Swiss Banking

Banking Barometer 2022

Economic trends in the Swiss banking industry

August 2022

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Executive Summary

The banking sector makes a vital contribution to the success of Switzerland's economy and financial centre, especially in uncertain times such as these. The country is one of the world's leading financial centres and the number one in cross-border wealth management. At the end of 2021, there were 239 banks operating in Switzerland.

Part I: The Swiss banking sector

The Swiss financial centre is one of the most competitive in the world and the leader in cross-border wealth management. It offers a first-class environment for technological innovation, while its regulatory system is recognised internationally as exemplary.

Contrasting economic trends

Compared with those of other countries, the Swiss economy has withstood the COVID-19 pandemic well to date. The protective measures were gradually eased in 2021, leading to a strong economic recovery and a fall in unemployment. The economic trend in 2022 is subject to a great deal of uncertainty due to factors including the war in Ukraine and the related risk of energy shortages as well as the possibility of renewed COVID-19 measures and rising inflation rates. Gross domestic product (GDP) is expected to grow by 2.6% this year.

Central banks hiking interest rates in view of persistently high inflation

In June 2022, the Swiss National Bank (SNB) raised its headline interest rate for the first time in 15 years and forecast further hikes to maintain price stability. The US Federal Reserve (Fed) and – to lesser extent – the European Central Bank (ECB) also reacted to sharply rising consumer prices by hiking rates. The Fed additionally began scaling back its bond portfolio in June, whereas the ECB does not expect to do so until 2024.

Government debt set to remain high over medium term

The pandemic led to a further sharp increase in the already high levels of government debt. They are unlikely to fall in the medium term. In the eurozone in particular, high debt levels are hindering the exit from expansionary monetary policy. Switzerland's government debt is relatively low by international standards. The Swiss Parliament is currently debating two different approaches to reducing the extraordinary debt resulting from the pandemic.

Federal Council intends to pursue bilateral approach with European Union

The Federal Council wishes to continue the bilateral approach and adopted a set of guidelines for its negotiating package with the European Union (EU). It will endeavour to anchor the institutional elements of the individual single market agreements using a vertical approach and no longer sees the horizontal approach (in which all institutional issues are treated together) as an option after its rejection of the institutional framework agreement.

Key principles were worked out in talks between Switzerland and the United Kingdom (UK) on liberalising and expanding mutual market access in the area of financial services. The essential elements should be enshrined in an international treaty by the end of 2022.

Private digital money and central bank digital currency attracting attention worldwide

Various central banks, commercial banks and technology firms are working on forms of digital money to meet the needs of an increasingly digital economy. Depending on the form it takes, it can fundamentally transform banks' business models and the work of central banks. The discussion paper published by the Swiss Bankers Association (SBA) is a contribution to an important debate on the design and use of digital money and its implications for the economy and society.[1]

Amendments to Liquidity Ordinance for systemically important banks enter into force

The new regulatory concept is based on two pillars: the basic requirements, which are precisely calibrated and subject to reporting obligations, and the additional institution-specific requirements, which may be imposed by the Swiss Financial Market Supervisory Authority FINMA. The Federal Council largely took the SBA's critical feedback into account.

Organisation for Economic Co-operation and Development (OECD) working to introduce global minimum tax rate

The proposal by the Organisation for Economic Co-operation and Development (OECD) to impose a minimum tax rate of 15% on the operating profits of large corporations would have a far-reaching impact on Switzerland, an export-oriented country with moderate taxation and a small domestic market. This regime would directly affect the larger Swiss banks. The SBA supports a measured Swiss implementation and will lobby in favour of maintaining the successful Swiss model on behalf of its members.

Part II: Consolidated trend in Switzerland's banks

The banks recorded a solid business performance in 2021. Their aggregate net income increased thanks to the result from commission business and services in particular. The aggregate balance sheet total was also higher. The number of staff in the banking sector increased slightly for the second year in succession.

Result from commission business and services dominating aggregate net income

The result from commission business and services grew by 10.9% and was the largest contributor to the banks' net income for the first time since 2015. This was due to the sharp rise in securities prices during 2021. The result from trading activities, on the other hand, fell back after increasing markedly in 2020. Overall, aggregate net income was up 1.4%. The result from interest operations only showed a small increase as low interest rates continue to pose a challenge for the banks. The SNB collected CHF 1.3 bn in

[1] https://www.swissbanking.ch/en/news-and-positions/news/swiss-bankers-association-publishes-discussion-paper-on-digital-currencies.

negative interest in 2021. Most of this came from banks, and this continued to weigh heavily on their results.

The banks' gross operating profit rose by 3.1% in 2021. The banks paid taxes amounting to CHF 2.6 bn.

Sharp increase in liquid assets, mortgage loans still largest asset item

The aggregate balance sheet total of all banks in Switzerland grew by 3.5% to CHF 3,587.8 bn in 2021. Liquid assets increased by 11.1% and thus contributed substantially to the growth in total assets. Following a sharp rise in the prior year, the increase in the banks' sight deposits with the SNB returned to pre-pandemic levels at 4.4%. Mortgage loans remained the largest asset item on the Swiss banks' balance sheet, accounting for 31.6% of total assets. Liquid assets and mortgage loans have been the driving forces behind assets over the past decade. Liquid assets showed a dramatic increase from CHF 259 bn in 2011 to CHF 760.6 bn in 2021. This was due to the Basel III liquidity rules, the strong franc and low interest rates, among other things. Low interest rates have made residential property more attractive, leading to a rise of around 40% in mortgage loans over the same period.

Sight and time deposits both higher

On the liabilities side, amounts due in respect of customer deposits rose by 4.6% and made up 57.5% of the balance sheet total at the end of 2021. The increase was due to growth of around 10% in both sight and time deposits, which reflects the unusually high saving rate caused by the pandemic. Other customer deposit and trading portfolio liabilities, meanwhile, were lower. The growth in time deposits contrasts with the trend seen over the past decade. Their share of total liabilities fell from 12% in 2011 to 7% in 2021. At the same time, sight deposits increased their share from 22.9% to 35.7%. Low interest rates make time deposits less attractive compared with sight deposits, resulting in a rotation out of the former and into the latter.

Sharp increase in assets under management

Assets under management increased by an impressive 12.1% in 2021 after a slight fall in 2020. The assets of both Swiss-domiciled and foreign-domiciled customers grew, driven primarily by a sharp increase in securities holdings in customers' custody accounts at banks (up 14.3%). Fiduciary liabilities, meanwhile, were down 10.8%, and amounts due to customers excluding sight deposits were down 3.6%. Assets under management grew by 68% between 2011 and 2021, with the proportion attributable to foreign customers falling from 51% to 47.4%. One reason for this is the appreciation of the Swiss franc, which has a greater impact on foreign customers as a greater proportion of their assets is denominated in foreign currencies.

Number of bank staff rises for second year running

In 2021, the 239 Swiss banks recorded an increase in headcount for the second period in a row, adding 619 full-time equivalents. However, this cannot be seen as a trend reversal. Consolidation within the industry, more stringent regulation and outsourcing had caused the number of staff to fall steadily since 2013. According to the State Secretariat for Economic Affairs (SECO), the unemployment rate in the financial sector was 2.4% at the end of 2021, slightly lower than that of the overall economy.

Figure 1

The structure of the Swiss banking sector at the end of 2021

Group of banks	2020	2021	Additions	Reclassifications	Removals
Cantonal banks	24	24	0	0	0
Big banks	4	4	0	0	0
Regional and savings banks	59	59	0	0	0
Raiffeisen banks	1	1	0	0	0
Foreign banks	94	93	2	−2	1
Private bankers	5	5	0	0	0
Stock exchange banks	39	36	0	−3	0
Other banking institutions	17	17	0	0	0
Total	**243**	**239**	**2**	**−5**	**1**

Table: Swiss Bankers Association · Source: Swiss National Bank

The big banks' headcount was down by 314 full-time equivalents year-on-year, whereas all other bank categories apart from private bankers posted an increase in staff numbers.

According to the SBA survey, the Swiss banks' headcount rose by around 1% in the first half of 2022, with the number of foreign jobs growing faster (by 1.5%) than the number of domestic jobs (0.4%). The SECO figures show that the unemployment rate in the financial sector fell to 2.2% in the same period. The outlook for the remainder of the year is positive. Only 5.7% of the banks surveyed expect their headcount to fall, whereas 38.3% expect it to rise. According to the survey, retail banking, wealth management, and logistics and operations (back office) have the best prospects for employment growth in the second half of 2022.

First half of 2022 fraught with uncertainty

Economic trends have been fraught with uncertainty thus far in 2022 due to geopolitical factors, rising inflation rates and the return to more restrictive monetary policy. This has depressed stock markets, which is reflected in the Swiss banks' balance sheets and assets under management. Following a sharp rise in

2021, assets under management were down 4.4% in the first five months of 2022. The aggregate balance sheet total grew by 1.3% in the same period, with amounts due from securities financing transactions and other assets showing the largest increases on the assets side. Trading portfolios in securities and precious metals, meanwhile, showed a significant decline. On the liabilities side, time deposits followed an increase in 2021 with further growth of 10.9%, while sight deposits were down 1.4%. The turnaround in interest rates is likely to accentuate the trend in favour of time deposits.

Figure 2

Swiss banking sector: key figures

	2020	2021	Change YoY
No. of institutions	**243**	**239**	**−4**
Number of staff (full-time equivalents in Switzerland)	**89,958.0**	**90,576.6**	**0.7%**
in CHF bn			
Aggregate net income	**69.9**	**70.9**	**1.4%**
Result from interest operations	23.6	23.8	1.2%
Result from commission business and services	23.0	25.5	10.6%
Result from trading activities	10.9	7.7	−29.6%
Other result from ordinary activities	12.4	13.9	11.9%
Gross profit	**27.4**	**28.3**	**3.1%**
Taxes paid on revenue and profits	**1.9**	**2.6**	**38.8%**
Result of the period (annual profit/loss)	**13.7**	**7.8**	**−42.8%**
Annual profits	14.5	9.0	−37.7%
Annual losses	0.8	1.2	50.0%
Balance sheet total	**3,467.3**	**3,587.8**	**3.5%**
Lending volume	**1,259.1**	**1,294.1**	**2.8%**
Assets under management in Switzerland	**7,878.7**	**8,830.3**	**12.1%**
Cross-border assets under management for private customers	**2,160.7**	**2,395.3**	**10.9%**

Table: Swiss Bankers Association · Source: Swiss National Bank, Boston Consulting Group

1. Economic policy environment

Economic developments

After posting strong earnings in 2021, the banks in Switzerland were confronted with a drastically changed environment in the first half of 2022 that was dominated by Russia's war of aggression against Ukraine, supply chain problems and pronounced inflationary tendencies.

The shift from fighting the pandemic to handling a geopolitical crisis and its effects was abrupt. The first quarter of 2021 was once again characterised mainly by restrictions on economic activity due to COVID-19, although the contraction was less pronounced than during the first lockdown in 2020. This was partly because the restrictions were less far-reaching and partly because many firms were better prepared, more extensive state support measures took effect, and consumers were not required to change their behaviour so drastically.[2] Beginning in the second quarter of 2021, the restrictions were progressively relaxed as more and more of the population became immunised. This led to a sharp economic recovery and a fall in the unemployment rate. In the third quarter of 2021, Swiss economic output had already risen above the level seen in the fourth quarter of 2019. However, the rapid upswing was halted in the second half of the year by shortages of semi-finished goods, transport bottlenecks, rising purchase prices and longer delivery times. The State Secretariat for Economic Affairs (SECO) expects the supply chain problems to persist into 2023.[3]

The Swiss economy continued to recover in the first quarter of 2022, with the number of job vacancies exceeding the number of jobseekers for the first time. That said, various macroeconomic disruptions at the international level are causing a great deal of uncertainty and threatening to weigh heavily on growth: it is impossible to predict how long the war in Ukraine will last, what impact the international sanctions against Russia will have or whether we will face an energy shortage. Meanwhile, China is imposing new COVID-19-related lockdowns, and the risk of another wave of the pandemic combined with the already high levels of government debt internationally could severely hinder the economic recovery. Rising inflation rates pose a direct threat. Higher prices for semi-finished industrial goods and energy are increasingly being reflected in consumer prices. Consumer price inflation rose above the Swiss National Bank (SNB) target level of 2% in February 2022 for the first time since 2008 and stood at 3.4% in June. Roughly half of the current inflation rate is attributable to rising energy prices – core inflation was 1.9% in June. Inflation has thus remained moderate so far in Switzerland compared with other countries. SECO expects Swiss gross domestic product (GDP) to grow by 2.6% in 2022 but identifies a number of downside risks and anticipates a slowdown in 2023.[4]

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[2] SECO (2021). Konjunkturtendenzen, spring 2021.
[3] SECO (2021). Konjunkturtendenzen, winter 2021/2022.
[4] SECO (2022). Konjunkturtendenzen, summer 2022.

Figure 3

Swiss real GDP, seasonally adjusted, 2018–2022

Change compared to prior-year quarter in %

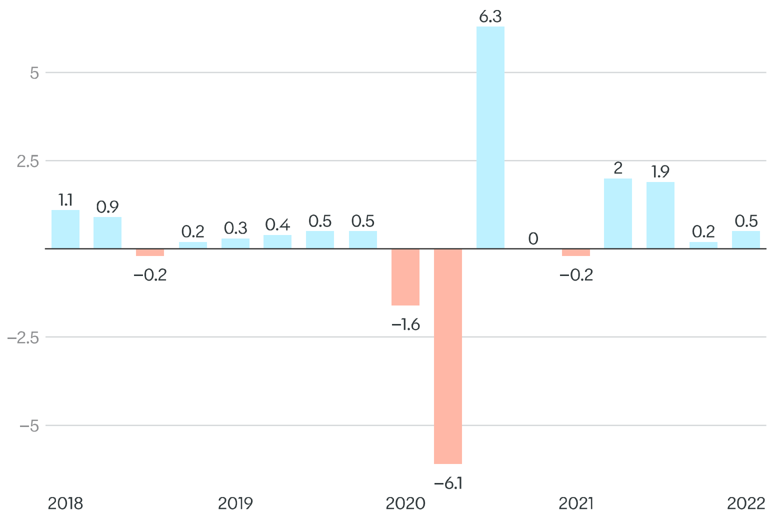

Chart: Swiss Bankers Association· Source: State Secretariat for Economic Affairs 2022

Figure 4

Unemployment rate, 2019–2022

Change compared to prior-year month in %

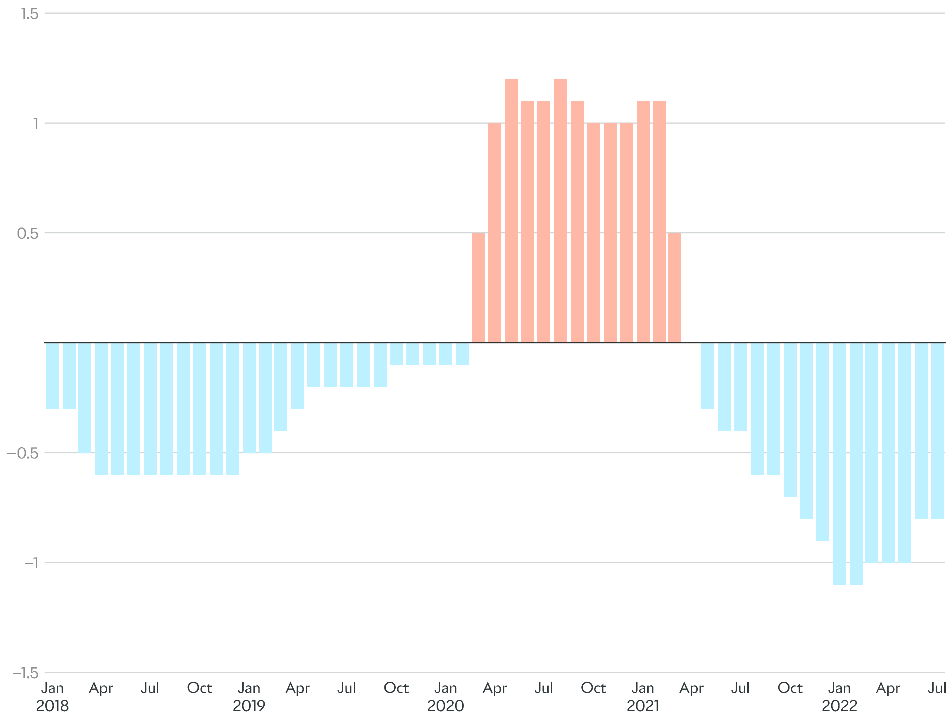

Chart: Swiss Bankers Association· Source: State Secretariat for Economic Affairs

Interest rate situation

In view of doggedly high inflation rates, the SNB, the US Federal Reserve (Fed), the European Central Bank (ECB) and other central banks have hiked their benchmark interest rates and mooted further tightening. This normalisation of monetary policy harbours macroeconomic risks.

The Fed has raised the target range for its benchmark interest rate in four steps to 2.25–2.5% in view of doggedly high inflation rates. It also started scaling back its bond portfolio in June 2022. It sees the causes of high inflation in rising energy prices, a supply/demand imbalance due to the pandemic, and general price pressure. The Fed is prepared to hike rates further to ensure price stability and believes that the US economy is robust enough to cope with this.[5]

The ECB is also no longer regarding higher inflation as a temporary phenomenon. It therefore increased its benchmark rate by 0.5 of a percentage point in July and halted its net asset purchases under the Asset Purchase Programme. At the same time, however, it created the Transmission Protection Instrument (TPI), which does not have any ex-ante volume limits.[6] The ECB's balance sheet is not forecast to contract until 2024.[7] Two key reasons for its comparatively slow exit from expansionary monetary policy are the very high levels of debt in some eurozone countries and the economic slowdown. The ECB therefore stated at an extraordinary meeting that it wanted to act more flexibly with regard to securities falling due for reinvestment,[8] which is likely to mean buying more government bonds from highly indebted countries. It remains to be seen how compatible this approach is with ensuring price stability over the medium to long term.

The SNB, for its part, surprised the markets in June with its first rate hike for 15 years, raising the benchmark rate by half a point to –0.25% in order to counteract inflationary pressures. It expects inflation to persist for some time as a result of higher energy and food prices as well as supply bottlenecks and sees signs of second-round effects. The SNB is not ruling out further rate hikes to ensure price stability and is prepared to intervene on the foreign exchange market if necessary. The threshold factor used to calculate the portion of banks' sight deposit account balances with the SNB that is exempt from negative interest has been cut from 30 to 28 to ensure that enough sight deposits are subject to negative interest for it to be transferred to the money market as desired.[9]

At the end of 2021, around CHF 174 bn in sight deposits attributable to the banks and other financial market participants were subject to negative interest in Switzerland. The SNB earned CHF 1.3 bn on these deposits.[10] In response to the rate hike, various Swiss banks announced that they would adjust their deposit fees. The turnaround in interest rates, which is also happening at the long end due to heightened inflation expectations and economic risks, will lead to shifts among asset classes in the medium term and will probably curb the rise in demand for real estate somewhat.

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[5] Fed (2022). FOCM statement and Implementation Note issued 4 May, 15 June and 27 July 2022.
[6] ECB (2022). The Transmission Protection Instrument.
[7] ECB (2022). Monetary policy decisions, 9 June and 21 July 2022.
[8] ECB (2022). Statement after the ad hoc meeting of the ECB Governing Council, 15 June 2022.
[9] SNB (2022). Monetary policy assessment of 16 June 2022.
[10] SNB (2022). Annual Report 2021.

Figure 5

Inflation trend and interest rates

Average change in prices in %

2020 · 2021* · 2022* · Headline rate

	2020	2021*	2022*	Headline rate
US	1.25	4.69	7.68	2.5
Eurozone	0.25	2.59	5.25	0.5
Switzerland	−0.73	0.58	2.5	−0.25

* Forecast

Chart: Swiss Bankers Association · Source: Source: International Monetary Fund – World Economic Outlook April 2022, European Central Bank, Federal Reserve, Swiss National Bank

Figure 6

Ten-year government bond yields, 2000–2022

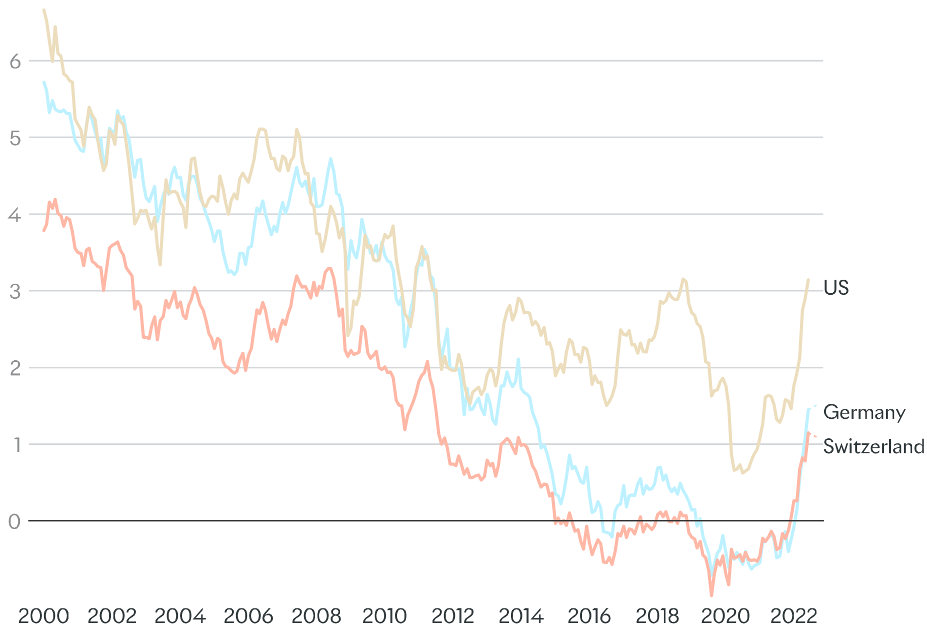

Chart: Swiss Bankers Association· Source: Swiss National Bank, Federal Reserve, Deutsche Bundesbank

Government debt

Government debt has risen further around the world in the wake of the COVID-19 pandemic and is set to remain high in the medium term. The burden of higher interest rates is thus substantial in many countries.

Extraordinary expenditure in relation to the pandemic, lower public revenues and a drop in economic output have caused government debt levels, which were already high, to rise further. Average public debt worldwide hit a new high of 99% of GDP in 2020, and the International Monetary Fund (IMF) does not expect it to fall significantly before 2027. The considerable uncertainty surrounding the war in Ukraine, an expected fall in economic growth and potential social policy measures to cushion the impact of high energy and food prices are maintaining the pressure on public finances. At the same time, high and volatile inflation is reducing the medium-term appeal of government bonds, making them harder to refinance.[11] In the eurozone in particular, very high debt levels and pronounced yield spreads on government bonds are hindering the exit from expansionary monetary policy, which has an inflationary effect. To avoid the damaging impact of the high interest burden on government budgets and economic momentum, there is an incentive for central banks to refrain from hiking rates too sharply and give less weight to inflation risks. Monetary policy could therefore continue to be used as an instrument of fiscal policy, calling the central banks' independence into question.

Thanks to the debt brake, Switzerland had low levels of government debt by international standards prior to the pandemic, as well as sufficient fiscal leeway to fund the exceptional measures in support of the Swiss economy. In August 2021, the Federal Council opened a consultation on two options for reducing the exceptional levels of debt resulting from the pandemic. The first involves achieving that goal entirely through funding surpluses, while the second involves reducing only half of the debt and offsetting the rest against the debt reductions of recent years. Both would involve using the SNB's supplementary distributions directly to cut the debt. Neither cost-saving measures nor tax rises are planned. While a majority came out in favour of the second option in the consultation, the Federal Council's dispatch to Parliament in March 2022 proposed adopting the first option, i.e. fully reducing the pandemic-related shortfall of CHF 25–30 bn. The Federal Council wishes to intervene as little as possible in the proven debt brake mechanism and seeks a return to the stable financial policy situation that prevailed before the pandemic.[12] Parliament is now debating the proposal.

[11] IMF (2022). Fiscal Monitor. Fiscal Policy from Pandemic to War.
[12] Federal Council (2022). Dispatch on amending the Financial Budget Act (reduction of coronavirus-related debt), 18 March 2022.

Figure 7

Public debt of industrialized countries, 2019 and 2021

As % of GDP

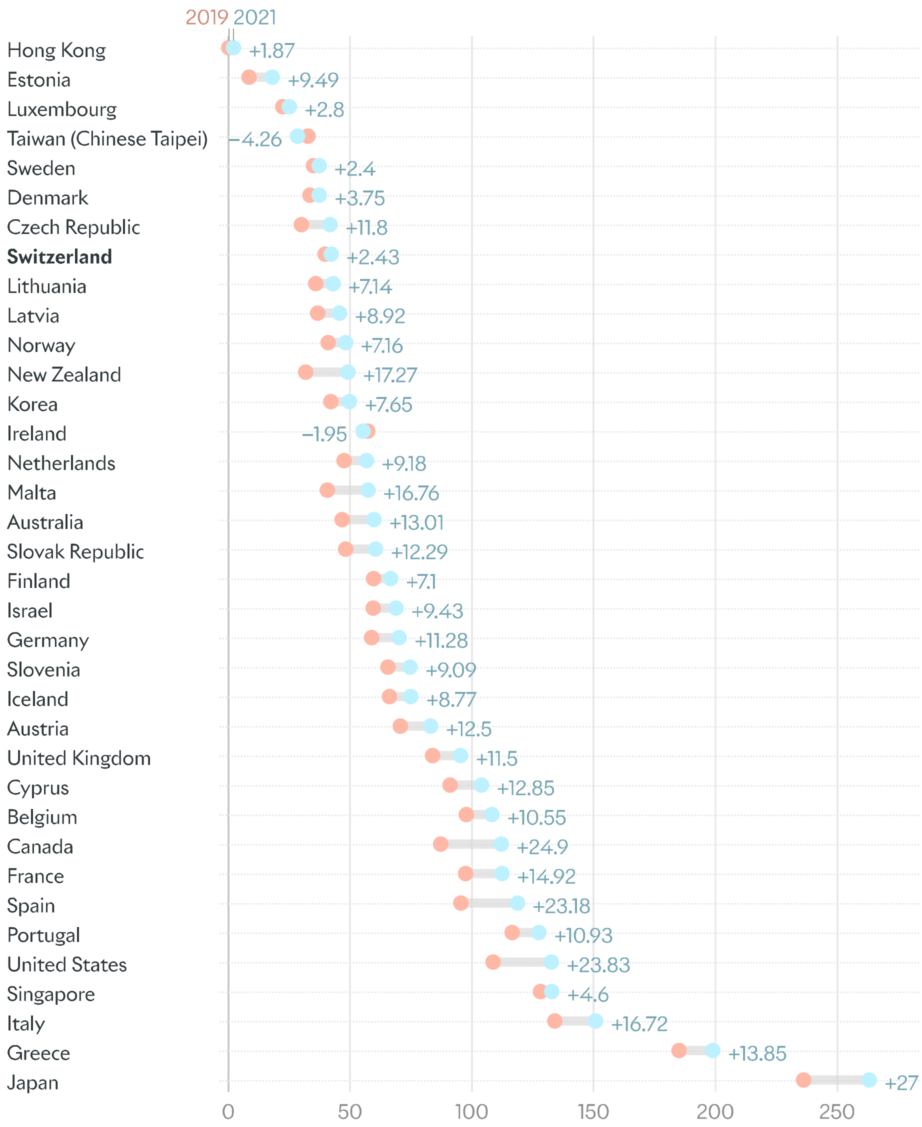

Chart: Swiss Bankers Association · Source: International Monetary Fund – World Economic Outlook April 2022

Market access

After rejecting the institutional framework agreement with the European Union (EU), the Federal Council made it clear that it intended to pursue the bilateral approach. At the same time, negotiations on a financial services agreement between Switzerland and the United Kingdom (UK) are making progress.

In May 2021, the Federal Council decided not to sign the institutional framework agreement between Switzerland and the EU. The agreement would have helped to strengthen bilateral relations over the long term, increase legal certainty and improve market access for Swiss banks. At its retreat dealing with European policy in February 2022, the Federal Council reiterated its interest in continuing the bilateral approach and adopted a set of guidelines for its negotiating package with the EU. It will endeavour to anchor the institutional elements of the individual single market agreements using a vertical approach and no longer sees the horizontal approach (in which all institutional issues are treated together) as an option. The Federal Council is also seeking to negotiate new single market agreements for electricity and food safety as well as association agreements for research, health and education.

The SBA welcomes the Federal Council's commitment to the bilateral approach and to overcoming the European policy impasse. At its retreat on 17 June 2022, the Federal Council announced that it would step up exploratory talks with the EU. The industry, meanwhile, is calling for the banks' concerns regarding improved market access to be included in the agenda for dialogue with the EU. Cross-border wealth management for private clients based in the EU is a key export sector for Switzerland: the country's banks manage assets totalling around CHF 1,000 bn belonging to clients from the EU, generating tax income of approximately CHF 1.5 bn per year and supporting some 20,000 jobs in Switzerland.[13] The creation of practicable and sustainable market access solutions is essential to increasing value added, jobs and tax revenues in Switzerland. The SBA also wants the federal government to remain proactive in ensuring that no new obstacles to practicable market access are created.

Since the Swiss and UK finance ministers signed their Joint Statement on 30 June 2020, intensive talks have been under way on liberalising and expanding mutual market access in the area of financial services. The goal is to enshrine the essential elements in an international treaty – one that genuinely adds value – by the end of 2022. The agreement is to be based on the principle of mutual recognition of financial market regulation and the supervisory regime, which the sector regards as expedient.

Key principles were worked out during 2021. The UK, for example, recognised the equivalence of Swiss stock exchange regulation. At the end of 2021, the two finance ministers were highly optimistic at their meeting in London and agreed further milestones. The Swiss banks see it as very important for the agreement to cover cross-border securities services for high-net-worth individuals. However, banking activities will need to be the subject of further technical clarification and intensive negotiations. An assessment of equivalence on the basis of the agreement's scope of application was conducted in the first half of 2022.

Structural change

In common with other sectors, banks are undergoing constant structural change, adapting their business models, processes and structures to reflect economic and social trends, new technologies and changing customer needs.

[13] SBA (2019). Market access for Swiss banks: importance and outlook. SBA background paper.

The most recent study by BAK Economics states that around one seventh of Switzerland's gross value added was attributable to the financial sector in 2020.[14] In reality, however, the sector's contribution is probably even greater. A number of banks have adapted their organisational structures in response to competition and the regulatory environment, transferring staff to group service companies without a banking licence. As a consequence, banks' direct value added appears smaller than it actually is. Additionally, digital platforms (crowdfunding, payment services etc.) that are not operated directly by conventional financial institutions are not included in the financial sector's value added, despite their very close links to it.

In 2020, some 10% of all jobs in Switzerland were directly or indirectly dependent on the financial sector.[15] The digital transformation is changing job descriptions in the financial sector, with increasing demand for expertise in IT, credit and risk management, research and product development. On top of this, basic skills such as networked thinking, problem-solving, willingness to learn, communication and creativity are becoming ever more important alongside specialist know-how.

Swiss banks' value creation models are also being transformed. The models of the future will be based on efficient infrastructures, digital capabilities, technical and organisational agility, and collaboration in ecosystems beyond the individual company.[16]

By opening up interfaces and cooperating with each other, banks and fintech firms can address customers' demands for financial service packages that are tailored to their specific needs. The key issue in addressing this vast potential is that working together on the basis of market solutions adds value for customers. To this end, the SBA and Swiss Fintech Innovations (SFTI) have liaised with all the relevant financial centre stakeholders to agree on the roles each will play in future cooperation on open finance.[17] The success of the market-driven Swiss approach can be seen in the wealth management industry's agreement on shared digital interfaces and their management by the newly formed OpenWealth Association.

Private digital money and central bank digital currency offer potentially huge social and economic benefits. Various central banks, other banks and technology firms around the world are currently working on forms of digital money. Depending on the form it takes, it can fundamentally transform banks' business models and the work of central banks. The discussion paper published by the SBA is a contribution to an important debate on the design and use of digital money and its implications for business and society.[18] It concludes that the future belongs to digital currencies issued by regulated providers. The SBA is stepping up its work in this area and positioning itself as a centre of expertise for digital money.

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[14] https://www.swissbanking.ch/_Resources/Persistent/3/7/0/6/3706b718889a4fa6b983595c8c3a7cda5e6d62de/BAK_Economics_Bedeutungsstudie_Finanzsektor_2021.pdf

[15] https://www.swissbanking.ch/en/news-and-positions/news/schweizer-finanzsektor-bedeutender-arbeitgeber-und-wirtschaftsmotor-gerade-in-krisenzeiten

[16] https://www.swissbanking.ch/en/news-and-positions/press-releases/new-value-creation-models-is-it-time-for-a-step-change

[17] https://www.swissbanking.ch/en/news-and-positions/news/open-finance-industry-associations-draw-up-fundamentals-for-an-open-financial-centre

[18] https://www.swissbanking.ch/_Resources/Persistent/a/1/2/9/a1290092308e4ccb8d08841bfec49e97600cf1e9/SBA_Discussion_Paper_CDBC_EN.pdf

Figure 8

Swiss fintech firms, 2015–2021

By product type

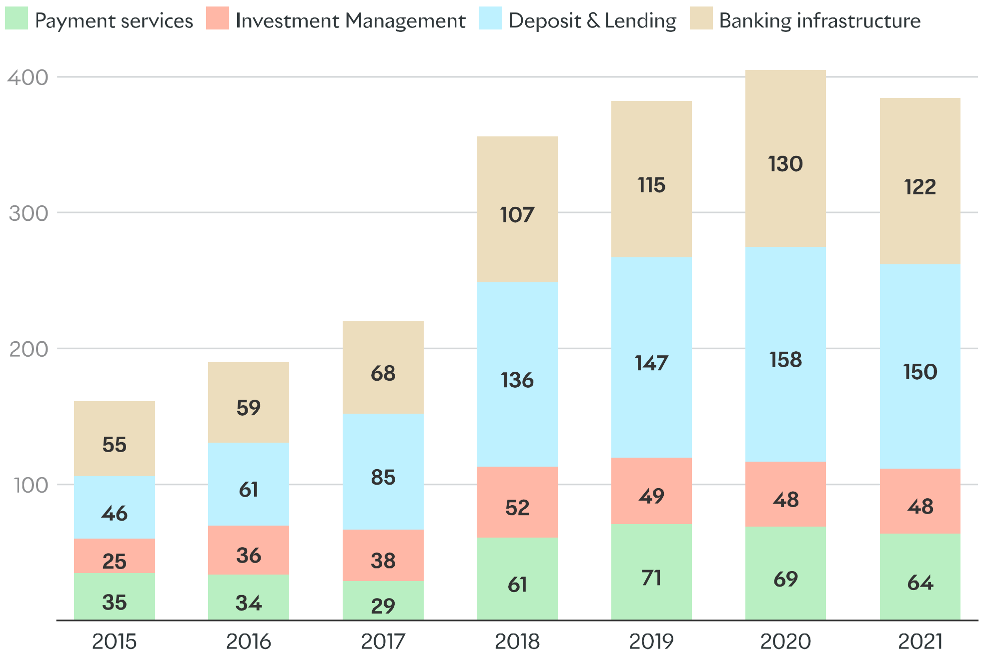

Chart: Swiss Bankers Association · Source: Institute of Financial Services Zug – FinTech Study 2022

Regulation

Regulation of the banks and financial markets plays a key role in the attractiveness and competitiveness of the financial centre. Switzerland is also among the best-placed countries in the third edition of the Global Financial Regulation, Transparency, and Compliance Index (GFRTCI).[19]

The Federal Council adopted amendments to the Liquidity Ordinance for systemically important banks that entered into force on 1 July 2022 with a transition period of 18 months. The new regulatory concept is based on two pillars: the basic requirements, which are precisely calibrated and subject to reporting obligations, and the additional institution-specific requirements, which may be imposed by the Swiss Financial Market Supervisory Authority FINMA. The Federal Council largely took the SBA's critical feedback into account.

The provisions on insolvency and deposit insurance in the Banking Ordinance are to be amended in line with the revised Banking Act. The SBA supports almost all of the Federal Council's proposals with regard to deposit insurance, but it believes that an additional prefinancing option is needed involving deposits with the SNB. Meanwhile, the new resolvability requirements for systemically important institutions

[19] https://industry.sfi.ch/en/publications?publication=79654

require extensive changes, and the rules on group companies of systemically important institutions and bail-in instruments for the cantonal banks need to be clarified.

The SBA has updated its recommendations on amortising COVID-19 credits. In principle, repayments should have begun on 31 March 2022 as originally planned. However, companies that are still badly affected by the pandemic should be given the opportunity to defer amortisation with a minimum of paperwork. The Federal Council shares the SBA's view on intra-group lending, namely that granting loans to other Swiss group companies is permissible to the extent that such loans are intended to ensure that the amortisation requirement can be met.

The third edition of the GFRTCI shows that Switzerland continues to enjoy a strong position internationally with regard to financial market regulation, transparency and compliance. While its index score improved slightly year-on-year, Switzerland dropped a few places in the ranking compared with the first two editions. This was due to the delayed implementation of the Basel III rules in the EU and the resulting improvement in the EU regulatory environment. The leading countries are in fact so close together that the actual ranking means very little.

Taxes

An attractive tax environment and effective compliance rules are key locational advantages for the financial sector. Alongside taxation of banks' own activities, a major issue is regulations to ensure that customers comply with their own tax obligations.

The Organisation for Economic Co-operation and Development (OECD) has presented its Crypto Asset Reporting Framework (CARF), a special form of automatic exchange of information (AEOI) for virtual assets. The SBA is in favour of treating the crypto world and the traditional financial market equally with regard to tax transparency. However, the coexistence of the CARF and AEOI creates an unnecessary duplication of tasks for the banks, which are already required to report all assets, including crypto-assets, held in their custody accounts. The SBA is therefore joining other international banking associations in calling for all virtual assets held by banks to be exempted from the CARF.[20]

In January 2022, the Federal Council opened a consultation on creating a legal basis for trusts in Swiss law. Customers in Switzerland must currently use foreign trusts. A Swiss trust should open up new use and business cases, increase legal certainty and thus strengthen Switzerland's standing as a business location. Unfortunately, the Federal Council's proposal would not meet these goals. The new tax regime that has been put forward would make Switzerland wholly unattractive not only for new trusts, but also for existing ones, placing the Swiss banks' succession planning business under threat. The SBA thus completely rejects the proposal.[21]

The OECD has been working for some time on new rules intended to redistribute global corporate tax revenues. The planned global minimum tax will have a significant impact on Switzerland, an export-oriented country with moderate taxation and a small domestic market. Nevertheless, the Federal Council

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[20] https://www.swissbanking.ch/de/medien/news/automatischer-informationsaustausch-fuer-virtuelle-vermoegenswerte-ja-aber-gleiche-regeln-fuer-alle

[21] https://www.swissbanking.ch/_Resources/Persistent/c/c/2/6/cc26ef1f62d0739ccb26c1b31e9d4a14f4296cc5/Stellung-nahme%20SBVg%20Einf%C3%BChrung%20Trust%202022.pdf

advised the Swiss Parliament on 23 June 2022 to adopt the new tax rules so as to ensure that Switzerland and its economy can remain competitive and put the necessary conditions in place to keep jobs and tax revenues in Switzerland. The SBA supports a measured implementation and will lobby in favour of maintaining the successful Swiss model on behalf of its members.

A strong economy and financial centre depend in particular on a properly functioning capital market. However, the Swiss capital, money and credit markets are still being held back, mainly by fiscal constraints such as stamp duty and withholding tax. The Federal Council and clear majorities within the National Council and the Council of States wish to correct one of these disadvantages by reforming withholding tax. Swiss companies are finding financing conditions on the Swiss capital market highly problematic as things stand and are looking to other countries as a result. It would make more sense if they could fund themselves in Switzerland. This would create jobs and increase tax revenues in Switzerland. The referendum on the withholding tax reform will take place on 25 September 2022.

2. Net income

The aggregate net income of the banks in Switzerland rose by around 1.4% year-on-year in 2021, while aggregate annual profit was lower than in 2020.

The aggregate net income of all banks in Switzerland rose by 1.4% year-on-year in 2021 to CHF 70.9 bn. This slight increase was due to the result from commission business and services (up 10.9%) and the other result from ordinary activities (up 12.1%), whereas the result from trading activities had a negative effect, falling by CHF 3.2 bn or 29.4%. With low interest rates persisting throughout 2021, the result from interest operations rose by only 0.8% and thus equalled the 2019 figure of CHF 23.8 bn. The big banks' share of net income fell slightly for the first time since 2017, while those of the other categories remained relatively stable.

Statistical reporting levels

This publication is based on data provided by the SNB compiled from the individual financial statements of banks (parent companies) as required by law. In the case of the big banks and internationally active banks in particular, these statements may deviate from the group financial statements. The SNB distinguishes between three perspectives in its published data: domestic office, parent company and group.

2.1 Trends in 2021

Net income by banking activity

Aggregate net income comprises the results from interest operations, commission business and services, and trading activities as well as the other result from ordinary activities. The 1.4% growth in net income in 2021 resulted from an increase in the result from commission business and services and a decrease in the result from trading activities.

For the first time since 2015, the result from commission business and services was the largest contributor to net income with a share of 36.0%. It rose by 10.9% from CHF 23 bn to CHF 25.5 bn, mainly due to commission income from securities and investment business, which was around CHF 2 bn (8.9%) higher year-on-year thanks to sharply rising securities prices. While the result from interest operations increased slightly by CHF 0.2 bn (0.8%), it lost its status as the most important component of net income as its share slipped to 33.6%. The small rise was caused by a sharp decline in interest expense (down CHF 4.8 bn or 34%) and a somewhat weaker fall in interest income (down CHF 4.5 bn or 12%). The lower interest expense was the result of improved refinancing conditions for banks and the reduced cost of negative interest on sight deposits held with the SNB. Compared with the previous year, the SNB's income from negative interest fell again by around CHF 121 mn to CHF 1.3 bn,[22] with most of this coming from banks as before.

Figure 9

Net income by banking activity

In CHF bn

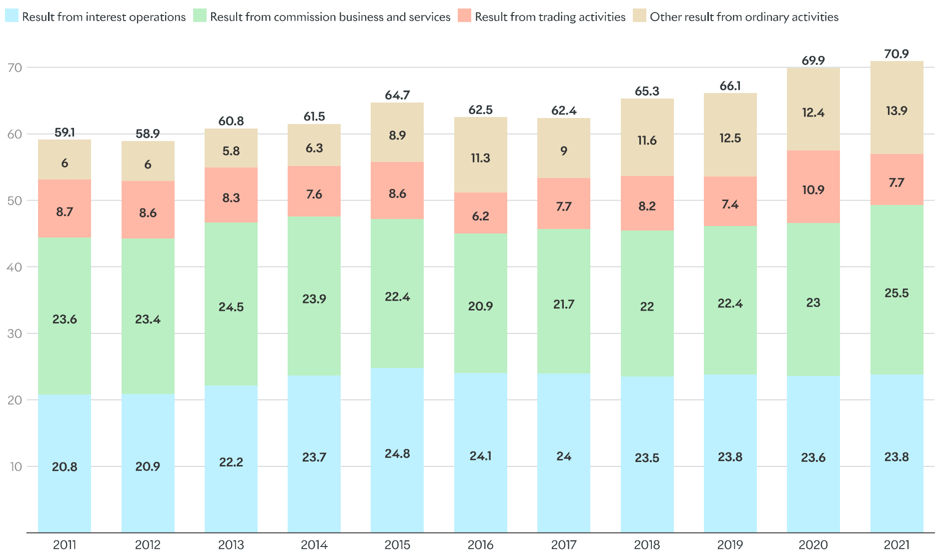


Chart: Swiss Bankers Association · Source: Swiss National Bank

[22] SNB (2022). Annual Report 2021.

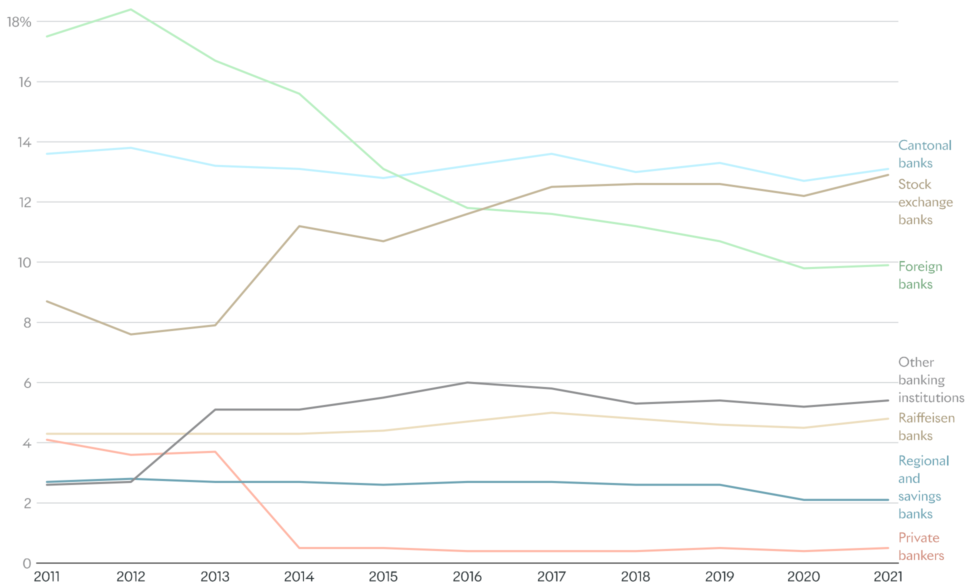
Following strong growth in net income from trading activities in 2020, the trend was reversed in 2021 as the figure fell back significantly below CHF 10 bn, down almost 30% compared with the prior year. This represents a normalisation at the level seen in the years before 2020, one reason for this being the decline in market volatility seen in 2021, especially compared with 2020. This normally goes hand in hand with lower levels of trading activity for banks.

Net income by bank category

The drop in trading activity hit the big banks harder, which is why their share of net income fell slightly. The other categories' shares remained relatively stable.

Figure 10

Net income by bank category (excluding big banks)
in %



Note: The big banks contribute a much larger share of net income than the other categories – it has fluctuated between 46% and 53% since 2010. They have thus been omitted from the chart in order to provide a clearer picture of the trends among the other categories.

Chart: Swiss Bankers Association · Source: Swiss National Bank

All bank categories apart from the big banks recorded stable or rising shares of net income compared with 2020. The cantonal banks, for example, saw their share grow by 0.4 of percentage point to 13.1%. This corresponds to a CHF 366.5 mn increase in net income. The foreign banks also increased their share in 2021 (to 9.9%), halting the downward trend of the past ten years. Their net income totalled CHF 6,992.7 mn. The big banks (not shown) were the only category to post lower net income in 2021, down CHF 640 mn, causing their share of overall net income to fall from 53.1% to 51.4%. This was mainly due to a drop in trading activities, which make up a greater proportion of their income than is the case for banks in the other categories.

Statistical effects of allocation to bank categories

The SNB allocates individual banks to the various categories at its own discretion. The composition of the categories can change over time as a result of mergers, spin-offs, newly formed banks and other structural changes. For example, the stock exchange bank Banque Pâris Bertrand SA was acquired by the foreign-controlled Rothschild & Co Bank AG in 2021, so its business is now allocated to the category of foreign banks for statistical purposes rather than stock exchange banks. In addition, Neue Aargauer Bank (NAB) was merged with Credit Suisse (Switzerland) Ltd in 2020, leading to a fall in the figures for the regional banks. A number of banks in the "private bankers" category changed their legal form in 2014 and now belong to the "stock exchange banks" and "other banking institutions" categories. This has caused structural disruptions to the statistics for the "private bankers" and "stock exchange banks" categories.

The share of total net income contributed by the "stock exchange banks" category has increased from 8.7% to 12.9% since 2011. The big banks also increased their share over the same period, from 46.5% to 51.4% (not shown). The private bankers' share fell from 4.1% to 0.5% during the period, that of the foreign banks from 17.5% to 9.9%. The reduction among the foreign banks is partly due to the altered operating conditions in the wake of the financial crisis, which led to numerous branch closures in Switzerland. Some banks have also cut their international activities back to specific fields of business in recent years as part of restructuring programmes, which has in some cases led to shifts within a group or even the sale of entire business units.

Annual profit and taxes

The slight increase in aggregate net income and stable operating expenses caused gross operating profit to rise by 3.1% year-on-year in 2021. After value adjustments and taxes, the annual profits of the banks in Switzerland totalled around CHF 7.8 bn.

Operating expenses, which are made up of personnel expenses and general and administrative expenses, remained stable (up 0.3%) year-on-year, while aggregate net income posted a slight rise of 1.4%. This led to a gross operating profit CHF 0.8 bn higher than in 2020. After deduction of depreciation, amortisation, value adjustments and provisions, the Swiss banks' operating result was CHF 9 bn (down 37.8%). This much lower result was driven primarily by the sharp increase in depreciation, amortisation and provisions at the big banks in connection with the US hedge fund Archegos Capital Management and the financial services provider Greensill Capital. The overall annual profit (result of the period) fell from CHF 13.7 bn in 2020 to CHF 7.8 bn in 2021. The banks paid significantly more tax in 2021 (CHF 2.6 bn, compared with CHF 1.9 bn in 2020).

Figure 11

Breakdown of result of the period for banks in Switzerland 2021

In CHF bn

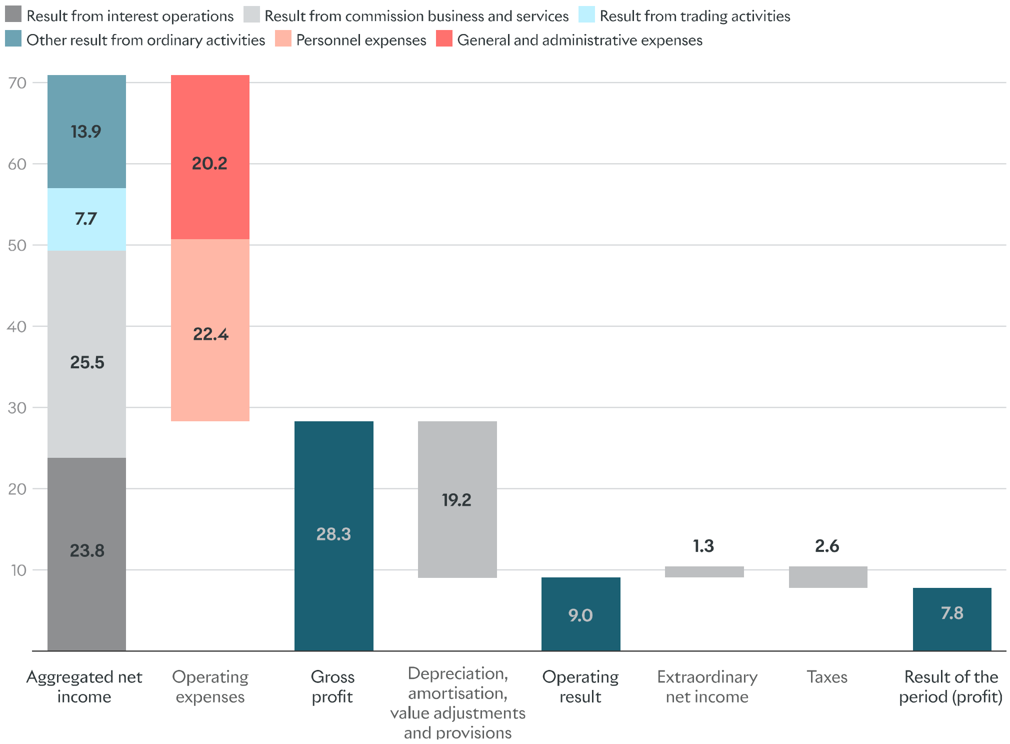


Chart: Swiss Bankers Association · Source: Swiss National Bank

2.2 First half of 2022 fraught with uncertainty

Following a pronounced recovery in 2021, economic trends have been fraught with uncertainty in 2022. SECO forecasts GDP growth of 2.6% for the year as a whole. The SNB hiked its headline interest rate in June 2022 for the first time in 15 years.

Economic uncertainty has reigned thus far in 2022, with the ongoing war in Ukraine, the impact of international sanctions against Russia, the COVID-19-related lockdowns in China, and the threat of a new wave of the pandemic and in particular an energy shortage holding back the recovery. High inflation rates in the eurozone and the US also pose a risk. In Switzerland, inflation exceeded the SNB target of 2% in February 2022 for the first time since 2008 and stood at 3.4% in June.[23] In view of this inflationary pressure, the SNB felt it had no option but to proceed with an initial half-point rate hike to –0.25% in June.[24] It had earned a total of CHF 540 mn from negative interest up to the end of the same month.[25]

[23] FSO (2022). Swiss Consumer Price Index.
[24] SNB (2022). Monetary policy assessment of 16 June 2022.
[25] SNB (2022). Interim results of the SNB as at 30 June 2022.

On top of this, according to the SNB, both mortgage loans and residential property prices have risen sharply again in the first half of the year.[26]

The Fed raised the target range for its benchmark interest rate in four steps during the first half of the year to 2.25–2.5% and started to scale back its bond portfolio in June. This was in response to high inflation rates, which the Fed believes are due to rising energy prices, a supply/demand imbalance resulting from the pandemic, and general price pressure.[27] The ECB has been more hesitant. It decided to hike its headline rate by half a percentage point in July and to cease making net asset purchases under its Asset Purchase Programme (APP) and Pandemic Emergency Purchase Programme (PEPP) with effect from that month.[28] At the same time, however, it introduced the Transmission Protection Instrument (TPI), which has no volume limit.[29] The euro steadily depreciated against the franc in the first half of 2022, partly due to differing monetary policies, and reached parity on 4 March. The price of a euro in July was less than one franc. The dollar, on the other hand, has gained value relative to the franc since May.

The above developments are depressing economic expectations: the International Monetary Fund expects the global economy to grow by 3.2% this year, while SECO expects Swiss gross domestic product (GDP) to grow by 2.6%.

A number of key political votes and decisions occurred in Switzerland in the first half of 2022. The electorate rejected the reform of stamp duty. The planned abolition of stamp duty on new issues of equity was intended to create an incentive for innovation and thus secure jobs. This would have strengthened Switzerland's corporate landscape, particularly with regard to SMEs and start-ups. At its retreat dealing with European policy in February 2022, the Federal Council reiterated its interest in continuing the bilateral approach with the EU and adopted a set of guidelines for its negotiating package, having decided in May 2021 not to sign the institutional framework agreement with the EU. The Federal Council's commitment to the bilateral approach and efforts to intensify talks with the EU are to be welcomed. Cross-border wealth management for private clients based in the EU is a key export sector for Switzerland that relies on practicable and sustainable market access solutions. Switzerland has adopted the EU's sanctions against Russia. The Swiss banks have a key role to play in this respect. Financial assets worth CHF 6.7 bn were frozen in Switzerland up to July 2022.[30]

The positive stock market trend in 2021 was followed by a significant price correction in the first half of 2022 due to the prevailing geopolitical uncertainty and restrictive monetary policy. The Swiss Market Index (SMI) lost as much as 20% between January and June and reached an interim low of 10,349 points. It was down almost 1,300 points year-on-year at the end of June. Continuing uncertainty over economic developments and waning post-pandemic catch-up effects mean that the markets are likely to remain under pressure in the second half of the year, which will have a negative impact on the banks' trading and commission business.

Corporate bankruptcies were up 40% year-on-year in the first half of 2022, although the figure was only 10% above the average from 2018 and 2019. The bankruptcy rate in 2021 was exceptionally low thanks to the COVID-19 relief measures. This fresh wave of bankruptcies has hit the pharmaceutical and service

[26] SNB (2022). Monetary policy assessment of 16 June 2022.
[27] Fed (2022). FOCM statement and Implementation Note issued 4 May, 15 June and 27 July 2022.
[28] ECB (2022). Monetary policy decisions, 9 June and 21 July 2022.
[29] ECB (2022). The Transmission Protection Instrument.
[30] https://www.seco.admin.ch/seco/de/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/exportkontrollen-und-sanktionen/sanktionen-embargos/sanktionsmassnahmen/faq_russland_ukraine.html, last accessed on 3 August 2022.

industries hardest, with the large number of newly formed companies in the latter probably playing a part. Many companies encounter problems in their early years. The bankruptcy rates in the hospitality and construction industries, meanwhile, remained largely stable.[31] Around CHF 6 bn of the approximately CHF 17 bn in COVID-19 credits granted by the Swiss banks has been repaid in full to date, including CHF 822 mn in the first half of 2022.[32]

Given their strong capital underpinning and progress in terms of risk management, the banks are well prepared to prevent credit defaults and absorb any losses that do occur through defaults. Nevertheless, overall net income can be expected to fall year-on-year in 2022 and 2023 in view of the downbeat economic forecasts and financial market trends.

3. Balance sheet

The aggregate balance sheet total of all banks in Switzerland grew by 3.5% in 2021. The SNB significantly reduced its currency market interventions compared with 2020, and this is reflected in the commercial banks' assets: whereas the banks' sight deposits with the SNB had grown by around 24% in 2020, the figure in 2021 was just 4.4%.

The balance sheet total of the banks in Switzerland grew further in 2021, increasing by 3.5% from CHF 3,467.2 bn to CHF 3,587.8 bn. On the assets side, mortgage loans remained the largest item by far, while liquid assets posted substantial growth of 11.1%. On the liabilities side, sight deposits were up 10.3% and time deposits 9% despite the increased transfer of negative interest in 2021. After a sharp drop in time deposits in 2020, these increases reflect the higher saving rate during the pandemic[33] as well as the relatively swift recovery from the pandemic. The volume of domestic lending rose by a further 2.8% thanks to a 3.4% increase in mortgage loans, which reached a new high of CHF 1,111.6 bn. Other loans, both secured and unsecured, showed a slight fall of 0.7%. As in 2020, the cantonal banks had the largest share of the domestic mortgage market with 37.8%, followed by the big banks with 26.9%.

3.1 Trends in 2021

Balance sheet trends by bank category

The aggregate balance sheet total of all banks in Switzerland grew by 3.5% in 2021. The cantonal, Raiffeisen and foreign banks posted the largest year-on-year increases in absolute terms, together accounting for almost two thirds of the total growth. The big banks had the largest share of the aggregate balance sheet total with 44%.

[31] Creditreform (2022). Firmen- und Privatkonkurse 2022.
[32] https://covid19.easygov.swiss/#anchor-14, last accessed on 25 July 2022.
[33] SNB (2022). Swiss Financial Accounts. Financial assets of households, 2021.

Figure 12

Balance sheet total by bank category

In CHF bn

Group of banks	2020	2021	Change	Share
Cantonal banks	697.1	725.6	4.1%	20.2%
Big banks	1,566.6	1,578.1	0.7%	44.0%
Regional and savings banks	111.4	118.0	5.9%	3.3%
Raiffeisen banks	259.7	284.5	9.6%	7.9%
Foreign banks	346.5	370.6	7.0%	10.3%
Private bankers	6.8	7.3	7.2%	0.2%
Stock exchange banks	256.9	269.7	5.0%	7.5%
Other banking institutions	222.3	234.1	5.3%	6.5%
Total	**3,467.2**	**3,587.8**	**3.5%**	**100.0%**

Table: Swiss Bankers Association · Source: Swiss National Bank

Assets

Mortgage loans remain the largest asset item, making up 31.6% of the total. Liquid assets contributed substantially to the growth in total assets in 2021 with an increase of CHF 76 bn. Amounts due from securities financing transactions showed the largest relative increase with 16.3%.

Domestic and foreign mortgage loans rose by CHF 36.9 bn from CHF 1,098 bn in 2020 to CHF 1,134.9 bn in 2021 and thus remained the largest asset item for banks in Switzerland last year with a share of around 31.6%. Liquid assets rose by CHF 76 bn or 11.1% in 2021 and constitute the second-largest asset item. The banks' sight deposits with the SNB increased by 4.4%, which is in line with the growth seen in prior years apart from 2020, when they rose sharply as a result of the threshold factor for exemption from negative interest being raised. This underscores the swift economic recovery from the COVID-19 pandemic and partly explains the somewhat weaker growth in liquid assets relative to 2020. The Raiffeisen banks stood out from the other bank categories in 2021 with a sharp increase of 59.1% in their sight deposits. This tied in with a 56.2% rise in liquid assets, largely due to high inflows of customer deposits.[34]

[34] https://report.raiffeisen.ch/2021/en/result-gb/

Figure 13

Breakdown of assets

In CHF bn

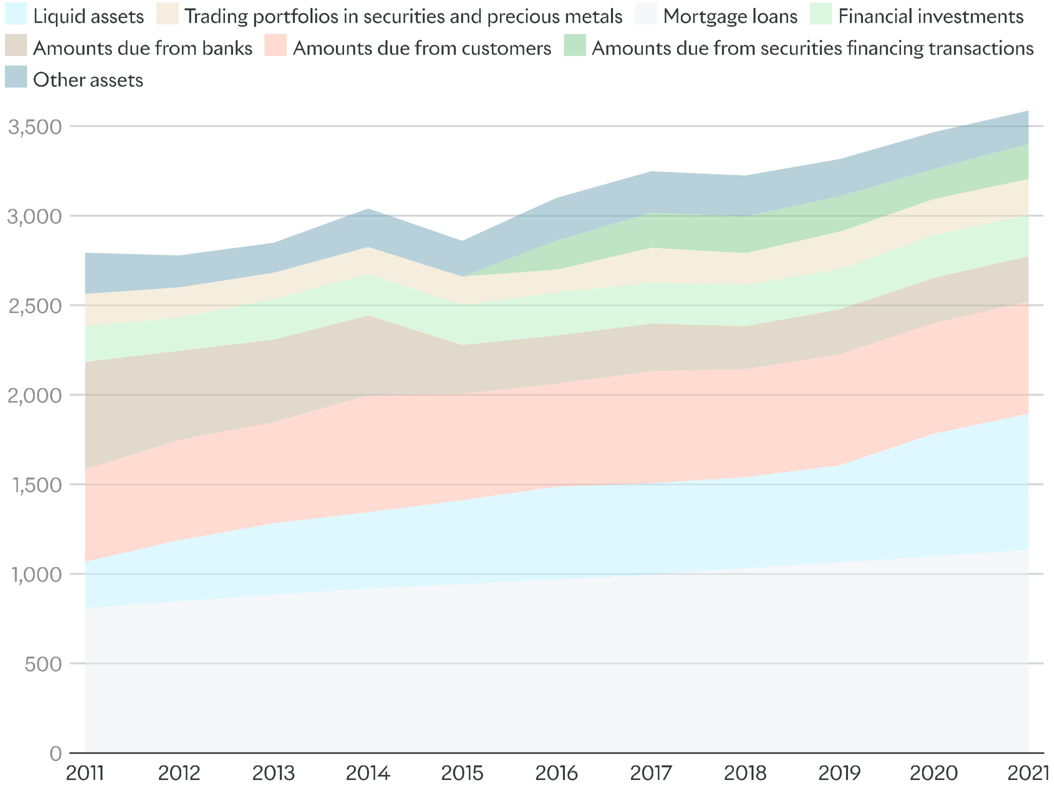


Chart: Swiss Bankers Association · Source: Swiss National Bank

Figure 14

Development of assets

In CHF bn

Position	2020	2021	Change	Share
Liquid assets	684.6	760.6	11.1%	21.2%
Trading portfolios in securities and precious metals	202.9	199.5	−1.7%	5.6%
Mortgage loans	1,098.0	1,134.9	3.4%	31.6%
Financial investments	238.2	232.6	−2.4%	6.5%
Amounts due from banks	253.3	252.1	−0.5%	7.0%
Amounts due from customers	617.6	626.5	1.4%	17.5%
Amounts due from securities financing transactions	166.8	194.0	16.3%	5.4%
Other assets	205.9	187.6	−8.9%	5.2%
Balance sheet total	**3,467.2**	**3,587.8**	**3.5%**	**100.0%**

Table: Swiss Bankers Association · Source: Swiss National Bank

Amounts due from customers rose by CHF 8.9 bn or 1.4% in 2021. Making up 17.5% of total assets, they constitute the third-largest asset item. Amounts due from banks were down slightly by CHF 1.2 bn or 0.5% at CHF 252.1 bn. This was the net result of a 2.4% decline in amounts due from foreign banks and a CHF 2.8 bn (3.2%) increase in amounts due from domestic banks. The CHF 5.6 bn decrease in financial investments is attributable in equal parts to domestic financial investments, which were down CHF 3 bn, and foreign financial investments, which were down CHF 2.5 bn. Amounts due from securities financing transactions showed the largest relative increase with 16.3% This was primarily driven by domestic securities financing business, which rose by 84.7% year-on-year to CHF 38.5 bn.

Fundamental changes in asset breakdown since 2011

The breakdown of assets has changed markedly over the past decade. Liquid assets increased massively from CHF 259 bn in 2011 to CHF 760.6 bn at the end of 2021 in spite of negative interest rates. This was caused by a number of factors. The SNB's interventions to counteract the Swiss franc's strength played a significant role as the bank's purchases of foreign currencies caused counterparties' sight deposits denominated in Swiss francs to increase. In addition to this, low interest rates made the opportunity cost of holding cash minimal, so the banks placed large quantities of it in sight deposits with the SNB, causing these to grow by a further 4.4% to CHF 623.5 bn in 2021.

Domestic and foreign mortgage loans also rose steadily between 2011 and 2021 from CHF 809.4 bn to CHF 1,134.9 bn. Their share of total assets edged up from 29% at the end of 2011 to 31.6% at the end of 2021. This was also due to the persistently low level of interest rates, which bolstered demand for real estate. Demand for residential properties was fuelled in 2020 and 2021 by the pandemic and in particular by multiple lockdowns.

Amounts due from banks made up 21.5% of total assets in 2011 but just 7% in 2021. This reduction was caused by, among other things, the banks deliberately scaling back this asset item in order to reduce interdependencies with other institutions. At the same time, it is also linked to stricter regulatory requirements in terms of capital adequacy.

Domestic lending volume

The volume of domestic lending increased by around 2.8% in 2021. Mortgage loans, most of which are granted to private households, make up the bulk of the Swiss lending business with a share of 85.9%.

The volume of outstanding domestic loans came to CHF 1,294.2 bn in 2021. This figure was made up of CHF 182.6 bn in secured and unsecured loans to customers (corporate, public-sector and consumer loans) and CHF 1,111.6 bn in mortgage loans. Overall domestic lending was up 2.8% relative to 2020, which is in line with the trend observed in recent years. Total mortgage loans have increased by CHF 313.8 bn since 2011, with their share of domestic lending rising from 83.6% to 85.9%. While secured loans grew by CHF 4.4 bn in 2021, unsecured loans showed a fall of CHF 5.6 bn.

Figure 15

Domestic lending volume

In CHF bn

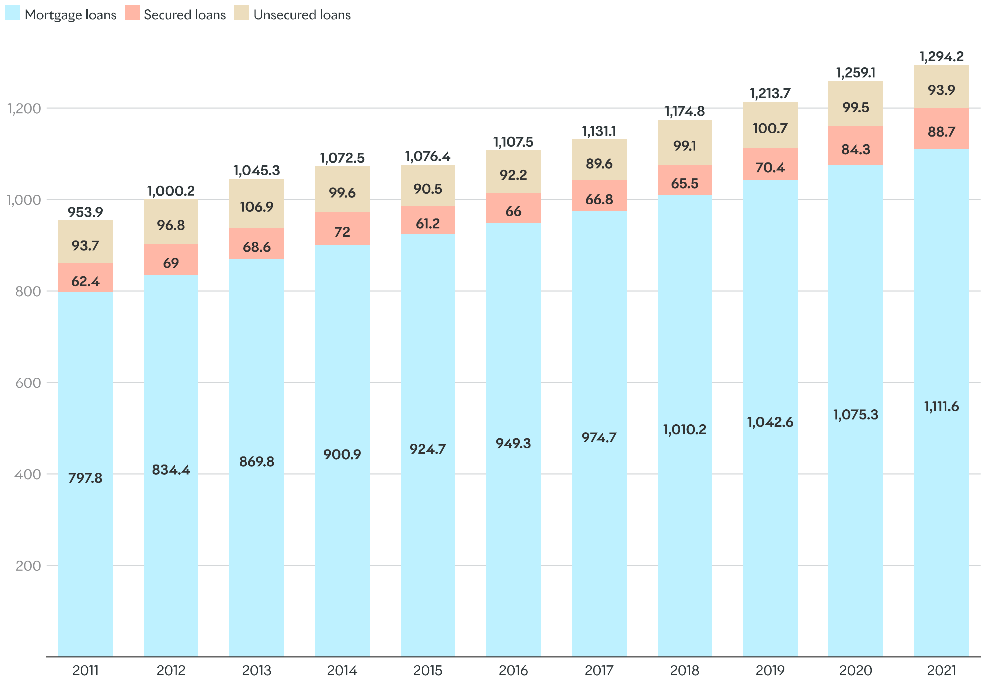


Chart: Swiss Bankers Association · Source: Swiss National Bank

Total outstanding mortgage loans grew by 3.4% to CHF 1,134.9 bn in 2021. The vast majority (CHF 1,111.6 bn) was attributable to domestic customers. The share of fixed-rate mortgages was 81.7%. The average interest rate on outstanding domestic mortgage loans fell from 1.28% to 1.21%. Mortgages with a term of more than five years have become more popular over time. Their share was just 16.6% in 2011, but it had risen to 28.6% in 2021. In terms of volume, two thirds of all new mortgages were granted to private households at the end of 2021.

Figure 16

Shares of domestic bank mortgage market in 2021

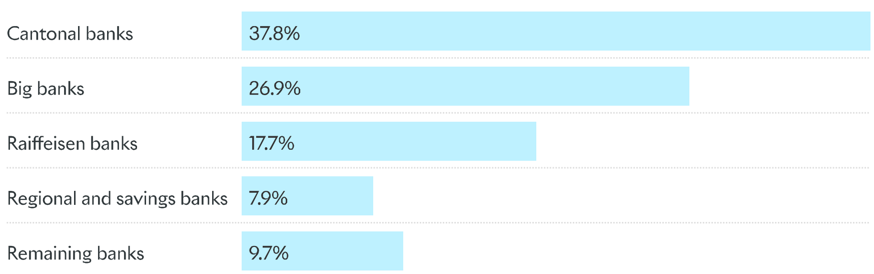


Chart: Swiss Bankers Association · Source: Swiss National Bank

The cantonal banks' overall share of the domestic mortgage loan market was 37.8% at the end of 2021, roughly in line with the year-back figure. They were followed by the big banks with 26.9%. In recent years, the cantonal and Raiffeisen banks in particular have increased their shares of the domestic mortgage loan market, whereas the big banks and the regional and savings banks have lost market share.

Broken down by lending group, 93% of domestic mortgage loans were categorised as senior in 2021. This group comprises mortgages covering up to two thirds of the property's market value. No relevant differences between the various bank categories can be discerned. The high share of senior mortgages probably indicates that mortgage lenders are continuing to pursue cautious lending policies. The SBA revised its Guidelines on minimum requirements for mortgage loans in 2019, introducing stricter rules for investment properties.[35]

Figure 17

New mortgage loan originations

In CHF bn per quarter, loan size

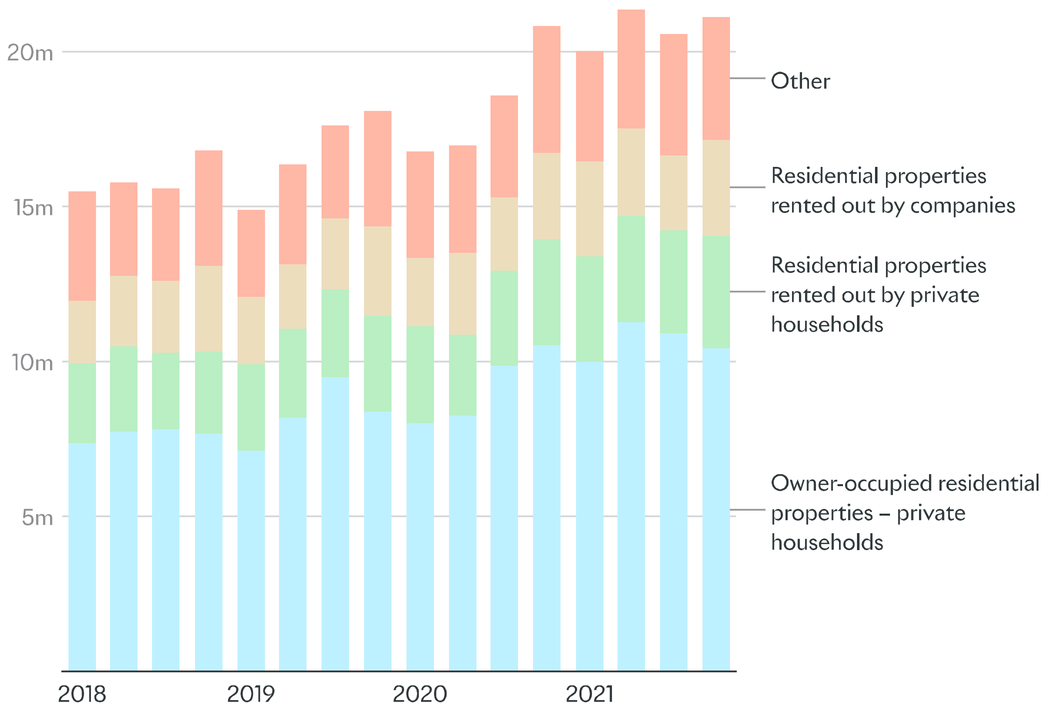


Chart: Swiss Bankers Association · Source: Swiss National Bank

[35] https://www.swissbanking.ch/_Resources/Persistent/0/e/3/f/0e3fe72b0bdc557fef84893287ece62b37172e4c/SBVg_Richtlinien_betreffend_Mindestanforderungen_bei_Hypothekarfinanzierungen_DE.pdf

Liabilities

In 2021, amounts due in respect of customer deposits accounted for more than half of all liabilities. There was an increase in sight and time deposits compared with the previous year, while other customer deposit and trading portfolio liabilities declined.

The balance sheet item “amounts due in respect of customer deposits” – comprising sight deposits, time deposits and other customer deposit liabilities – rose by CHF 90.5 bn or 4.6% in 2021. This item made up 57.5% of the balance sheet total at the end of last year. The increase was due to growth of around 10% in both sight and time deposits. After falling in 2020, time deposits are moving back towards their level from 2019. Other customer deposit liabilities declined by 8.5% year-on-year.

Figure 18

Breakdown of liabilities

In CHF bn

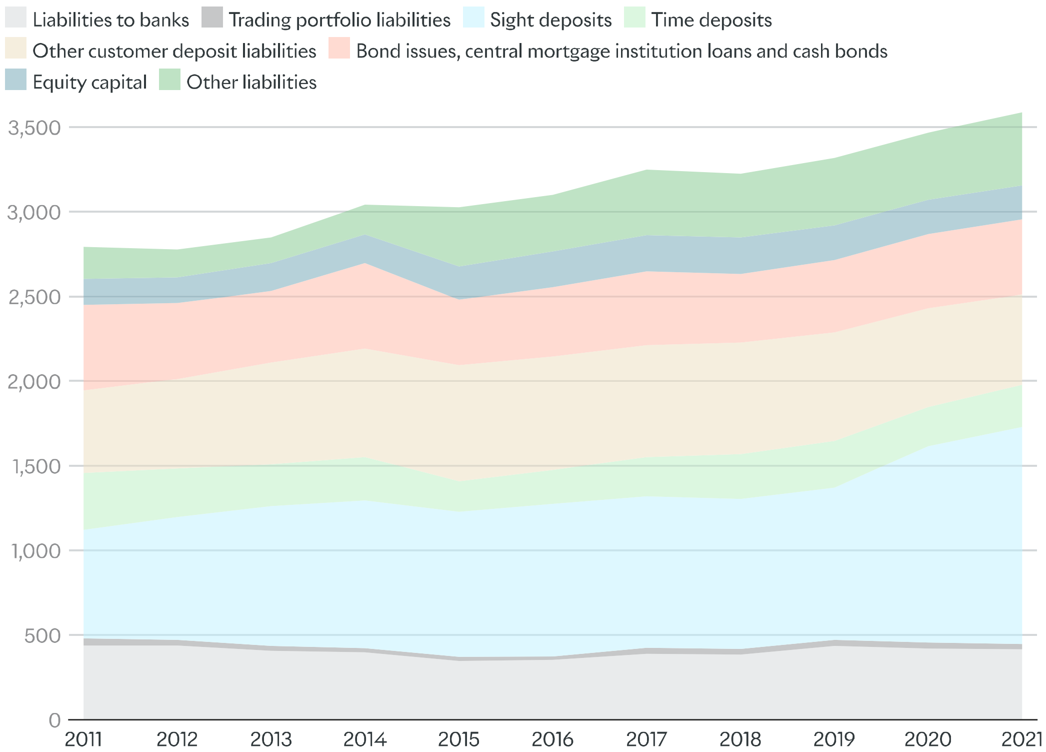


Chart: Swiss Bankers Association · Source: Swiss National Bank

Figure 19

Development of liabilities

In CHF bn

Position	2020	2021	Change	Share
Liabilities to banks	420.9	415.6	−1.3%	11.6%
Trading portfolio liabilities	34.3	32.0	−6.7%	0.9%
Sight deposits	1,161.7	1,281.0	10.3%	35.7%
Time deposits	230.4	251.1	9.0%	7.0%
Other customer deposit liabilities	582.1	532.6	−8.5%	14.8%
Bond issues, central mortgage institution loans and cash bonds	439.2	442.7	0.8%	12.3%
Equity capital	203.2	200.7	−1.2%	5.6%
Other liabilities	395.4	432.1	9.3%	12.0%
Total liabilities	**3,467.2**	**3,587.8**	**3.5%**	**100.0%**

Chart: Swiss Bankers Association · Source: Swiss National Bank

Amounts due to banks fell by CHF 5.3 bn in 2021. This was mainly due to a CHF 6.2 bn fall in amounts due to banks in Switzerland. Amounts due to banks abroad grew by around CHF 1 bn. Trading portfolio liabilities decreased by CHF 2.3 bn to CHF 32 bn, mainly as a result of a CHF 2.9 bn fall in the big banks' foreign liabilities. The balance sheet item "bond issues, central mortgage institution loans and cash bonds" showed an increase of CHF 3.5 bn, thanks primarily to growth of CHF 14.2 bn in bond issues and central mortgage institution loans in Switzerland. Foreign bond issues and central mortgage institution loans were down CHF 9.7 bn. Most of the domestic increase came from the cantonal and Raiffeisen banks, whereas the big banks were predominantly responsible for the drop in the foreign figure, having posted a fall of CHF 9.6 bn. Only the cantonal and big banks report foreign bond issues and central mortgage institution loans.

Breakdown of liabilities over time

The share of liabilities made up by amounts due to banks fell from 15.7% in 2011 to 11.6% in 2021. As already explained above on the asset side, this shows that interbank business, particularly with banks in Switzerland, has declined over time. During the same period, sight deposits rose from CHF 640.1 bn to CHF 1,281 bn. They constitute the largest liability item by far as at the end of 2021 with a 35.7% share.

Meanwhile, the share made up by time deposits fell from 12% in 2011 to 7% in 2021. Low interest rates make time deposits less attractive compared with sight deposits, leading to a rotation out of the former and into the latter.

3.2 Balance sheet growth in first half of 2022

The aggregate balance sheet total grew by 1.3% in the first five months of this year. Amounts due from securities financing transactions and other assets showed the strongest growth on the assets side, amounts due to banks and trading portfolio liabilities on the liabilities side.

The aggregate balance sheet total of the banks in Switzerland increased by 1.3% to CHF 3,828.4 bn in the first five months of 2022. Balance sheet growth in 2021 had been driven by sharp rises in liquid assets and amounts due from securities financing transactions, whereas other assets had fallen significantly. In the first five months of 2022, amounts due from securities financing transactions (up CHF 23.8 bn or 12.6%), other assets (up CHF 21.5 bn or 9.2%) and financial investments (up CHF 14.9 bn or 6.1%) were once again the best performing asset items. Trading portfolios in securities and precious metals were down CHF 16.4 bn or 8.2%, probably due to the bear market and rising market volatility since the end of 2021. Liquid assets grew by CHF 0.8 bn or 0.1% between January and May. Mortgage loans appear to be matching last year's growth in 2022 as demand for real estate remains high. The turnaround in interest rates has improved the gross interest margin in new business.

The increase in liabilities on the balance sheet was driven mainly by a rise of CHF 14.6 bn or 2.9% in amounts due to banks. Trading portfolio liabilities, meanwhile, grew by CHF 1.8 bn or 5.3%. After sight and time deposits both rose in 2021, time deposits were out in front in the first half of 2022 with an increase of CHF 29.4 bn or 10.9%, while sight deposits grew by CHF 18.7 bn or 1.4%. Time deposits have thus regained some appeal. The SNB's interest rate decision in June can be expected to lend them an additional boost and cause a rotation of out sight deposits and into time deposits.

4. Assets under management

The banks in Switzerland had assets under management totalling CHF 8,830.3 bn (up 12.1%) at the end of 2021. This strong growth compared with 2020 reflects the markets' recovery from the pandemic and is attributable first and foremost to an increase of around CHF 1,000 bn in securities holdings.

Assets under management for customers resident in Switzerland grew by CHF 414.5 bn in 2021, assets under management for foreign-domiciled customers by as much as CHF 537.2 bn. This resulted in strong growth of 12.1% in total assets under management at Swiss banks, driven mainly by a sharp increase of 14.3% in securities holdings. Since the latter make up around 90% of total assets under management, the downward trends in fiduciary liabilities and amounts due to customers excluding sight deposits had no impact on the overall result. The breakdown of custody account holdings by currency did not change relative to the prior year. The Swiss franc remained the dominant investment currency with a share of more than 50%. Assets under management have grown steadily overall since 2011.

4.1 Trends in 2021

Assets under management for domestic and foreign customers

Assets under management at banks in Switzerland grew sharply in 2021, rising by 12.1% to CHF 8,830.3 bn. Assets of both domestic and foreign customers rose, driven primarily by a sharp increase in securities holdings in customers' custody accounts at banks.

Figure 20

Assets under management in Switzerland by customer origin

In CHF bn

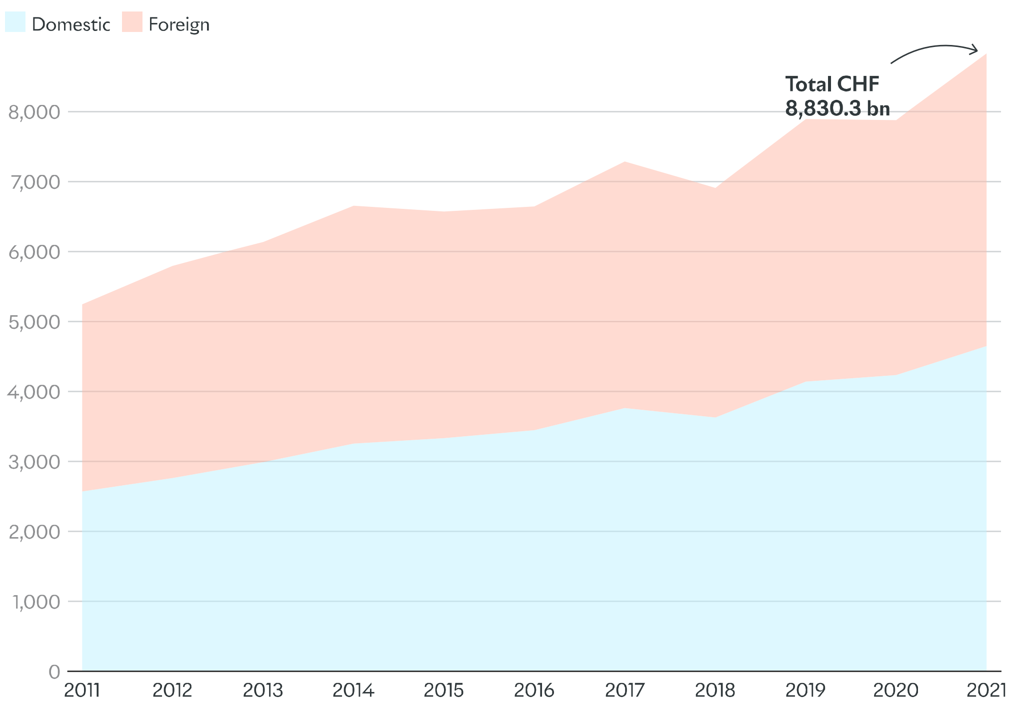


Chart: Swiss Bankers Association · Source: Swiss National Bank

Assets under management comprise securities holdings in bank custody accounts (CHF 7,937.8 bn), amounts due to customers excluding sight deposits (CHF 783.7 bn) and fiduciary liabilities (CHF 108.8 bn). Securities holdings were around CHF 993.8 bn higher year-on-year, mainly thanks to the highly positive market trends seen in 2021. Fiduciary liabilities, meanwhile, were down 10.8%, and amounts due to customers excluding sight deposits were down 3.6%. Securities holdings account for the largest share of assets under management by far, so their strong growth outweighed the negative trend in the other components.

When the financial and economic crisis broke out in 2008, it caused a slump in assets under management. Securities holdings in bank custody accounts suffered particularly heavy losses as share prices plummeted. Assets under management have gradually recovered since 2011, rising from CHF 5,245 bn to CHF 8,830.3 bn in 2021.

The proportion of assets under management attributable to foreign customers fell from 51% in 2011 to 47.4% in 2021. There are a number of reasons for this, the first being currency effects. Foreign customers hold a much higher proportion of their assets in euros and US dollars than domestic customers, but the percentages shown here are calculated in Swiss francs. The firming franc is causing assets held by foreign customers to lose value compared with those of their domestic counterparts. Another reason could be the introduction of more stringent requirements for bank customers in terms of tax compliance. Foreign customers have repatriated at least some of their assets in order to normalise their tax situation. Despite their declining share, foreign customers' assets under management rose by CHF 537.2 bn or 14.7% over the same period. This latest trend could be due to higher share prices and the appreciation of the US dollar versus the Swiss franc.

Figure 21

Composition of assets under management at the end of 2021

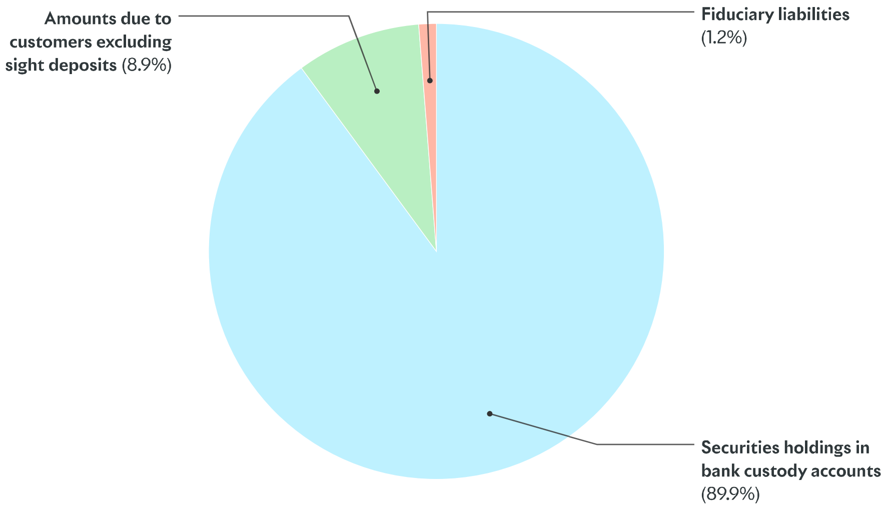


Chart: Swiss Bankers Association · Source: Swiss National Bank

Switzerland remained the global leader in cross-border wealth management for private customers in 2021. Assets under management rose 10.9% year-on-year, to CHF 2,395.3 bn.

Securities holdings

Securities holdings account for the largest share of assets under management. The easing of COVID-19 measures and the central banks' expansionary monetary policies pushed market prices higher in many parts of the world. resulting in a sharp increase of 14.3% in securities holdings.

Securities holdings in customers' custody accounts rose sharply (by 14.3%) in 2021. This impressive growth compared with 2020 was due to the reduced impact of the pandemic on stock exchange prices as well as to the persistently strong Swiss franc. The SMI added 2,070 points or 20.3% over the year as a whole. It had already returned to its pre-pandemic level by April. The MSCI World Index also fared well, gaining 22.4%. As the year progressed, the franc gained 3.6% against the euro but lost approximately 3.5% against the US dollar.

Securities holdings are broken down into the categories "equities", "units in collective investment schemes", "bonds" and "other". After only small changes in 2020, some categories posted strong growth in 2021. Equities performed best with a year-on-year rise of 20.8%, followed by units in collective investment schemes with 15.2%. Bonds, meanwhile, were more or less stable (down 0.6%). The increase in securities holdings is thus mainly attributable to the bullish stock markets. This also holds true in a longer-term comparison: overall, securities holdings have posted strong growth of 87.2% over the past decade. Since bond holdings remained constant during this time, the growth can be attributed to increased holdings of equities and units in collective investment schemes.

Figure 22

Securities holdings in bank custody accounts by category

In CHF bn

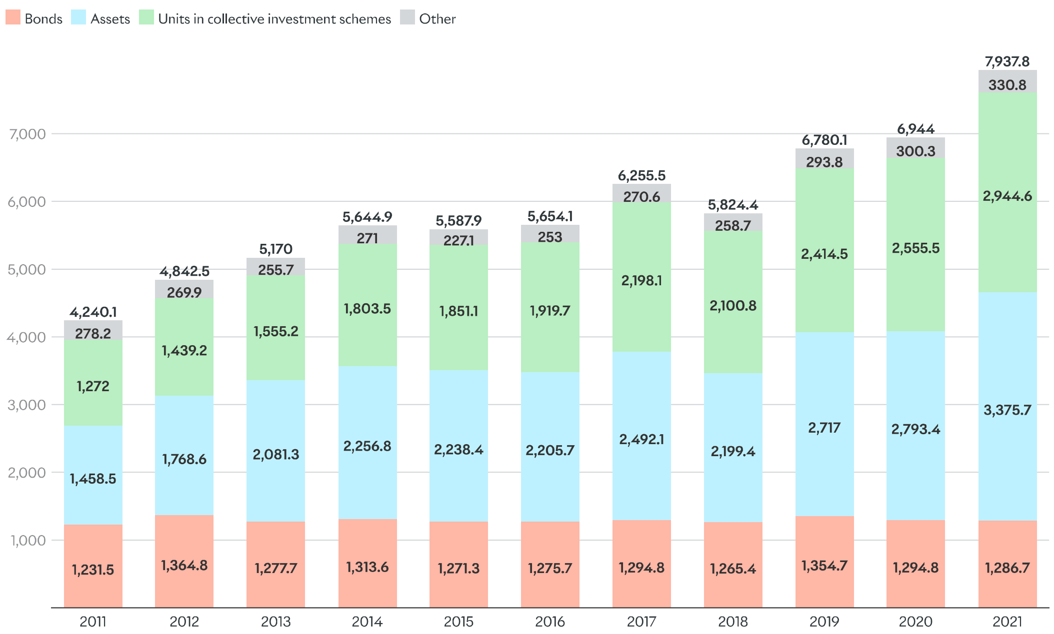


Chart: Swiss Bankers Association · Source: Swiss National Bank

Custody account holdings by currency

The breakdown of custody account holdings by currency was stable relative to 2020, with more than half denominated in Swiss francs at the end of 2021. A quarter were in US dollars, the remaining quarter in euros and other currencies.

The proportion of holdings denominated in Swiss francs rose slightly from 52.5% to 53% in 2021, with the franc therefore remaining the leading investment currency in Switzerland. Only minimal changes were observed in the other currencies. The proportion held in US dollars, for example, fell by 0.3 of a percentage point year-on-year, while the proportion held in euros increased by 0.8 of a percentage point. Domestic custody account holders are responsible for around two thirds of holdings in Swiss francs but just one third of holdings in US dollars and euros, with foreign customers making up the remaining two thirds.

Figure 23

Custody account holdings by currency at the end of 2021

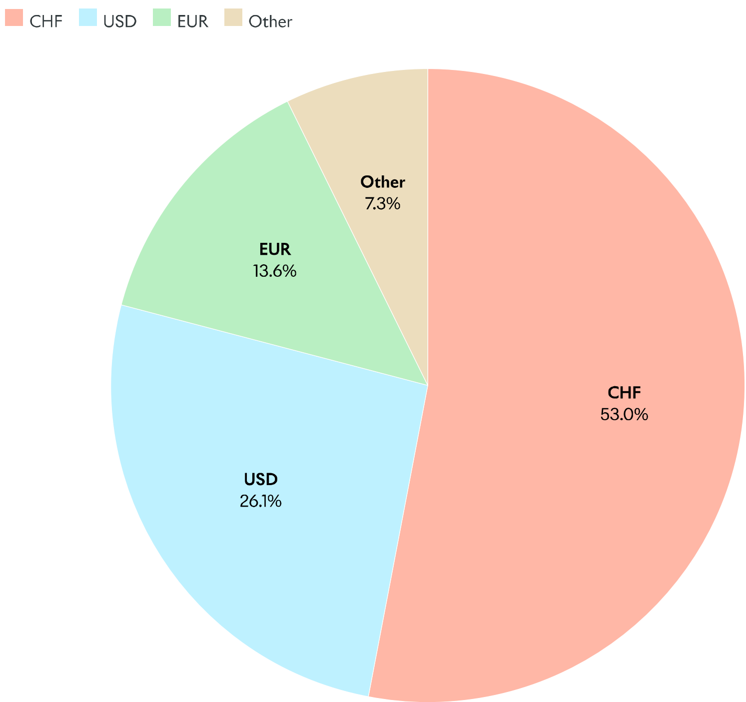


Chart: Swiss Bankers Association · Source: Swiss National Bank

4.2 Assets under management down mid-year

Following a sharp rise in 2021, assets under management were down 4.4% in the first five months of 2022 due to a 5.5% drop in securities holdings, which was mainly caused by the negative trend on the stock markets.

The great uncertainty in the first few months of 2022 is reflected in assets under management at banks in Switzerland, which totalled CHF 8,205 bn at the end of May, down 4.4% compared with the end of 2021. Both Swiss-domiciled and foreign-domiciled customers showed a decrease in the volume of their assets due to the negative stock market trend and the resulting fall of CHF 421.1 bn or 5.5% in securities holdings. This negative trend is reflected in the SMI, which shed as much as 20% in the first half of the year. Amounts due in respect of customer deposits grew by CHF 25.5 bn or 3.3% in the first five months of the year. This growth was driven by amounts due to foreign customers, which rose by 17.7%. Fiduciary liabilities were up CHF 17.7 bn or 16.8%, but this had little impact as they only account for 1.5% of total assets under management.

5. Number of staff at banks in Switzerland

At the end of 2021, the banks in Switzerland employed 90,576 people (full-time equivalents), 619 more than in 2020. The unemployment rate in the financial sector was slightly lower than that of the overall economy at 2.4% and much lower than in 2020, which was dominated by the pandemic.

5.1 Trends in 2021

The number of people employed in the banking sector, which had been in gradual decline since 2013, showed a small rise in 2020 and then again in 2021, when it was up 0.7%. The unemployment rate in the financial sector was slightly lower than that of the overall economy at 2.4%.

The banks employed 90,576 full-time equivalents in Switzerland in 2021, up 619 or 0.7% year-on-year. Following a gradual decline, the number of staff in the banking sector thus increased for the second year in succession, reaching a level last seen in 2018. According to SECO, the Swiss financial sector's average unemployment rate in December 2021 was 2.4%.[36] This is just below the figure of 2.6% for the overall economy, which has fallen back to pre-pandemic levels. In total, 3,081 banking sector workers were registered unemployed at the end of the year, down 1,256 year-on-year. The big banks shed around 314 jobs in 2021, while banks in the remaining categories added a total of 933. Despite the increase in headcount, personnel expenses fell by CHF 206.7 mn year-on-year. The proportion of female staff fell slightly compared with 2020 to 38.3% (34,733 full-time equivalents). As in prior years, the highest

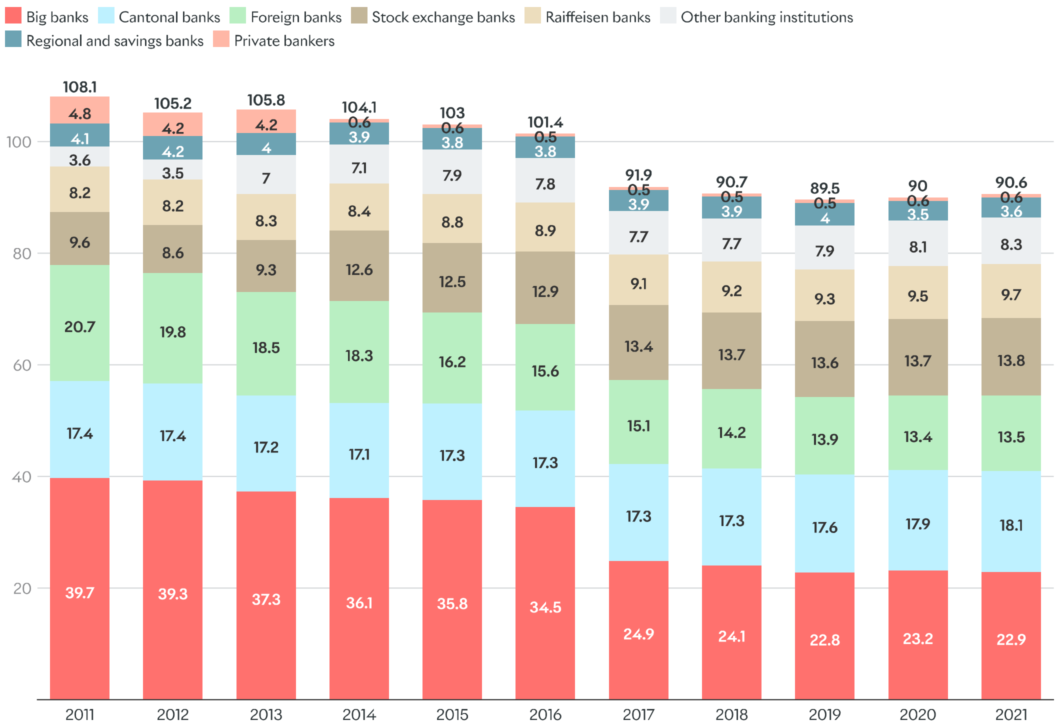
[36] SECO (2021). The situation on the job market in December 2021

proportions of female staff were recorded at the Raiffeisen banks with 45% and the regional and savings banks with 44.1%.

Figure 24

Number of staff at banks in Switzerland (domestic)

In thousands of full-time equivalents



Note for 2017: One-off effect from the reallocation of staff to an intra-group service company of a big bank.

Chart: Swiss Bankers Association · Source: Swiss National Bank

Figure 25

Development of staff by banking group

In full-time equivalents

Group of banks	2020	2021	Change
Cantonal banks	17,900	18,091	190
Big banks	23,228	22,914	–314
Regional and savings banks	3,529	3,640	111
Raiffeisen banks	9,492	9,729	237
Private bankers	554	553	–1
Foreign banks	13,395	13,542	147
Other banking institutions	8,111	8,264	153
Stock exchange banks	13,748	13,844	96
Total	**89,958**	**90,577**	**619**

Chart: Swiss Bankers Association · Source: Swiss National Bank

5.2 Positive short-term outlook for jobs

Both the current employment situation and the outlook for the remainder of the year are positive. The total number of staff rose by around 1% in the first half of the year, but foreign headcount showed a much higher increase (1.5%) than domestic headcount (0.4%). Almost a third of the banks surveyed expect this trend to continue in the second half of the year.

According to the SBA survey, headcount at the banks in Switzerland showed a small rise of 325 full-time equivalents or 0.4% between the end of 2021 and June 2022. Foreign headcount grew strongly over the same period, rising by 1,412 full-time equivalents or 1.5%. The detailed results show just over 4,100 full-time equivalents joining banks in Switzerland in the first six months of 2022 and 3,800 leaving. Fluctuation was more pronounced outside Switzerland, with around 6,800 joining and a little more than 5,400 leaving.

Figure 26

Number of staff: domestic and foreign

In full-time equivalents	As at 30. June 2022	Trend in the first half of 2022			
		Total change	Change in %	Joined	Left
Domestic	89,940	325	0.4%	4,125	3,800
Foreign	94,146	1,412	1.5%	6,805	5,392

Note: number of responses: 153; Number of banks surveyed: 205

Chart: Swiss Bankers Association · Source: Survey of the Swiss Bankers Association (2022)

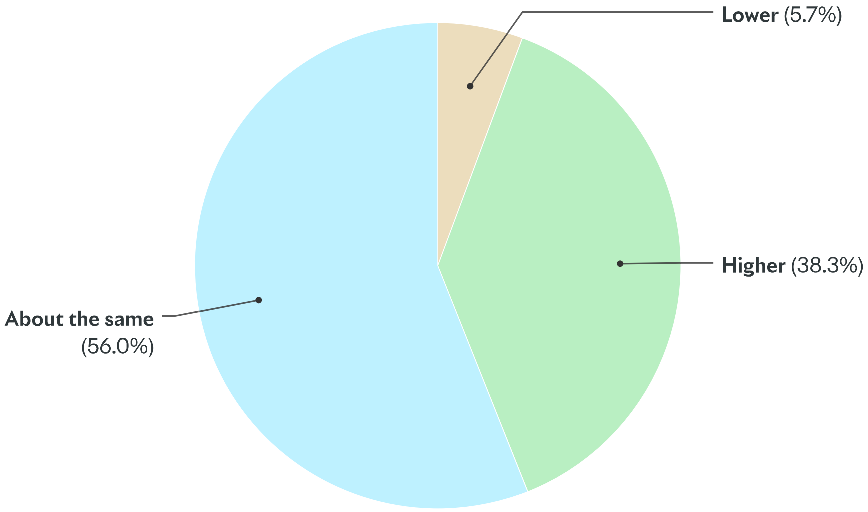
Optimistic outlook for rest of 2022

As in 2021, the banks surveyed are optimistic as regards the trend in their own headcount for the second half of the year. Over a third of them expect their headcount to increase further up to the end of 2022, whereas only around 6% expect it to decline. The proportion of banks expecting an increase has thus increased slightly year-on-year. With over 90% of the banks surveyed continuing to expect stable or higher employment, it can be assumed that the total number of staff will at least remain unchanged in the final six months of this year.

Figure 27

Expected employment trend in second half of 2022

Percentages refer to all responses



Note: number of responses: 153; Number of banks surveyed: 205

Chart: Swiss Bankers Association · Source: Survey of the Swiss Bankers Association (2022)

Minority of banks expecting employment to fall

In past SBA employment surveys, the banks predicting that their own headcount would stay more or less the same had been in the majority. Since 2013, however, the proportion of banks expecting employment to fall has steadily declined – with the exception of 2019. This trend has continued in 2022. Only 5.7% of the banks surveyed now expect a reduction in their headcount in the second half of the year.

Figure 28

Survey results on employment expectations for second half of the year

Percentages refer to all responses

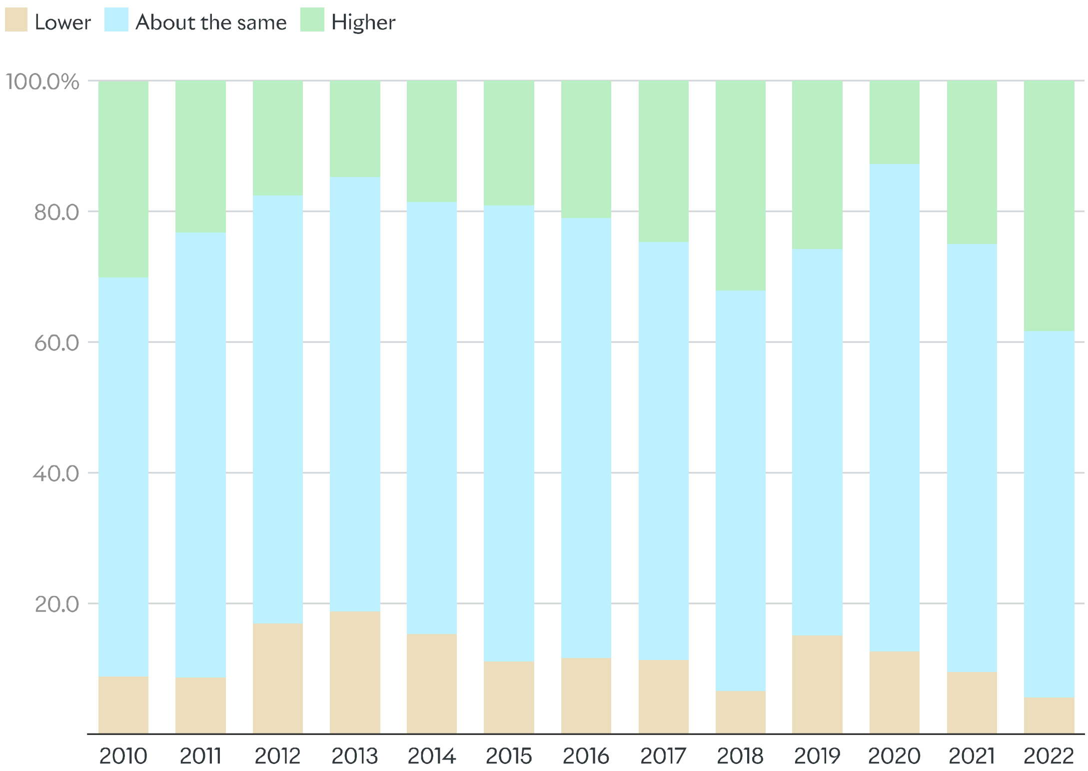


Chart: Swiss Bankers Association · Source: Surveys of the Swiss Bankers Association

Employment expected to increase in several areas of business

The banks' responses concerning employment trends in individual areas of business reveal a generally positive outlook in almost all areas. Job trends in retail banking, wealth management, and logistics and operations (back office) were viewed positively to the same degree (more than a quarter in each case). The vast majority of respondents expect employment to remain stable in institutional asset management (around 80%) and securities trading (around 95%).

Figure 29

Employment trend in second half of 2022

Total	Retail Banking	Wealth Management	Institutionelles Asset Management	Trading Activities	Logistics + Operations ("Back-Office")
→ ↗	→ ↗	→ ↗	→	→	→ (↗)

Note: number of responses: 153; Number of banks surveyed: 205

Table: Swiss Bankers Association · Source: Survey of the Swiss Bankers Association (2022)

Slight fall in banking sector unemployment rate

The unemployment rates for Switzerland as a whole (2.6%) and the financial sector (2.4%) at the end of 2021 were well below the high levels recorded in the pandemic-hit prior year. The situation has calmed down further over the course of 2022. At the end of June, the financial sector unemployment rate stood at 2.2%, in line with the rate for Switzerland as a whole.

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