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**Why international clients still bank in Switzerland**

In autumn 2018, the Swiss banking industry is in a stronger and sounder position than it has been for a long time. Assets under management rose by almost 10 percent to 7,292 billion Swiss francs[[1]](#footnote-1) within the space of a year, and with a share of 27.5 percent Switzerland remains the global leader in cross-border private banking. Why is this so?

In the run-up to Swiss Bankers Day, the Swiss Bankers Association published its annual Banking Barometer with some highly satisfactory results:

* The aggregate operating net income of the banks was CHF 63bn, and thus remained at the same level as for the previous year.
* Gross profit rose by 12 percent. The banks paid income taxes and taxes on earnings of CHF 2.2 bn. Aggregate annual profit for the period increased by 24 percent to CHF 9.8 bn.
* Assets under management rose nearly 10 percentto CHF 7,292bn and reached a new post-financial crisis record.
* With a market share of 27.5 percent, Switzerland remains the global leader in cross-border private banking.

At the same time, the Swiss Bankers Association writes that the employment figure remains unchanged in real terms.

**Substantial Challenges**

The Banking Barometer is, naturally, not enfeebling itself with a naive good-weather forecast in the vein of Voltaire’s novel ‘Candide’: “*Tout va pour le mieux dans le meilleur des mondes*[[2]](#footnote-2)”. There are some administrative obstructions and bottlenecks:

* The automatic exchange of information with foreign public authorities (AIA & FATCA)
* Basel III: Revision of the capital adequacy regulation
* Customer and investor protection: FinSA, FinIA, in dealings with EU-clients: Mifid2
* Recognition of Swiss stock market equivalence.

These administrative burdens, together with the continual renewal of IT-infrastructure, are major cost items that have risen steadily in recent years with an unabated upward trend.

**Why Switzerland**?

Apart from the fact that Switzerland as a non-EU state in the middle of the EU still has a few pending issues with regard to politics and regulation, it is additionally faced by the constraints all competing finance centres around the world see. This relates, for example, to questions of margin pressure, digitalisation and cybercrime. Why then should an *ultra-high net-worth* *individual* from Europe, the Middle East, or Asia choose to come to a Swiss bank to have his or her wealth managed, obtain advice, and potentially increase his/her asset base?

Although the following does not reflect the modest, staid nature of the Swiss character, we outline the *unique perceived benefits* that foreign customers gain from the Swiss banking centre:

**Success Factor: Performance and Price Transparency**

In the context of international and Swiss regulatory requirements, performance is becoming increasingly central to the advisory and management activities of banks and wealth managers. The banking centre has also made massive investments here as well, both in IT and in its professional staff who frequently come to Switzerland from neighbouring countries in order to employ their knowledge and know-how for the benefit of bank customers. This is why customers continue coming to Switzerland today, because, on the one hand, they value the transparency of the price-performance relationship and, on the other hand, the professionalism of the Swiss private banker. This is evidenced by the “best in class” selection process which is employed in international asset diversification, the continuous integration of recent scientific findings, the extensive experience of portfolio managers, and, finally, the continuity that results from low rates in personnel fluctuation.

Regulatory developments over the last few years have led to the fact that customers’ costs must be declared internationally as well as in Switzerland. In the interests of simplicity, this has led to retrocessions being abolished in many places – as, for example, in the funds market with the application of retrocession-free tranches, or in the scope of the external asset manager with the introduction of new fee models that are, from the customer’s perspective, based on transparent discount models. In order to avoid conflicts of interest between customers and advisors and thereby strengthen trust, this development is to be welcomed unconditionally.

**Success Factor: True Internationality**

Switzerland is, with the exception of micro-states like Monaco which have small populations, one of the most international countries in the world. With its share of foreigners in the population at 25%, Switzerland practices integration and multiculturalism to a degree that neighbouring countries can only dream of. At the same time, 11 percent of Swiss citizens, 750,000 in number, live abroad – some permanently, and many only temporarily. When these people return home, they have an enormous knowledge about other countries and customs. They therefore know from personal experience how to conduct business in Singapore or in South Africa: They do not need to read the business-abroad classic “Kiss, Bow or Shake Hands”[[3]](#footnote-3). While the population of successful professionals abroad normally speak their mother tongue and some English, a well-educated Swiss normally has a working knowledge of business terms in three or frequently even four languages.

**Success Factor: Political Stability**

Foreigners may ridicule the Swiss for their direct democracy and quarterly referendums at national, cantonal and municipal level. It is indeed true that Swiss politics is often a somewhat protracted process owing to the multitude of implemented *checks and balances*. Its political system has a radically different structure compared to the systems of many large democracies that have emerged from monarchies, where left-wing governments supersede right-wing governments, and vice versa.

In Switzerland, no party has the capacity to truly dominate politics, which entails that its party politics have a disciplinary and equilibrating effect on outcomes.

A large majority of citizens vote very judiciously and thwart left-wing, green or ultra-right-wing utopian proposals at the ballot box. An additional factor is that Swiss labour law is much more liberal than in any other European country, in which a cut-back in employment will cost a corporation a fortune. The legal foundations of the Swiss Code of Obligations are stipulated in 70 articles—in other words, in only a few pages, compared to foreign legislations where this code sometimes covers thousands of pages[[4]](#footnote-4). A work contract for a banker therefore usually finds place on two pages.

Last but not least: A social partnership between employers and employeeshas developed in Switzerland over decades and created a work-ethos that makes strikes are a rarity. This Swissmorale is invaluable when compared to the situation in neighbouring countries, for example, where certain industrial sectors can bring large-scale infrastructure operations, such as airports, railway lines, or refuse collection, to a standstill—purposely before the beginning of the summer vacation, at Christmas, or when it is extremely hot and such action is particularly offensive and effective.

**Success Factor: Dual Educational System**

In addition to internationality and political stability, Switzerland has yet another invaluable strength: its dual educational system, which consists, on the one hand, of an academic track – the Matura, followed by university - ), and, on the other hand, of a practical vocational education track – the apprenticeship with vocational secondary school training, followed by an advanced technical college degree.

In contrast to many countries, Swiss state-run secondary schools and gymnasiums are of such high [educational] quality, that attendance of a private school is a luxury, and certainly not a necessity. The educational standard of Swiss universities ranges from very high to excellent. The University of St. Gallen (HSG) is one of the best universities for economics in the German-speaking area, and the Eidgenössische Technische Hochschule (ETH) even competes in the global champions league of the world’s top universities[[5]](#footnote-5). For a country with 8 million residents, this is nothing less than exceptional.

The Swiss vocational and commercial apprenticeship, however, is an internationally highly respected institution. Here, students begin ‘life in earnest’ at 16 years of age, with three days spent doing vocational work under the supervision of an instructor (“master”) and two days spent at the vocational training college. In contrast to their academically-educated peer-group, graduates of the highest-ranking Swiss vocational training colleges are ready for professional placement as young, dynamic, motivated high-performers after three or four years of vocational training. If they additionally opt to gain a ‘matura’ – the Swiss highschool leaving certificate - and add a technical college degree course on to it, they may then be in even greater demand, owing to their professional experience, than the university graduates are immediately after their academic studies. What relevance does all of this have for Swiss banking?

Banks, just like industrial organizations, can rest in the assurance that graduates from universities and technical training colleges are optimally trained to meet the challenges that await them in the financial industry —both in theory and in practice. Both UBS and Zurich Cantonal Bank are operationally run by practitioners, who started their careers with vocational training.

Switzerland, as a small country, had to begin being international early on. And it is, therefore, self-evident that a good Swiss bank must have a detailed knowledge of the technical investment issues, the legal issues, and the tax issues of an Indian citizen who lives half in London and half in canton Schwyz. Swiss banks and their client advisors are professionally equipped to organize everything from a partial public offering to a sustainable succession plan in detail.

**Conclusion**

Finally, tax power must be mentioned. After the necessary information exchange and the change of the banking secrecy practice, Swiss banks have striven to create IT-secured systems that accommodate the tax circumstances relating to the customer’s country of origin. This is achieved at the level of wealth management via the selection of appropriate investments which are suited to the customer’s tax requirements. The requirements are also met by providing the customer with tax statements, which he or she can attach to his tax declaration at home or give to his tax advisor. This specialized knowledge is unique and is not, to our knowledge, provided with such precision in any other financial centre in the world.

It is thanks to Switzerland’s performance culture, its true internationality, its political stability and its powerful dual educational system that the Swiss economy, and with it the Swiss banking system, has gained renown as a global leader and retained its prime position, despite all the dire predictions. The Swiss banking industry has clearly always possessed something special. The French philosopher Voltaire (1694-1778) once said: “*Si vous voyez un banquier suisse se jeter par la fenêtre, sautez derrière lui: vous pouvez être sûr qu'il y a quelque profit à prendre[[6]](#footnote-6)*”. Today, good private bankers focus solely on investment performance, customer needs, and the customer experience, and this is why transparent communication, achieved by the disclosure of possible conflicts of interest, is the key to customer satisfaction.

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1. <https://www.swissbanking.org/en/media/positions-and-press-releases/banking-barometer-2018-growth-despite-ongoing-challenges/20180830_bankenbarometer_en.pdf>, online, 3rd Sep 2018 [↑](#footnote-ref-1)
2. <https://la-philosophie.com/tout-va-pour-le-mieux-dans-le-meilleur-des-mondes>, online, 3rd Sep 2018 “*All is for the best in this, the* [*best of all possible worlds*](https://en.wikipedia.org/wiki/best_of_all_possible_worlds).” [↑](#footnote-ref-2)
3. <https://www.orellfuessli.ch/shop/home/artikeldetails/ID14027415.html?ProvID=10917736>, online, 3rd Sep 2018 [↑](#footnote-ref-3)
4. <http://www.gesetze.ch/inh/inhsub220.htm>, online, 3rd Sep 2018 [↑](#footnote-ref-4)
5. <https://www.ethz.ch/de/die-eth-zuerich/portraet/rankings.html>, QS Ranking, online, 3rd Sep 2018 [↑](#footnote-ref-5)
6. Wenn sie einen Schweizer Bankier aus dem Fenster springen sehen, springen sie hinterher. Es gibt bestimmt etwas zu verdienen.”, <http://dicocitations.lemonde.fr/citations/citation-34509.php>, online, 3rd Sep 2018 [“If you see a Swiss banker jump out of a window, follow him—there is surely money to be made.”] [↑](#footnote-ref-6)