

How can we reinforce the competitiveness of the Swiss wealth management sector?

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Ladies and Gentlemen,

Boris Collardi's presentation focused mainly on the economic situation; mine will be more legal in nature. I hope you will forgive me for discussing issues that are inherently complex and arid. I will start with the most essential point: Switzerland must reinforce its competitiveness if it wants to remain a leading financial centre.

Last year, I decided to address the somewhat heretical question of whether the Brunetti group of experts tasked with developing a new strategy for financial markets would produce a truly competitive strategy or a simply another "Swiss finish".

Prof. Brunetti handed in his final report in December. It does not recommend more "Swiss finish" but aims to meet four challenges: (i) to design an effective legislative process, (ii) to preserve and enhance access to markets, (iii) to improve the fiscal environment, and (iv) to guarantee the stability of the system.

These four challenges are not new, but they are nonetheless very real. Allow me to comment briefly on the conclusions reached by the group of experts. Overall, I believe they are a step in the right direction. If implemented, they have the potential to enhance the competitiveness of our financial industry.

- Regarding the effectiveness of the legal and regulatory process, I would like to remark that the most essential points were stated in 2005 already, in a document¹ published by the Swiss Federal authorities. The good intentions expressed at that time have not yet – or not fully – been put into practice, possibly because of the financial crisis. Even so, we are happy that the issue is again on the agenda.
- I will return in a minute to the question of market access, as this has been one of our main preoccupations for many years. Moreover, the situation has not improved over the last 12 months, on the contrary.

¹ See "Guidelines for Financial Market Regulation: The requirements for a reasonable, cost-conscious and effective regulation of the financial market", published jointly by the Federal Finance Administration, the Swiss Federal Banking Commission, and the Swiss Federal Office of Private Insurance, September 2005

- The fiscal question is also crucial. I will return to it later, too.
- Finally, the Brunetti report includes an interesting chapter on economic risk. It is in fact the only chapter containing recommendations that are both novel and practical. That, in itself, is somewhat worrisome. For many years now, Switzerland has worked hard to reinforce the stability and soundness of its financial centre. It quite laudably continues to do so, but this does not necessarily make it more competitive.

Some are already predicting the decline of our financial centre. Recent developments tend to suggest that they may not be completely wrong. The objective of reinforcing our country's competitiveness will have to confront two long-term trends: on the one hand, a fiscal and regulatory environment that is becoming steadily more onerous, and on the other, a European economy that is less dynamic than other regions of the world. That said, Switzerland has some unique advantages. It must do everything it can to preserve them and develop new ones.

To do so, the country must adapt its framework conditions, with particular attention to three key words: openness, predictability, and benchmarking.

Openness

In a country like Switzerland, the importance of openness should be obvious to everyone. However, that is no longer true: a tendency to isolationism is visible both in this country and in many of our partners. Analysing the causes of this unfortunate trend would take too long. Suffice to say that the factors are both political and economic. It represents a serious threat to our sector, as well as to the economy as a whole.

In practice, our banks require openness in two key areas:

- First, banks need sufficient access to world-class employees in order to offer the best possible services to their clients. It is impossible to compete internationally if one cannot hire the most talented professionals. My hometown football club of FC Basel is well ranked in the European Champions League. If it were forced to get rid of several of its foreign players, however, it would quickly be eliminated. Switzerland is one of the main pillars of the world league of wealth management. But it has no chance of staying there if it cannot hire the best players in the league. It is essential that the law implementing the initiative on immigration take into account that need.
- The second key aspect of openness is access to markets. If 2014 has taught us anything, it is that this point is closely connected to the previous one. How can we convince our partners to open their borders to us if we close ours? Prof. Brunetti's report suggests some possible solutions, but the discussion remains largely theoretical and subordinated to political considerations. Access to markets needs to be improved in several ways: through agreements with our main partners, by applying the principle of equivalence, and through a financial services agreement with the EU. We support all these options, which are not mutually exclusive. The priority today is to turn words into actions. Every year wasted increases the likelihood that Swiss financial institutions will move some operations abroad. This is regrettable for two reasons: first, because it deprives our country of jobs and the value added they create, and second, because it reduces the diversity of supply, since only larger banks can afford such a move.

Predictability

We need openness, but we also need to be able to work in a stable legal environment. However, the world is changing, and it seems to me that the environment's predictability has become almost more important than its stability. This has long been one of Switzerland's main

competitive advantages. It still is, in part, because our process of law-making generally ensures that there are few surprises. Our clients appreciate this tremendously.

However, during the past few years, things have changed, not always for the better. This has affected the predictability of our framework conditions. We are aware that in some cases this evolution is unavoidable, as we saw on 9 February 2014. Switzerland has also been put under pressure by various coalitions of countries. Our country can of course defend itself in the diplomatic arena, but it usually ends up adapting. Its main priority, however, should be to ensure it is not unfairly discriminated against. Finally, there are all the other, far more numerous cases, in which our country still has total freedom of choice. This is where we should concentrate our efforts to improve the predictability of the legal framework.

The Brunetti group of experts proposed several measures to make the regulatory process more efficient. Without entering into the technical details, I would like to say simply that we support these proposals.

More specifically, last year, Switzerland began a large-scale revision of its financial laws. It is crucially important that the new laws (FinfraG, FidleG and FiniG) help to reinforce the predictability of our framework conditions, and avoid a "Swiss finish" that might disadvantage our institutions by comparison with our international rivals. Some of the Federal Council's proposals were in fact headed in the opposite direction, but the most questionable of these will reportedly not appear in the drafts presented to Parliament. If that turned out to be true, we would be delighted.

Benchmarking

I would like to conclude by discussing the third key concept: benchmarking. This term refers to our ability to measure our competitive capabilities in several areas. As a concept, it is both more concrete and less general than that of competitiveness. Efforts to improve benchmarking should focus on two main themes: regulation and taxation. We should in principle avoid any measure that handicaps the Swiss financial centre in comparison with foreign competitors.

Allow me to concentrate here on the question of taxation, where a lot is happening right now. I will discuss four main issues, without going into too much detail.

The first is the implementation of automatic exchange of information in tax matters by 2017. Our financial centre can no longer rely on banking secrecy in fiscal matters, a competitive advantage that was bitterly criticised by many countries and organisations. Provided the rules are the same for everyone, we can manage without that advantage. However, it is absolutely crucial that the OECD's much-vaunted "level playing field" be respected in practice. Yet there is currently no guarantee that it will be. We find this deeply preoccupying. We expect the Federal Council to exercise great vigilance in this regard. That is the first aspect of benchmarking that must be strenuously upheld.

The second is the reform of withholding tax. A consultation on this tax was opened shortly before Christmas. The central aim is to make the Swiss capital markets more competitive. As laudable as that objective is, however, we need to keep the interests of the Swiss wealth management sector in mind. Indeed, if we are not careful, the collection of withholding tax by paying agents is likely to create additional costs for banks, an outcome that should be strenuously avoided. We wonder whether it would be better to initiate a broader debate about the domestic taxation of income from savings. This would no doubt allow us to devise a more efficient system.

The third point concerns our favourite topic, the tax that represents the largest burden on Swiss wealth management, namely, the stamp duty on securities transactions. This tax does not

withstand comparative analysis in an international environment that as yet has no Financial Transaction Tax (FTT). We read with interest that the Brunetti group of experts, within which governmental bodies were well represented, is not opposed to a reform of this tax in the context of current international discussions about a FTT. We see this as a hopeful sign, even though the goal is still far away.

I will not bore you with the details of my fourth point, which is certainly the most complex of all: the Third Corporate Tax Reform. It deserves an entire speech of its own; moreover, it affects our sector only indirectly. I simply wish to say that we do not understand why the Federal Council has decided to include in this reform an item that has nothing to do with corporate tax, namely, a tax on private capital gains. This tax was rejected a little over 10 years ago by two out of three voters in every Swiss canton. It is imperative that this proposal be removed from the reform. If the Federal Council wants to reopen the debate, it should do so in the context of a broader discussion of the taxation of domestic savings. We would be entirely in favour of this kind of broad approach.

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Ladies and Gentlemen, in conclusion, I would like to say this: Switzerland is a small, open economy. Its strength lies in openness, not isolation. One of its main strengths is its stability, but also, and more importantly, the predictability of its legal framework. Finally, this country has shown that it can be highly competitive. Its financial centre ranks first in the world in wealth management. To maintain its lead, Switzerland must have the discipline to compare itself, in all the areas that count, with its competitors, which would be only too eager to take its place.