

Speech by Marcel Rohner, Chairman of VAV

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## **Switzerland as a centre for wealth management in an international comparison**

Ladies and Gentlemen,

Allow me first to say a few words about the current state of Switzerland as a centre for wealth management and the country from where our members mainly operate. Overall, private banking in Switzerland accounts for around 50 per cent of all the income generated by its banking sector and thus continues to make a significant contribution to the success of its financial industry. Clients domiciled in Switzerland are responsible for only about one third of its income. The much bigger remainder is generated from assets managed on a cross-border basis. The success of wealth management in Switzerland is therefore inextricably linked to the fact that clients domiciled abroad deposit their assets in our country. This underlines the heavily export-oriented nature of our industry. With a share of around 25 per cent in the total volume of worldwide assets under cross-border management – USD 10,000 billion – Switzerland remains the global market leader (see chart 1). The Swiss financial industry alone manages more assets than the major financial centres of Singapore and Hong Kong put together and almost twice as much as Great Britain. However, Switzerland is increasingly running the risk of losing its lead. Its rival financial centres in Asia are expected to enjoy above-average growth in the coming years. This growth will also benefit Swiss financial institutions that have a local footprint there. However, this trend is making it harder to keep jobs, tax revenues and value creation in Switzerland.

Swiss private banks face numerous challenges, which they are responding to in an innovative and creative way. Increasing efficiency is an ongoing task. Major investment is being made in the wake of digitalisation and business models are being adapted to suit an increasingly independent clientele. In this, we are trying to set ourselves apart from our foreign competitors through innovative investment solutions and comprehensive advice, drawing on over 200 years of experience in wealth management.

In order to assess Switzerland's current position in terms of the competitiveness of the environment it offers the wealth management business in relation to its most important international competitors, a Swiss Bankers Association working group – in which the VAV was heavily involved – conducted a benchmarking analysis among the financial centres relevant to private banking. Based on numerous studies by international organisations such as the OECD, the Financial Stability Board, the World Economic Forum and well-known consulting firms, on the one hand the quality of national compliance with international standards was analysed and on the other hand, traditional locational

and competitive factors such as competitive tax policies or a flexible labour market were compared. A total of ten areas pertinent to wealth management activities were compared. The results thus show where Switzerland stands in this business segment in comparison to other financial centres and where it can and must improve. Allow me now, based on the key findings of the study, to present our conclusions. Details on the individual items can be found in our annual report, which has just been published.

### **International standards: Switzerland can afford greater self-confidence**

When implementing international standards (see chart 2), every financial centre has to achieve a 'happy medium' in international compliance as far as possible. On the one hand, this means that Switzerland should refrain from imposing a harmful 'Swiss finish' when translating these standards into national law so as not to put banks in a worse position than their competitors in other countries due to unnecessary and administratively convoluted regulations. On the other hand, Switzerland must not skimp on the requirements of sensible international standards as this would – rightly so – put our reputation under international pressure and could lead to sanctions in the worst-case scenario.

Switzerland is slightly behind major competing financial centres in terms of implementing the **automatic exchange of information in tax matters (AEOI)** as it has a more intensive parliamentary process than other countries. Nonetheless it is making good progress overall with the fourth wave of AEOI agreements. Its network is comparable to that of many G20 and EU member states. The US, which continues to refuse to apply the OECD standard, is performing poorly, preventing an effective level playing field amongst the financial centres.

With regard to the **fight against financial crime and money laundering**, it is clear that Switzerland as a whole and in direct comparison to similar financial centres has very effective mechanisms at its disposal, even if isolated improvements in line with the FATF recommendations are still required. Other key financial centres still have significant gaps. Here too, it is important to ensure that all financial centres apply equivalent rules.

Switzerland is amongst the countries with the most stringent **capital and liquidity requirements** by international standards. The same goes for **corporate governance**. This rightly creates confidence, not least because of the sheer size of our two big banks in relation to Switzerland's comparatively 'small' economy. Although these international standards focus primarily on systemically relevant financial institutions, small and medium-sized banks – in particular all the private banks of our two associations – are also impacted by the related regulations, some of which are very complex and convoluted. There is the real danger of a harmful 'Swiss finish' here. It is therefore important for FINMA and the federal administration to make consistent use of the leeway that the country already has to implement these standards at national level by taking differentiated account of the specific risks, business models and the size. The authorities have taken positive steps with the introduction of a special regime for small banks of categories 4 and 5 and by embedding the principle of proportionality more firmly in the new planned ordinance on FINMA's role and activities. We see this as an important step in order to make sure that category 3 banks are also regulated differently from those deemed systemically relevant.

## Switzerland has both strengths and weaknesses in terms of traditional competitive factors

The traditional competitive and locational factors (see chart 3) can, however, provide a real edge over rival financial centres. It is a mixed picture here.

In terms of **market access**, our location is widely known to present major disadvantages to our export industry compared with our major competitors amongst the financial centres. My colleague, Yves Mirabaud, will be discussing this issue in detail.

Due to its liberal labour law, its effective social partnership, the availability of highly qualified workers and the generally high level of education in the country, Switzerland enjoys an excellent international position in terms of its **labour market**. This overall finding also applies to the wealth management sector specifically. If Switzerland wants to retain this good position, however, it is just as important that it can also recruit skilled foreign workers from all over the world, not just the EU, without the need for a lot of red tape. Furthermore, ongoing investment in suitable training and further development opportunities is naturally also just as essential for our industry, as for many others.

An attractive **tax system** is one of the most important locational factors. Traditionally, Switzerland has been well positioned in this regard. However, this positive finding does not hold true for the taxation of the financial industry. This is because the three financial centres of Zurich, Geneva and Ticino are among the cantons that charge comparatively high tax rates to companies and private individuals. It is therefore important that – once the Federal Act on Tax Reform and AHV Financing is adopted, as hoped, in the public vote on Sunday, 19 May – the relevant cantonal bills also pass, especially in these three cantons. Furthermore, our banking industry, with its stamp duty and withholding tax, is currently put at a considerable disadvantage compared to other relevant financial centres. We therefore welcome the fact that the Federal Council is keen to reform the system of withholding tax to make it easier to raise capital in Switzerland, a move that would strengthen the Swiss capital market. However, the proposal from the Federal Tax Administration's group of experts that was presented recently has got stuck halfway. If it is to have a noticeable effect, the switch to the 'paying agent principle' for domestic and foreign interest income should also be accompanied by a cut to the withholding tax rate on dividends from 35 to 15 per cent and a reduction in stamp duty.

Next, Switzerland's '**financial centre infrastructure**' is very well developed and reliable. This includes the protective legal framework required for clients and data as well as the technological skills needed to develop high-quality infrastructure solutions and offer corresponding financial services. We owe our outstanding financial centre infrastructure first of all to the particularly strong **rule of law** in our public system, which relies on a stable legal system, excellent client service, an independent judiciary and minimal public-sector corruption. Sets of regulations specific to the financial sector, such as the FinSA and FinIA, also help secure a balanced investor protection that does not tie clients' hands while still meeting European standards.

However, this strong financial centre infrastructure is also built on the fact that Switzerland invariably enjoys a very good position in terms of **technological transformation and innovative capability** and is open to productive structural change. This also applies specifically to high-quality financial services. Even if digitalisation imposes cost pressure and allows new competitors to emerge, Switzerland as a location offers local financial players all over the world the perfect conditions for tackling the new challenges and seizing opportunities they produce. This is because our country – and with it our

financial industry – has all the necessary conditions and ingredients for a successful digital transformation: outstanding universities, human resources and sufficient investment capital, strong specialist clusters as well as an accessible public sector, and all this in a very small area.

Finally, the quality of **data protection** plays an important role in the financial industry's infrastructural strength. After all, the protection of sensitive client data, client privacy and the protection of personal data in general are top priorities for private banks. The robustness of our rule of law has a very positive effect in this regard. Just like international companies in other industries, Swiss banks are also reliant on Swiss data protection law being equivalent to the EU Data Protection Directive so that data can be transferred for operational reasons across borders without any problems. Nevertheless, the threat of criminal or geopolitically related cyber attacks is also increasing with the onward march of digitalisation. The acclaimed high level of resilience enjoyed by Switzerland's financial centre infrastructure lies in the fact that banks are making great efforts to combat cyber threats efficiently and protect sensitive data effectively. However, it is becoming increasingly difficult for individual financial players to defend themselves against large-scale attacks on their own. Closer cooperation, both amongst the banks themselves and with the authorities, is therefore essential. The creation of a national competence centre for cyber security for the federal government must therefore be pursued as a matter of priority. This must not only serve as a point of contact for the private sector in the event of tangible threats but also as a starting point for specific and rapid interventions. We shall address this topic in detail at our Private Banking Day in Lucerne tomorrow.

### **Conclusion: Switzerland cannot rest on its laurels**

Over ten years after the financial crisis, the Swiss banking industry has undergone a massive transformation, demonstrating both its resilience and its adaptability. The environment remains extremely challenging, however, due to ultra-low interest rates, the strong franc and the rapid pace of technological progress, particularly in terms of digitalisation, as well as the lack of market access for all financial institutions. There is also the competition amongst financial centres, which is growing increasingly fierce. I am nevertheless optimistic that our wealth management industry will be successful in the long term if it exploits the good position it is currently in to the full. That is, of course, our job and our responsibility. But the public sector also has an important role to play here by constantly adapting the framework conditions to the changes in the environment. We are encouraged by the fact that the Swiss authorities are prepared to engage in a cooperative dialogue to find constructive solutions that will serve the Swiss economy. We believe that this approach will equip Switzerland with some strong arguments in the fight for the best locational factors and enable it to maintain its leading position as regards wealth managed on a cross-border basis.