3rd Private banking day
Speech by Mr. Yves Mirabaud
President of the Association of Swiss Private Banks
Lugano, 25 May 2018

Mr. Federal Councillor,
Distinguished Members of the Federal Parliament,
Mr. State Councillor,
Your Excellencies,
Dear friends and colleagues,

Welcome to Lugano, the third largest financial centre in Switzerland beside Zurich and Geneva, where we organised the first two editions of the Private Banking Day. With approximately fifty banks that operate nationally and internationally, hundreds of fiduciaries, insurance and real estate companies, and forty dynamic and innovative fintech companies, Ticino is a leading financial centre for private banking. We are delighted with this opportunity to get closer to the Italian part of Switzerland and honoured by the presence of so many guests who came to Lugano today.

The members of the Association of Swiss Private Banks, which I have the honour to chair for another three years, and those of the Association of Swiss Asset and Wealth Management Banks have in common a business model focusing on private as well as institutional wealth management.

In 2017, our banks reported good results and we are happy with the good framework and market conditions, which enabled our institutions to demonstrate their dynamism, professionalism and ability to adapt to a constantly changing environment.

However, there are still many challenges to be met, such as over-regulation, the tendency of certain markets to withdraw into themselves and the tax framework that needs to be made more stable and competitive. Among these challenges is one that we will focus upon today, namely our relationship with Europe and the unresolved issue of market access.

One of the most overlooked characteristics of the wealth management activity, which generates over 50% of the banking sector revenues, is that it is essentially export-oriented. Most services are produced in Switzerland and provided to clients, two-thirds of whom reside abroad. In fact, banks' net exports account for a quarter of Switzerland's current account surplus. Western Europe is still our main export market, with a 40% share of the CHF 2,500 billion of foreign private assets held in Switzerland. According to our estimates, managing the

CHF 1,000 billion in assets belonging to clients domiciled in the EU creates employment for 20,000 people in our country, the equivalent of the entire population of a town the size of Nyon or Horgen, and generates tax revenues of around CHF 1.5 billion per year. These figures explain why our members place such importance on good relations between Switzerland and the EU: their ability to export their services while keeping jobs and tax revenues in Switzerland depends on them.

To be allowed to advise these clients from Switzerland, we need active and unimpeded access to European markets. But isn't that already the case? The answer, unfortunately, is no. Unlike Switzerland, most European countries protect their domestic banks through rules that limit -- sometimes drastically -- the ability of foreign bankers to contact clients on their territory. This means in practice that a Swiss banker visiting clients in France, Italy or the Netherlands is allowed to do little more than answer their questions. As you can imagine, remaining competitive under these conditions is a real challenge! Bankers can present the full range of their services only when clients come to see them in Switzerland. For many clients, geopolitical instability is still a powerful incentive to place their wealth in Switzerland. But technology is making it increasingly more absurd to have to travel to Switzerland to meet one's banker.

As a result, our stock of European clients is like a leaky bathtub that is more and more difficult to fill. More often than not, new European clients open an account outside of Switzerland; they still bank with a Swiss institution, but through a foreign branch. What we have observed over the past decade is that private banks have doubled their staff abroad, while growing their numbers in Switzerland by only 15-20%. Is there any way of reversing this trend?

The bilateral agreements between Switzerland and the EU have delivered numerous economic advantages in recent years. That at least is what emerges from an Avenir Suisse study and the most recent report of the Research Institution on the free movement of persons. As a result of these agreements, the EU and Switzerland are now deeply interconnected. That has benefitted not only large companies but also SMEs, consumers and the middle class. Swiss salaries are twice as high as the European average, and our unemployment rate is lower than in any of the member states. More than half of Swiss exports flow to the EU. And Switzerland is the second largest destination for investment from the EU, generating 457,000 jobs in Switzerland.

Yet a number of issues remain unresolved: the institutional agreement sought by the EU, Switzerland's contribution to the Cohesion Fund for Eastern Europe, the adoption of the

European directive on firearms, the initiative for self-determination, the recently launched one to limit the free movement of persons and, possibly, an agreement on financial services. Without forgetting the general European data protection regulation, which enters into force today and concerns many Swiss companies. These unresolved issues create uncertainty, weakening the Swiss economy and financial centre.

Rather than hold endless discussions about each of these issue, the Swiss private banks would like Switzerland to take position definitively in favour of the bilateral approach, despite the constraints it implies and which will have to be negotiated in due course. Let us hope that the initiative to limit immigration will give us the opportunity to send a clear message in this regard.

For the Swiss economy, bilateral agreements are the best way to reach pragmatic and balanced solutions with our neighbours without joining the EU or risking isolation. It is the ideal formula to maintain an open and sovereign Switzerland. A clearly defined, harmonious relationship with the EU, our main commercial partner, would provide:

- Access to the best specialists when the Swiss recruitment pool is exhausted;
- EU recognition of our regulatory and fiscal environment; and
- Full access for Swiss banks to the European market in the longer term.

You may have heard that we support an agreement with the EU on financial services. I think it is important to explain why. Other ways to achieve market access do exist, but the experience of the past two years has shown that they have hit a roadblock. Bilateral agreements like the one with Germany are impractical if they require the presence of a branch in the country, which is the case in almost all EU states. Equivalence processes must be defined in European law and apply only to specific areas (stock exchanges, derivatives, investment funds and pension funds); there is no such process for services provided to private clients. A bilateral agreement on financial services, on the other hand, would provide the most comprehensive means of gaining market access, enabling us to serve our European clients from Switzerland without restrictions. According to our estimates, an agreement of this kind would enable us to increase our staff domestically by 30%.

We are well aware that other financial service providers see no interest in such an agreement, as it would mean the loss of certain advantages, such as the quasi-monopoly enjoyed by insurance companies or state guarantees for cantonal banks. From a liberal viewpoint, those advantages distort competition and are not favourable to customers. It should be possible to find solutions, given that the EU tolerates some types of government assistance, as in the case of the Italian banks. Institutions active primarily in the domestic market also see no compelling reason to adopt European rules. However, under the agreement with Germany, banks must comply with German law only if and when they participate in the simplified exemption program. Ultimately, the decision will require balancing the interest of maintaining an important source of value-creation in Switzerland against that of favouring a much smaller domestic market. Swiss banks will continue to grow regardless – the question is whether they will do so in Switzerland or abroad.

In conclusion, we believe that Switzerland owes its prosperity to its openness and pragmatism. Financial service exports to the EU should comply with local rules, just as exports of machines or pharmaceuticals are required to meet European norms. For the time being, these financial services are being created in Switzerland, and they could be further developed here – provided we obtain full market access. Whether the rewards justify the cost is a political issue that we would like to see resolved as quickly as possible.