main financial centres.

In the face of these developments, the Swiss financial centre must learn how to reinvent itself without losing the essential qualities upon which its success was built: stability, excellence and openness. The banking sector is keenly aware of this, as are the Federal Council, FINMA and the SBA. This awareness is reflected in their recent efforts to define the future shape of the Swiss financial centre.



## **The Federal Council policy**

The Federal Council has published its financial markets policy, which aims to ensure the continued competitiveness of the Swiss financial centre. Acknowledging the rapid pace of technological change, the government wishes to avoid over-regulating the FinTech industry so as not to constrain its development. Limiting systemic risk – by strengthening depositor protection and by reducing property market-related risks, for instance – is another priority. The policy document also reiterates the Swiss government's support for international standards on tax matters and money laundering and underlines the importance of improving the image of the Swiss financial centre abroad by publicising the many changes already effected.

Though a step in the right direction, nothing in this document is truly new. Such strategic considerations should now be set aside in favour of concrete actions.

For private banks, the most interesting aspect of the Federal Council policy is the inclusion of access to foreign markets among its objectives. I will return to this point later.

## **FINMA's strategic objectives**

Last November, FINMA also published a set of strategic objectives. The Swiss financial regulator emphasised the importance of protecting creditors and insurance policyholders, safeguarding the stability of financial institutions, and combating money laundering and corruption. These goals align with FINMA's role as the guarantor of the Swiss financial centre's probity.

Two of FINMA's objectives are particularly relevant to private banks.

The first concerns FinTech. FINMA calls for lower regulatory barriers for innovative financial service providers. This will give the sector a welcome boost, on the condition that banks wishing to develop similar services are afforded equal treatment.

The second reaffirms Switzerland's principle-based approach, with particular emphasis on the diversity of the Swiss financial centre and the importance of regulatory proportionality. As the foundation of the prosperity and dynamism of the Swiss financial centre, these guiding principles are also close to our heart. Consequently, we will not fail to remind FINMA of the promises it has made, particularly when the time comes to implement international standards in Switzerland – standards that were developed primarily to regulate large, systemically important banks.

## **The SBA's stance**

The SBA, for its part, focuses on how to improve conditions for banks involved in wealth management. Its key objectives include strengthening the competitiveness of Swiss private banking, ensuring it continues to prosper, and maintaining its good reputation. To this end, the SBA stresses the following issues: foreign market access, recruitment and training of talents,



technological innovation, a simplified regulatory environment and promotion of the Swiss financial centre abroad.

Thus, the Federal Council, FINMA and the SBA agree on both the objectives and how to achieve them. All three institutions are attached to the success factors mentioned earlier, namely, stability, excellence and openness. We find this reassuring. Private banks will of course be more than willing to support these efforts.

However, for wealth management to continue to grow, create jobs and generate tax revenue in Switzerland, three issues will have to be conclusively resolved: the third corporate tax reform, or CTR III; Switzerland's relationship with the EU, which needs to be clarified; and the draft laws on financial services and financial institutions, known respectively as the FinSA and the FinIA.

### **The CTR III**

The CTR III is the cornerstone of Switzerland's attractiveness as a business location. The proposed new corporate tax will replace cantonal special tax regimes that no longer meet international standards with a more egalitarian system. The Swiss people will vote on the CTR III on 12 February.

Detractors argue that the CTR III would favour large companies over public authorities and SMEs. The following figures show that these criticisms are unfounded. There are currently 24,000 companies in Switzerland with special tax status, which employ 150,000 people and generate 5.3 billion francs a year in federal taxes. The CTR III was devised specifically to ensure that these jobs and tax revenues remain in Switzerland.

The consequences of a failure to reform corporate taxation will fall most heavily on SMEs; first, because their taxes will not go down and, second, because their main clients will have moved abroad. If Switzerland is unable to offer attractive income tax rates to multinational companies, the entire economy will suffer. That is why Swiss private banks support the adoption of the CTR III.

### **Switzerland's relationship with the EU**

The future of our relationship with the EU is another source of uncertainty. The bilateral agreements between Switzerland and the EU have benefited the Swiss economy as a whole, according to a recent study by Avenir Suisse. Maintaining cordial, clearly defined relations with our large European partner is therefore a priority. Both our associations are satisfied with Parliament's proposed solution to implement the initiative against mass immigration. However, at some point, the Swiss people should once for all be consulted on the direction they would like Switzerland's relationship with the EU to take. Do they want to pursue the current bilateral approach, or would they rather go it alone, regardless of the possible economic consequences? A clear answer would help avoid future periods of uncertainty like that of the past three years, whose effect on the economy is invariably negative.



Additionally, banks, like many other economic sectors, need to be able to hire highly qualified specialists from the EU. At present, 80% of the 170,000 employees in the banking sector are Swiss. The remaining 20% hail mainly from the EU. Banks specialising in wealth management need to hire a larger proportion of highly qualified staff from abroad, as the size of the private banking sector, and more importantly its nature as an export industry focused on foreign markets, mean that the domestic talent pool is simply too small.

The EU is the largest market for Swiss private banks, accounting for 40% of their business. For banks to be able to continue serving European clients from Switzerland, the country needs to reach as many bilateral agreements as possible with the main EU states. Agreements should allow for market access, as is the case now for Germany. Moreover, we should continue to explore the option of a comprehensive agreement on financial services, though this will clearly take time. Whatever solution Great Britain eventually reaches with the EU on financial services may act as a catalyst to make substantial progress in this area.

Finally, we need the EU to formally recognise the equivalence of our regulatory environment. The adoption of the FinSA and FinIA, as well as the financial market infrastructure act of 2015, should help pave the way.

### **The FinSA and FinIA**

The FinSA and FinIA offer many advantages. They provide legal security and predictability. They bring together all existing rules and create a level playing field for all market participants providing similar services, from large banks to independent wealth managers. This will ensure a uniform standard of excellence and investor protection is applied throughout the financial industry.

The FinSA and FinIA should also enable Swiss law and financial regulatory authorities to be recognised as equivalent to those of its main trading partners. This is especially important in relation to the EU, since equivalence will no doubt be a prerequisite for allowing banks to serve institutional clients from Switzerland. Market access for private clients depends on the outcome of the bilateral negotiations mentioned earlier.

For all the above reasons, Swiss banks unanimously support the draft laws adopted by the Council of States. Both could be further improved in a very few places, a point that will be addressed later by the SBA.

### **The Matter Initiative**

Before concluding, I would like to return to an issue strongly associated with Swiss banking, namely, secrecy. Following the implementation of automatic exchange of information, banking secrecy no longer applies with regard to foreign tax authorities. It remains the rule, however, with regard to Swiss tax authorities. Both the initiative 'Yes to the protection of privacy' (generally referred to as the Matter initiative) and the counter-project currently making its way through Parliament would include banking secrecy in the Constitution. Our two associations have decided not to take a stand on either the initiative or the counter-project. We believe that



banking secrecy is the prerogative of the citizens of this country, not its banks. It is up to the Swiss people to decide whether they want to maintain the status quo or to allow banks to report clients' securities income directly to the tax authorities.

That said, we view the more moderate counter-project as the better option. Opponents claim that it would encourage tax avoidance. That criticism is unfounded, in that the counter-project simply reflects the status quo. Whether it is accepted or not, the present situation would remain unchanged. The upcoming vote has one main advantage: it will provide a clear signal as to how best to approach the revision of the withholding tax and the reform of Swiss criminal tax law, both of which have been put on hold by the Federal Council pending the outcome of the ballot.

In the view of both our organisations, voters should be mindful that a 'yes' will signal support for a reinforcement of the current withholding tax system. Conversely, a 'no' vote will suggest that they are open to banks providing tax-related information directly to the Swiss fiscal authorities. If that is the case, Switzerland should follow its neighbours' example and offer taxpayers attractive options for regularising their tax affairs.

## **Conclusion**

There is clearly a great deal of work yet to be done on both the regulatory and political fronts. But that is no cause for alarm. Government, legislators, the business sector and banks must work together to devise innovative, practical solutions, in Switzerland and with our partners abroad, in a spirit of consensus and respect for each other's priorities and needs. A long, but no doubt fascinating, road lies ahead of us.