SwissBanking

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Economic trends in the Swiss banking industry

Content

Executive Summary

The banking sector makes a significant contribution to the success of the Swiss financial centre. Switzerland is one of the leading global financial centres and continues to be the top location for cross-border wealth management. At the end of 2018 there were 248 banks in Switzerland.

The economic environment in which the banks operate in Switzerland continues to be challenging: rising regulatory costs, persistent negative interest rates and restrictions to market access are impacting the framework conditions for these institutions. In light of the continuing decline in margins and the ongoing digitalisation of the financial sector, it is likely that the structural realignment in the banking sector will continue in the coming years. Despite the uncertain environment, the adjustment process and the economic challenges, the banks are developing solidly.

Part I: Economic policy environment remains challenging

Negative interest rates and international resistance

Last year, negative interest rates once again characterised the monetary policy environment. At the end of 2018, sight deposits totalling CHF 269 bn were subject to negative interest rates in Switzerland. At the same time, non-banks such as pension funds substantially increased their mortgage lending in their search for returns. Both factors had a dampening effect on interest rate margins. Unlike in the past, banks can now only counteract this trend to a limited extent by expanding volumes: a trend towards saturation and stricter requirements are in particular limiting growth in the mortgage lending segment.

Uncertainties regarding market access are still a topic

Compared with the previous year, the framework conditions for Swiss banks' cross-border business have deteriorated. The wide-reaching lack of market access for institutions operating out of Switzerland at present represents a challenge for Swiss banks active in the field of wealth management. Practical solutions governing market access have been requested by the banking industry, among other things during discussions about a framework agreement with the EU. Now that Switzerland has equivalent regulations to the EU in technical and transparency terms, there are no longer any legitimate reasons to exclude Switzerland from the European single market. An example of this is the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA), which among other things modernise investor protection. Further amendments in the areas of money laundering and data protection as well as the banks' code of conduct with regard to the exercise of the due diligence make an important contribution to this. In September 2018, Switzerland for the first time exchanged data with 36 partner states under the Automatic Information Exchange (AEOI). An extension to an additional 37 nations is currently underway. The European Commission's decision not to extend Switzerland's stock market equivalence is one example that shows the difficult nature of the corresponding negotiations, which are not void of political interests.

Disadvantages for the capital market through stamp duties and withholding tax
Stamp duties and withholding tax are two internationally unique and «homemade» competitive disadvantages for the Swiss financial centre. The capital market is particularly impacted by this fact, as they curb issuing and trading activities in Switzerland. In June, the Federal Council published the parameters for a planned reform of the withholding tax and aims to send a draft for consultation in autumn 2019.

Global framework conditions for new digital solutions
New digital technologies give rise to seminal business opportunities and increase the financial centre's competitiveness. Of note here is that the banks and fintech companies often work together in this area and leverage potential synergies. At the same time, however, this also intensifies the competition and margin pressure on traditional business activities. Digital technologies are particularly also leading to a shift in job profiles in the banking sector – towards IT, credit and risk management, research and product development.

As in previous years, Zurich and Geneva took second and third place in the IFZ FinTech Hub ranking. At the end of 2018, there were 365 fintech companies in Switzerland, 136 of which were launched in the last year alone. The choice of Geneva as the location for Libra – a cryptocurrency initiated by a consortium led by Facebook – underscores Switzerland's international competitiveness in attracting fintech companies. The framework conditions for digital innovations are being continuously improved. For example, at the beginning of 2019, the «Fintech licence» was introduced, which features leaner requirements than for obtaining a bank licence. Further to this, the SBA together with member institutions, auditing firms and providers, developed guidelines that provide a solid foundation for the proper use of cloud banking.

Part II: Solid business performance

Profit increase despite growing burden of negative interest rates
The aggregate operating net income of the banks in Switzerland increased by 4.6 percent year-on-year to CHF 65.3 bn. The most important driver here was the big banks (+8.5 percent). In 2018, 216 institutions reported a total profit of CHF 12.8 bn, while 32 reported a total loss of CHF 1.3 bn. The resulting annual profit for the overall banking sector amounted to CHF 11.5 bn and was therefore CHF 1.7 bn higher than in the previous year. Gross profit from the business operations of the banks in Switzerland increased by 20.3 percent in 2018. The banks paid a total of CHF 1.5 bn in income taxes and taxes on earnings.

Net income from the interest-earning business declined slightly, which is due to the negative interest rates, among other factors. In 2018, the banks in Switzerland paid negative interest rates amounting to approx. CHF 2.0 bn. Net income from the commission and services business rose only slightly year-on-year and remained on par with the previous year's level.

Despite the decline, net income from the interest-earning business made the largest contribution to aggregate operating net income. Net income from the commission and services business was the second-largest contributor to total net income. Compared with the previous year, the income items and commission expenses rose only slightly and are at a similar level to last year. Net income from the trading business rose by 5.9 percent in 2018. Geopolitical uncertainties and market volatility have increased, which resulted in higher trading activity. Other ordinary net income rose by CHF 2.6 bn, which is mainly attributable to dividend income at the big banks from subsidiaries.

Higher mortgage holdings, lower trading portfolio assets
The aggregate balance sheet total of all the banks in Switzerland fell by 0.8 percent to CHF 3,225.0 bn in 2018. Mortgage loans increased by 3.7 percent and were the largest asset item with a share of balance sheet of roughly one-third. At the same time, customer loans abroad and loans to foreign central banks declined. The 11.2 percent reduction in the item portfolios of securities and precious metals can primarily be explained by the negative developments in stock markets.

Lending by banks intact

The banks' lending business is an important pillar for economic development in Switzerland. Compared with the previous year, the total domestic credit volume rose 3.9 percent to CHF 1,174.7 bn in 2018. Of that total, CHF 164.6 bn originated from secured and unsecured customer loans and CHF 1,010.2 bn was attributable to mortgage loans. Growth in domestic mortgage lending was therefore higher than in the previous year (2017: +2.1 percent). The volume of corporate loans increased by 6.6 percent to CHF 530.8 bn. Of this, 83.2 percent is attributable to SME with fewer than 250 employees.

Despite negative interest higher customer deposits

On the liabilities side, liabilities in the form of customer deposits recorded a rise of 1.5 percent and at 56.3 percent, accounted for the largest share of liabilities. Sight deposits and other amounts due in respect of customer deposits decreased by 1.1 percent and 0.4 percent. Time deposits, in contrast, rose by 17.0 percent. Short positions to hedge price risks, which saw strong gains due to weak stock markets, contributed to this. Equity capital increased by 0.8 percent. Liabilities to banks fell by 2.7 percent in 2018. Trading portfolio liabilities declined by 3.1 percent, which is attributable to short positions and market contractions. The balance sheet item «bond issues, central mortgage institution loans and cash bonds» even fell by 6.9 percent in the past year.

The balance sheet totals rising since the beginning of 2019

In the first five months of 2019, the aggregate balance sheet total of the banks in Switzerland increased by 2.8 percent. The most important driver here was amounts due from securities financing transactions (+14.7 percent) and trading portfolio assets (+6.2 percent). Customer loans, mortgage loans, loans to other banks and financial investments all increased.

On the liabilities side, amounts due in respect of customer deposits rose by 2.2 percent. Liabilities from trading portfolios increased significantly by 36.3 percent. The item trading portfolio liabilities comprises short positions related to the trading business. This is an indication that investors expect to see declining stock market prices. Liabilities from securities financing transactions and the items bond issues, central mortgage institution loans and cash bonds, liabilities to other banks and equity capital have also risen.

Fewer employees due to restructuring

At the end of 2018, the banks in Switzerland employed a total of 90,660 persons (in full-time equivalents, in Switzerland) and therefore 1.3 percent fewer than in the previous year. The greatest job cuts were reported by the foreign banks (-5.8 percent) and the big banks (-3.3 percent). Part of the decline can be explained by the fact that jobs were transferred to intragroup legal entities that are not covered by banking statistics. The payroll expenditure fell above-average by 7.0 percent. At the end of 2018, the unemployment rate was 2.3 percent. The number of job-seekers decreased significantly. The labour market in the banking sector therefore continues to be robust.

According to a survey conducted by the SBA, the employment trend in the first half of 2019 increased slightly. Around 60 percent of the banks surveyed expect the employment trend to be flat for the second half of 2019.

Part III: Wealth management and investment management as an important export sectors of the Swiss financial centre

Banks in Switzerland had a total of CHF 6.9 tn of assets under management at the end of 2018, which is 4.8 percent less than in the previous year, and is mainly due to market developments. These assets are broken down into CHF 1.4 tn of domestic private assets, CHF 2.3 tn of private assets in cross-border customer relationships and CHF 3.3 tn of assets originating from companies and institutional clients.

Leading global position in cross-border wealth management
Wealth management – i.e. the management of private assets – is the Swiss financial centre's leading area of expertise. It encompasses the provision of comprehensive financial services for private individuals and their assets. In 2018, banks in Switzerland managed a total of CHF 3.7 tn of private assets, of which around 62 percent originated from customers domiciled abroad. Even in an environment characterised by stricter regulatory framework conditions to ensure tax transparency, Switzerland remains the international leader in global cross-border wealth management with a share of around 27 percent of the market.

Swiss wealth management displays a high level of global diversification in terms of customer domiciles: the global importance of the Swiss banking centre is illustrated by the fact that four regions of the world each account for more than 10 percent of assets under management. Western Europe is by far the most important market for Swiss wealth management, accounting for 42 percent of assets under management, followed by the Middle East, Latin America and Asia. Switzerland does not border on the key wealth management growth markets and therefore gains less benefit than other financial centres from the automatic advantages that exist for neighbouring countries. In recent years, assets under management have experienced significantly more growth in particular in Singapore and Hong Kong.

Rise in assets under management in Western Europe thanks to investment performance
A considerable outflow of cross-border assets was expected, in particular due to the introduction of the Automatic Exchange of Information and the associated disclosure of customer assets. Now that the majority of the new regulations have come into force and the first customer data have been supplied to foreign tax authorities, it can be said by the end of 2018 that the outflow has remained within reasonable limits in recent years: Western European private customers transferred a net total of CHF 95 bn out of Switzerland between 2013 and 2018, which corresponds to around 10 percent of the assets of this customer segment in 2013. At the same time, this segment benefited from a rise in assets of CHF 115 bn resulting from investment performance. This more than offset the net outflows, which resulted in an increase in the assets under management for Western European customers. Income for each franc managed has, however, decreased – both in the domestic business as well as for cross-border customer relationships – and is now at an internationally comparable level.

Quality of advice is Swiss wealth management's trump card
The volume of assets under management increased by CHF 300 bn between 2013 and 2018. This is a clear indicator that the Swiss wealth management offering is intact and continues to be very popular with customers abroad. Even in a market with tax transparency, the majority of customers served by the Swiss wealth management industry want to benefit from the advantages offered by Switzerland and the high-quality advice of its financial institutions. With their broad range of services, the banks in Switzerland have all the necessary strengths to prosper in a competitive environment in which advisory quality is more of a determining factor than pricing or national regulations.

Investment management as an important export sector for Switzerland
In recent years, investment management, or the professional management of assets for institutional and private customers, has established itself as the central pillar of Switzerland's finance industry and as part of its value proposition. In 2018, investments totalling CHF 3.3 tn were managed in Switzerland. This corresponds to about five times Switzerland's gross domestic product. 34 percent thereof are managed for customers abroad. Investment management generates significant added value

for the financial sector and real economy through the efficient allocation of capital and by ensuring efficient markets and the professional management of institutional and non-institutional assets. As a service provider for other banking segments, it is closely connected to wealth management and contributes to the comprehensive offering available to domestic and foreign customers in the Swiss financial centre.

Fig. 1

Key data banking sector

	2017	2018	Change YoY
Number of institutions	**253**	**248**	**5**
Number of employees (in full-time equivalents, in Switzerland)	**91,900**	**90,660**	**-1.3 %**
in CHF bn			
Aggregated net income	**62.5**	**65.3**	**4.6 %**
Interest rate business	24.0	23.5	-1.8 %
Net income from the commission and services business	21.7	22.0	1.2 %
Net income from trading	7.7	8.2	5.9 %
Other ordinary income	9.0	11.6	28.6 %
Gross profit from business operations	**18.5**	**22.2**	**20.3 %**
Income taxes and taxes on earnings paid	**2.2**	**1.5**	**-34.9 %**
Aggregate annual profits (result for the period)	**9.8**	**11.5**	**17.3 %**
Annual profit	10.3	12.8	24.3 %
Annual loss	0.5	1.3	160.0 %
Balance sheet total	**3,249.4**	**3,225.0**	**-0.8 %**
Lending volume	**1,131.1**	**1,174.7**	**3.9 %**
Assets under management in Switzerland	**7,291.8**	**6,943.5**	**-4.8 %**
Assets under management cross-border for private customers	**2,276.2**	**2,277.9**	**0.1 %**
Assets under management in investment management	**3,386.0**	**3,344.2**	**-1.2 %**
Institutional investors (discretionary mandates and collective investment schemes)	2,208	2,161	-2.1 %
Private investors (discretionary mandates, advisory mandates for institutional investors	1,178	1,183	0.4 %

Source: SNB, SBA, IFZ/AMP and BCG

I. The Swiss banking sector

The banking sector makes a significant contribution to the success of the Swiss financial centre. The Swiss financial centre is one of the most competitive in the world and remains the global leader in the cross-border wealth management business. The broad range of specialised investment management services it offers caters to the strong demand for investment solutions. Switzerland is also a leading location for innovation sector: the framework conditions for global innovation are world-class.[1]

The Swiss banking sector is characterised by a large variety of banking institutions with differing business models. It provides a broad spectrum of comprehensive, high quality services. Digital services in particular are playing an increasingly important role due to the structural changes in the industry and new competitors. In a challenging economic environment, the banking sector made an important contribution to value creation in Switzerland in 2018, accounting around for around five percent thereof.[2]

1 Institute of Financial Services Zug (2019). FinTech Study 2019 – An Overview of Swiss FinTech.
2 State Secretariat for Economic Affairs (2019). Quarterly data on gross domestic product according to production rate..

As at the end of 2018, there were 248 banks operating in Switzerland. The total number decreased slightly by five. The reduction is related to the regional banks and savings banks, the foreign banks and the private bankers.

The Swiss National Bank (SNB) classifies the banks in Switzerland into eight groups: cantonal banks, big banks, regional banks and savings banks, Raiffeisen banks, foreign banks, private bankers, stock exchange banks[3] and «other banking institutions».

Fig. 2

The structure of the Swiss banking sector as at end of 2018

	No. of institutions 2017	No. of institutions 2018	New admissions	Reallocations	Omissions
Cantonal banks	24	24			
Big banks	4	4			
Regional banks and savings banks	62	60			2
Raiffeisen banks	1	1			
Foreign banks	99	97		+1/-1	2
Private bankers	6	5			1
Stock exchange banks	43	43	1	+1/-1	1
Other banking institutions	14	14			
Total	**253**	**248**	**1**		**6**

Source: SNB

3 The stock exchange banks operate primarily in the wealth management business and are represented by the Association of Swiss Asset and Wealth Management Banks.

I. 1 Economic policy environment

Low interest rates

On 31 July 2019, the Federal Reserve (Fed) reduced the target range for the federal funds rate. Politically, the focus is currently mainly on the effects of the trade dispute with China on the US economy. In Europe, while the European Central Bank (ECB) ended its government bond buying programme at the end of 2018, however, in March 2019 it announced that starting in September, a programme would be launched for long-term funding for commercial banks at very attractive conditions («targeted longer-term refinancing operations»). In addition, the ECB wants to leave its key interest rates unchanged at zero percent until at least the end of 2019. The explanation for this decision is the continued fragile environment in terms of sovereign debt and the situation in the banking sector in a number of member states. It is therefore unlikely that the low interest rate policy will change in the near future.

Due to the continued upwards pressure on the Swiss franc, the SNB wants to keep negative interest rates in place. However, the risks associated with this policy are increasing at the same rate as the effectiveness of the extraordinary monetary policy interventions of the central banks is decreasing. The SNB is faced with a so-called monetary policy trilemma, in which only two of the following three objectives can be achieved at the same time: «stable exchange rates», «free movement of capital» and «autonomous monetary policy». According to the International Monetary Fund's (IMF) country report, however, there is room for manoeuvre with regards to fiscal policy. It recommends that structural surpluses not be used for debt reduction, as has been the case so far, but instead for additional expenditures that will support the economy. With this recommendation, the IMF is contradicting a group of experts appointed by the Federal Council which attributes these surpluses not to underspending, but to prudent budgeting and describes the level of taxation as being too high. In addition to this, the implementation of the Tax proposal and AHV financing (TRAF) will result in lower tax revenues for the federal government in the short-term.

At the end of 2018, around CHF 269 bn in sight deposits attributable to the banks and other financial market participants were subject to negative interest rates in Switzerland.[4] In 2018, negative interest rates once again had a dampening effect on interest rate margins industry-wide. In the past, the banks were able to compensate for the margin pressure by expanding credit volumes and reducing deposit interest to zero. The mortgage market, however, is showing first signs of saturation. A similar expansion in volume is unlikely to be possible in the future. The lower profits that would result would hinder capital accumulation and the banks' ability to innovate. Passing negative interest rates on to clients is now being categorically ruled out by only around 30 percent of all banks. In 2015, this figure was around 70 percent.[5] The retail business therefore has little room for manoeuvre.

The low interest rate environment also poses a significant stability risk for pensions. Pension benefits for occupational pension plans by far exceed the current contributions and returns generated. The existing imbalance between pension benefits for contributors and new retirees will therefore increase. Moreover, despite unattractive interest rates, the expectation of low pensions leads the working population to increase their savings, which reduces the effectiveness of the central bank's interest rate instrument (cf. chapter III. 3).

Conflict surrounding trade relations between USA and China

Global economic growth slowed substantially in the second half of 2018. The reasons for this are twofold: the growth slowdown in the eurozone and the trade conflict between the US and China.6 The US is currently imposing tariffs of up to 25 percent on various products from China. China, in turn, has reacted to every new measure introduced by the US with tariffs on US products. With the 2020 presidential elections drawing nearer, the US is unlikely to reverse its protectionist measures.

Protectionism has risen around the world since the financial crisis. While in an initial phase, the focus was mainly on boosting subsidies and export incentives for (domestic) companies, nations are once again increasingly turning to tariffs on imports competitive depreciations. Since November 2008 governments of 36 states worldwide have introduced around 348 trade-distorting measures.[7] As a small,

4 Swiss National Bank (2019). Annual Report 2018.
5 Ernst & Young (2019). EY Banking Barometer 2019 – Signs of the times.
6 International Monetary Fund (2019). World Economic Outlook.
7 Global Trade Alert Report (2019). Jaw Jaw not War War – Pritoritising WTO Reform Options.

open economy, Switzerland is particularly reliant on global market access and a rules-based trading system. A decline in global economic growth would also further delay the normalisation of the Federal Reserve's and the European Central Bank's interest rate policies and increase the upwards pressure on the Swiss franc.

The European banking union and big banks
Since the financial crisis, US and Chinese banks have grown strongly, while in Europe[8] they have contracted significantly. The differences between the US and Europe are mainly attributable to the successful handling of the financial crisis in the US. In contrast, a number of European banks remain in bad shape. Efforts to establish an EU banking union are currently in a holding pattern. Without such a banking union, it will not be possible for a big pan-European bank to emerge. The big banks in Switzerland have realigned themselves and sharpened the focus of their business. However, without Swiss big banks that provide investment banking services, access to international capital markets depends entirely on foreign countries. Sustainable growth for the Swiss big banks is therefore key for the Swiss economy.

Bilateral relationships Switzerland-EU: market access and recognition of equivalence
The cross-border wealth management business with private clients from the EU is an important export industry for Switzerland. This segment employs approx. 20,000 people in Switzerland and generates tax revenues of approx. CHF 1.5 bn per year.[9] However, due to the restrictions on market access, it is becoming increasingly difficult for internationally-oriented Swiss banks to meet the needs of foreign investors. In investment management, assets of approx. CHF 100 bn are managed for institutional EU clients. The importance of market access is growing, as the home market is becoming increasingly saturated and the demand for investment management will rise in the EU.

To ensure that value creation, jobs and tax revenues remain in Switzerland, market access solutions are required. These should at least provide such access to institutions interested in active market access, without Switzerland having to adopt EU

8 8 Swiss Banking Association SBA (2019). Does Switzerland need big banks? Discussion paper SBA.
9 Swiss Bankers Association SBA (2019). Market access for Swiss banks – Significance and perspectives. SBA background paper.

regulations for the entire banking sector. Recognition of the equivalence of Swiss financial market regulation is also of great importance. Banks in Switzerland are striving to fundamentally improve equivalence procedures so that they become more objective, reliable and predictable. The aforementioned approaches, however, are essentially linked to the conclusion of an institutional framework agreement with the EU.

The Federal Council decided in December 2018 to hold consultations on the outcome of the negotiations on the framework agreement. The aim was to find a common position with regards to the outstanding issues relating to the accompanying measures and the Citizens' Rights Directive in order to be able to take these issues up again with the EU. According to the Federal Council, the consultation revealed a need for clarification with regards to the provisions on wage and employee protection, state aid and the Citizens of the Union Directive. If a satisfactory solution can be found in these three areas, the Federal Council is prepared to sign the agreement. Although the European Commission has signalled that it is prepared to provide clarifications in supplementary declarations, it has ruled out a renegotiation of the framework agreement. Many elements of the current negotiation outcome are positive and advantageous for Switzerland. The framework agreement sustainably strengthens bilateral relations with the EU. Not only will legal certainty be solidified thanks to reliable and clearly defined processes, the foundation will also be laid for maintaining and improving market access. The SBA therefore supports the conclusion of a framework agreement.

Due to the European Commission's view that too little progress had been made on the framework agreement, the recognition of Swiss stock exchange equivalence was not extended beyond 1 July 2019. In order to protect the Swiss stock exchange infrastructure, the Federal Council has in turn decreed that trading venues domiciled in the EU can no longer trade in certain stocks of companies domiciled in Switzerland. This ensures that the Swiss stock exchange remains the reference market for Swiss equities. Unlimited recognition of stock exchange equivalence remains key for the Swiss financial centre. The current solution is only second-best and is not beneficial for the Swiss capital market.

Brexit
Following the rejection of the withdrawal agreement by the British Parliament three times, the EU has granted a postponement to the UK and has extended its withdrawal until 31 October 2019. It remains to be seen what strategy Britain will pursue. The Swiss banks are preparing accordingly for various Brexit scenarios.

I. 2 Structural change and growth areas

Value added
Despite challenges such as negative interest rates, ever-increasing regulation, digitalisation and greater demands in terms of its competitiveness, the financial sector is making an important contribution to the Swiss economy. In 2017, it generated a share of 9.2 percent of Switzerland's gross value added. At 2.1 percent, the rise in value added was slightly above the Swiss average.[10] In addition to this, banks and insurers trigger additional value added in other sectors through their purchase of goods and services and as a result of their employees' consumption. Due to regulatory requirements (in particular the so-called too big to fail regulation), banks were forced to adjust their organisational structures, which also led to the transfer of staff to intra-group service companies without a banking licence.

The banks' direct value added therefore appears to be lower than it actually is.[11] Issues of differentiation also exist, for example, in the case of digital platforms (crowdfunding, payment transactions), which are not operated directly by traditional financial institutions but are very closely linked to the financial institutions.

10 Polynomics (2018). Banks and insurance companies in Switzerland – Analysis of the national economy significance of the financial sector 2017.
11 Also not included in valued added is consumer surplus. Digitalisation and the intensified competition it brings with it can result in lower prices and therefore lower value added, even though consumer surplus increases as a result. The qualitative improvement of products and the therefore the ensuing greater customer benefit at unchanged prices are not reflected in value added.

Shift in jobs
Job profiles in the banking sector are changing due to new digital technologies. It is expected that jobs will shift away from the back office and move to IT, credit and risk management, research and product development as well as to intragroup service companies without a banking license (see also Chapter II.4). This change can also be seen in the employment trend in the banking sector; the number of people employed (in full-time equivalents) fell by 1.3 percent in 2018. As in the previous year, part of this decline can be explained by the fact that jobs were shifted to intragroup entities that are not included in the banking statistics. This kind of shift is likely to further increase in the future, meaning the statistics for employees in the banking sector will become less representative and that it will be necessary to broaden the banking statistics in order to track this trend.

Digitalisation is giving rise to a change in the type of skilled labour required and is increasing the necessity for further internal training at banks in order to maintain the employability of staff. It is for this reason that since 2016, the Employers Association of Banks in Switzerland has been offering a competency development programme called Skills 4.0 to equip experienced bank employees for the new working environment.[12] Leveraging the maximum potential of bank employees is also becoming more important in light of an increase in the average time required to recruit employees.

Locational advantage for fintech and blockchain
As a location, Switzerland offers outstanding advantages (in particular proximity to educational institutions, research and innovation, a relatively liberal labour market, an entrepreneurial environment with business-friendly framework conditions, a high quality of life) and has positioned itself well for fintech companies. The Federal Council has emphasised that it wishes to create the best possible framework conditions for the establishment and further development of fintech and distributed ledger technology (DLT) companies.

12 Employer Banks (2019). The Swiss Banks on the way to a new world of work. Media notification.

The Institute of Financial Services Zug's (IFZ) fintech hub ranking attests to just how successful Switzerland has been in developing into a leading global centre for fintech in the area of DLT: like last year, Zurich and Geneva ranked second and third.[13] In 2018, 136 new fintech companies were established in Switzerland, which corresponds to an increase of 62 percent. At the end of 2018, there were 356 such companies in Switzerland. The growth took place primarily in DLT, where the number of companies increased more than threefold.

With this growth, the demand for corporate accounts at banks in Switzerland has also increased. When opening an account, banks must at all times adhere to the due diligence requirements, which can be a challenge especially for companies with DLT-based business models. The SBA published guidelines on this matter in autumn 2018. In doing so, the association is supporting the best possible framework conditions for a diverse fintech ecosystem.[14] The fact that Geneva has been selected as the location for the launch of the cryptocurrency Libra by a consortium of renowned companies under the leadership of Facebook also highlights the attractiveness of Switzerland as a location. This move is likely to benefit Swiss fintech start-ups.

Collaboration between fintech companies and banks has proven to be a winning strategy. Start-ups offer an ideal platform for developing and swiftly implementing new business ideas. The banks, in turn, have the knowledge needed in terms of regulation and the safekeeping of assets and data. As a result of their experience in this area, they enjoy a high level of trust and have an advantage when it comes to customer acquisition.

Successful collaboration between fintech companies and banks makes it possible to benefit optimally from the complementary strengths on both sides.

The fact that fintech companies and banks have different areas of focus has also been taken into account in regulation. Since 1 January 2019, fintech companies that do not operate in the banks' core business areas, i.e. the interest margin business, can obtain a so-called fintech licence and can accept public funds of up to a maximum of CHF 100 m. These companies are subject to significantly less comprehensive regulation than when obtaining a banking licence, which fintech companies can also apply for. Since 2017, it has also been possible for them to accept public funds of up to a maximum of CHF 1 m without FINMA supervision or approval («sandbox»). This graduated approach lowers the barriers to entry for fintech companies and creates scope for innovation. At the same time, it ensures that Switzerland's high level of investor protection is upheld.

13 Institute of Financial Services Zug (2019). FinTech Study 2019 – An Overview of Swiss FinTech.
14 Swiss Banking Association SBA (2018). SBA's guidelines on the opening of company accounts for blockchain companies.

Digital assets («Token Economy»)
At the request of the Federal Council, the Blockchain / ICO working group has formulated the legal bases for DLT and blockchain with a focus on the financial sector and identified possible courses of action. The report was published in December 2018 and shows that the legal framework conditions in Switzerland are generally good and that amendments are required only in isolated areas. The Federal Council subsequently drafted measures to be implemented and in March 2019, the consultation process began. On the one hand, the measures focus on increasing legal certainty when transferring DLT-based assets. On the other hand, a new authorisation category for «DLT trading facilities» is to be created within financial market infrastructure law for services in the areas of trading, clearing, settlement and custody of DLT-based assets. In the future, they are also to receive authorisation to operate as a securities firm. The SBA welcomes the Federal Council's initiative, but sees a need for greater specification with regards to certain terminologies and a more consistent alignment with existing legislation.

Switzerland's good framework conditions for digital assets are also reflected in the fact that the world's first fully integrated trading, settlement and custody infrastructure for digital assets is being set up by the SIX Swiss Exchange. The SIX Digital Exchange is expected to be launched in late summer 2019.

The Federal Council also had an assessment conducted to determine whether an adjustment is needed to the prevention of money laundering and terrorist financing legislation with regards to crowd-donating and crowd-supporting platforms. However, due to the relatively modest funds collected via these platforms, it believes that making these subject to the Anti-Money Laundering Act would be incommensurate at this time.

Open Banking

In order for bank customers to gain easy access to the fintech ecosystem using their existing banking relationship, the data interfaces between the individual providers must be defined and standardised. Since January 2018, the revised Payment Services Directive (PSD2) has obliged banks in the EU to provide third-party providers (payment and account information service providers) with access to customer data and to provide the necessary interfaces free of charge. This gives non-bank providers access to sensitive customer data; however, the client can revoke consent for the sharing of their data at any time. In the course of the implementation work, it became apparent that there are numerous issues that must still be addressed with regards to the development of secure communication standards and the standardisation of interfaces, and that legal uncertainty therefore exists. Preliminary ideas on how to further refine the directive (PSD-3) are being considered.

In Switzerland, the banks already selectively grant third-party providers access to accounts and open their client interfaces if this is in the mutual interest of both the bank and customer. However, the banks are under no legal obligation to do so. Switzerland is therefore pursuing market-based solutions. Open banking has existed in Switzerland for many years already, in particular for corporate clients. The infrastructure operator SIX is currently developing a centralised interface infrastructure together with a group of Swiss banks and third-party providers which is to efficiently connect banks and third-party providers.

Since January 2019, companies with a fintech licence and a payment transaction business model can have their own current account directly with the SNB. This would eliminate the need for prescribed authorisation for access to bank customer data.

Cloud Banking

Cloud services make it possible for banks to forego complex and expensive internal IT infrastructures and to buy computing capacity as needed. Cloud banking is therefore particularly attractive for small banking institutions. However, in the past, Swiss banks have hesitated to migrate their data to the cloud, as there are certain questions relating to the legal and regulatory framework conditions that have not yet been addressed. Together with member institutions, auditing firms and providers, the SBA therefore developed guidelines in this area which were published in March 2019.[15]

A working group identified four areas that are key for migrating to the cloud and developed corresponding recommendations: the selection of the cloud provider, the handling of data, collaboration with the authorities, in particular with regards to legal measures, and the auditing of institutions in the area of cloud services and the cloud infrastructure. With the legally non-binding recommendations in these four areas, the SBA offers banks a solid foundation for the proper use of cloud banking. Every banking institution decides for itself whether and how data is migrated to the cloud. Also helpful for the banks is the fact that a growing number of international cloud providers are establishing their own physical data centres in Switzerland.

Sustainable Finance

The market for sustainable investing has experienced strong growth in Switzerland. According to Forum Nachhaltige Geldanlagen, sustainable investments (SI) are those whose investment processes incorporate environmental, social and governance (ESG) criteria in their financial analysis. The most recent market analysis conducted by the Swiss Sustainable Finance association documents impressive growth of 83 percent for sustainable investments in Switzerland between 2017 and 2018. The record growth seen in the previous year was therefore once again surpassed.[16] This strong increase is attributable to a rise in the reported sustainable investment funds (+102 %) and greater demand from institutional investors (+99 %). For funds managed in Switzerland, the share of sustainable investments is now at 18.3 percent.

15 Swiss Banking Association SBA (2019). Cloud Guidelines – A guide to secure cloud banking.
16 Swiss Sustainable Finance (2019). Swiss Sustainable Investment Market Study 2019.

At 31 percent[17], the share is even greater for funds managed by Swiss pension funds and insurers. This is substantially higher than in global investment management, where the share of sustainable investments was around 11 percent in 2018.[18]

Future topics: data safe Switzerland and digital Swiss francs
As digitalisation advances, new spheres of activity are opening up for the Swiss financial centre. In its latest report, the advisory board for the future of the financial centre, which was appointed by the Federal Council, examines how Switzerland could position itself as a location for the storage of virtual financial data. The Swiss financial centre would benefit here from its global reputation as a haven of security, discretion and comprehensive protection of its clients' data. However, this gives rise to an important question: how Switzerland could independently guarantee data security, because even if the data safe were located in Switzerland, the technological components of such a safe would have to be purchased from other countries such as the US or China. It is also unclear whether effective protection of data is compatible with the connectivity to the international value chain. Ultimately, a data safe would entail certain risks, as one single mistake is all it would take to suffer significant reputational damage.[19]

The launch of the cryptocurrency Libra could result in major changes in the global payment system and require that adjustments be made (see further information under «Locational advantages for fintech and blockchain»). Many government authorities, particularly in the US, have raised a number of legal and regulatory questions with regards to this project. This potentially ground-breaking project will only be realisable if their concerns are allayed.

17 However, investors who want to invest in index products are facing difficulties. These also include titles of weapons manufacturers who violate the ESG Social Criteria. Under the leadership of the Swiss Sustainable Finance Association, a large number of institutional investors have joined forces to call on global index providers to appeal to controversial weapons manufacturers, such as anti-personnel mines, cluster munitions as well as biological, chemical or nuclear weapons from their main indices.
18 McKinsey (2019). Performance Lens Global Growth Cube; Global Sustainable Investment Alliance (2014, 2016 & 2018).
19 BAdvisory Board on Future Financial Centre (2018). Annual report 2018 for the attention of the Swiss National Council.

Also under discussion is whether the SNB will in future create electronic central bank money. This could either come in the form of a new payment method or the possibility of a central bank account for all. To date, no central bank has introduced such an electronic payment method. So far, the future of the financial centre advisory board does not see any true advantages in introducing this type of system, but has identified a number of risks for the effective implementation of monetary policy as well as financial stability.

I. 3 Regulation

FIDLEV, FINIV and AOV
In October 2018, the Federal Council began the consultation process for FinSO, FinIO and SOO, which was concluded on 6 February 2019. FinSO (Financial Services Ordinance) fleshes out the duties of financial services providers vis-à-vis various customer groups as well as the requirements for the new register of client advisors, client documentation, ombudsman services and the key information document. The latter enables customers to compare different financial instruments. FinIO (Financial Institutions Ordinance), on the other hand, more precisely defines the authorisation conditions and duties for different financial institutions as well as their supervision. The requirements for obtaining a banking licence are the most comprehensive, while the requirements for managers of collective assets, fund management companies and securities dealers are less extensive. SOO (Supervisory Organisation Ordinance) governs the authorisation conditions and activities of the newly introduced supervisory organisations (SO).

The SBA submitted its position on these ordinances, wherein it proposed various changes, in particular in the areas of acquisition and disposal of financial instruments, advertising and offering, the design of the basic information sheet and provisions for the FinSO prospectus law.

Banking Act
The Federal Council initiated consultations on the partial revision of the Banking Act in March 2019. The revision focuses on deposit insurance, bank restructuring and the segregation of own and customer portfolios for custodians of intermedi-

ated securities. The revision of deposit insurance focuses on a shortening of the payout deadline, a new financing model and an increase of the «system ceiling». With regards to the insolvency provisions for banks, certain provisions that are today found in the FINMA ordinance will now be anchored at the legislative level. This mainly relates to provisions for the treatment of the rights of bank owners and creditors. Rules to strengthen the stability of the mortgage bond system are also foreseen.

In the interests of further increasing the security and stability of the financial centre, the banking sector is prepared to bear additional costs for the implementation and operation of the new deposit solution. In return, it should be ensured that at the ordinance level, the outcome of the revision is cost-neutral in terms of capital and liquidity requirements. It is also inherently desirable that the insolvency provisions for banks be anchored at the legislative level. It must be ensured, however, that the rules are not tailored to limited companies only and that FINMA is given sufficient discretionary power for practical solutions in order to be able to handle individual claims separately.

FINMASA

In May 2019, the Federal Council initiated consultations on a new ordinance to the Financial Market Supervision Act (FINMASA). The consultations were held until 22 August 2019. The draft ordinance concretises FINMA's competencies in international matters and regulation. The current regulatory instruments in the form of the ordinance and the circular will remain in place. The ordinance specifies how proportionality, differentiation and international standards should be taken into account in regulatory activities. The draft also defines the main aspects for collaboration and the exchange of information between FINMA and the Federal Department of Finance. The SBA submitted its position on the draft ordinance. The following are the most important principles for the banking sector: the sector should be involved in the regulatory process early on and continuously. The principle of legality must be adhered to. In addition, regulatory projects should always be subject to a cost-benefit analysis. Good regulation should also be principles-based and commensurate, and their impact on international competitiveness must be verified. Also key for the banks is the recognition of their possibility to self-regulate.

Capital Adequacy Ordinance

As part of the implementation of the so-called small banks regime, the Federal Department of Finance initiated consultations on a change to the Capital Adequacy Ordinance in April 2019. It is envisaged that small, particularly liquid and well-capitalised banks and investment firms will in future be subject to simplified requirements for the calculation of capital requirements and that other reductions to the regulatory burden will apply. In parallel to this, FINMA launched a consultation on changes to various circulars. The objective of this regulatory initiative is to take into account the heavy burden of increasingly complex regulation for small institutions and to improve proportionality in banking regulation. The SBA deems the proposed criteria for coming under the small banks regime to be appropriate but considers the envisioned thresholds to be disproportionately high. Overall, this is a welcome initiative, one that the SBA has significantly contributed to shaping over the past months.

To increase the resilience of the banks to possible housing crises, mortgages for high-risk Swiss residential investment properties are to be financed with a higher level of own funds. However, if the banks develop self-regulation that is at least equally effective, this will be given precedence. The SBA intends to amend its guidelines on minimum requirements for mortgage financing correspondingly and has submitted a proposal to FINMA for approval as a binding minimum standard. According to this proposal, the minimum down payment for mortgages on investment properties would be 25 percent of the lending value (currently 10 percent) and the mortgage would have to be amortised to two-thirds of the lending value of the property within a maximum of 10 years (currently 15 years). Both measures can make an effective contribution to further stabilising the real estate/mortgage market. The SBA assumes that the Federal Council will give preference to self-regulation by the sector and that it will dispense with introducing the CAO measures.

Finally, stricter capital requirements are to further improve the capitalisation of the parent banks of systemically important banks in the event of a crisis. The stricter requirements would apply to UBS, Credit Suisse, Postfinance, Raiffeisen and Zürcher Kantonalbank.

Revision of the CDB and the Anti-Money Laundering Ordinance
In its fourth country evaluation of Switzerland in 2016, the Financial Action Task Force on Money Laundering (FATF) identified certain areas where improvements are needed in the Swiss measures in the fight against money laundering and terrorist financing. Subsequent to this, Switzerland initiated a number of legal and regulatory amendments. To also enshrine the amendments called for by the FATF at the self-regulation level, the SBA revised its current code of conduct with regards to the exercise of due diligence (CDB 16).

The revised CDB (CDB 20) contains the following changes: the contracting partner must now be identified starting from CHF 15,000 (to date from CHF 25,000), the FINMA circular regarding video and online identification has been formally incorporated into the CDB and the provisions for the abbreviated process before the supervisory board have been updated. The rules for account openings with incomplete documentation were also tightened. Such accounts must now be blocked for all transfers into and out of the account and the business relationship must be dissolved if the missing information and documents are not submitted within 30 days. The new CDB 20 will enter into force on 1 January 2020 together with the Anti-Money Laundering Ordinance-FINMA, which has also been revised.

Anti-Money Laundering Act
Also part of the amendments outlined above is the revision of the Anti-Money Laundering Act. The Federal Council's dispatch stipulates that financial intermediaries must identify the beneficial owner and verify their identity with the requisite due diligence. In addition, financial intermediaries are now required to periodically review the necessary information to ensure it is up to date and if necessary, update it.

The SBA supports the revision in principle and is currently conducting an in-depth analysis of the dispatch published on 26 June 2019. If necessary, it will once again provide input.

Electronic identity
The reason for the creation of an electronic identity (e-ID) for natural persons is to unequivocally verify the identity of a person electronically. An e-ID makes it possible to execute online payment orders more quickly and in a straightforward manner, supports the development of online businesses and can be used for various e-government applications. The Federal Council's bill stipulates that the official verification and confirmation of the existence of a person and their identifying features remain the responsibility of the government. In contrast, responsibility for the development and issuing of the electronic identity is to be assumed by the private sector. The e-ID is therefore a collaboration between the public and the private sectors. The private sector makes it possible for the e-ID to be used for a large number of applications, thus also facilitating its rapid dissemination. For its part, the government will ensure that it is not possible for the data to be misused.

In a first reading, both the National Council and the Council of States were in clear agreement with this division of responsibilities. To take account of public concerns about such a division of responsibilities, the Council of States has proposed that the control measures be tightened. In addition, instead of the administration approving and monitoring the issuers of the e-ID, an independent body was to do so. The National Council's committee for legal affairs, however, is against such a body, which they see as unnecessary and expensive bureaucratisation. As originally planned, control is to be carried out by the Federal IT Steering Unit.

The SBA is convinced that the planned division of responsibilities will make it possible to disseminate the e-ID rapidly and nation-wide. In particular, this means that the banks' experience in the secure handling of personal data and the verification of customer identities can be optimally leveraged. In order for the electronic identity to enjoy success Switzerland-wide, the number of possible use cases is key. It will only be possible to have a sufficiently high number of use cases if the government and the private sector work together. Otherwise, Switzerland runs the risk of falling behind in the digitalisation of its economy.

Amendments to data protection legislation
The current data protection legislation dates back to 1993 and is no longer up to date due to the technological developments that have taken place since that time. The Federal Council has therefore decided to undertake a total revision of the Federal Data Protection Act that will be conducted in two steps.

In a first step, it will be ensured that Switzerland remains able to act in the Schengen area with regards to criminal prosecution, the execution of sentences and public safety and that it continues to receive data from European law enforcement agencies in an efficient manner. The amendments necessary to this end came into force on 1 March 2019 (Datenschutzbestimmungen für die Schengener Zusammenarbeit in Strafsachen; SDSG). It is envisaged that the SDSG will be rescinded as soon as the new Federal Act on Data Protection (FADP) enters into force. The second step concerns the closer alignment of the Swiss FADP with the European General Data Protection Regulation. The revision of the FADP is in particular aimed at bringing data protection in line with the realities of the internet age and strengthening the position of citizens. In addition, the amendments are to ensure that cross-border data transfers between Switzerland and the EU countries remains possible without any additional hurdles. This so-called draft 3 will be in consultation during the autumn session.

For the SBA, it is particularly important that Switzerland foregoes a «Swiss finish» in the legislation and that the rules do not go beyond the amendments necessary to uphold the existing adequacy decision of the European Commission

I.4 Tax and Compliance

Developments in AEOI
In September 2018, Switzerland exchanged information with 36 partner states for the first time. Data is to be exchanged with an additional 37 countries starting in autumn 2019. In the lead-up to the data exchange, the Federal Council assessed whether these partner states effectively comply with the global standards for the Automatic Exchange of Information (AEOI). It evaluated the level of confidentiality and the measures for data security and data protection as well as whether the playing field is level, i.e. whether the relevant competing financial centres implement the AEOI with our partner states. The Federal Council is satisfied that these criteria are met by all partner states.[20] At present, 108 nations have committed to the AEOI standard. The introduction of the AEOI with the last 19 of these countries is currently pending in Parliament.

Domestic implementation of the AEOI standard is being examined by the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) with a view to creating the same competitive conditions globally. Comprehensive country evaluations will be conducted starting in 2020. First, however, the key elements will undergo a step-by-step preliminary examination in order to ensure the integrity of the AEOI standard from the outset. As part of this preliminary examination, the Global Forum has made a number of recommendations for Switzerland which the Federal Council has addressed and sent for consultation in February 2019.

Federal court's judgment on deliveries of data to France
The Federal Court in Lausanne on 26 July 2019 decided on the procedure between the Federal Tax Administration and UBS for mutual assistance to France. The judgment requires UBS to deliver approximately 40,000 records of French UBS clients to the French tax authorities. The verdict holds risks for Swiss Banks. The functionality and attractiveness of the Swiss financial centre is based essentially on the basic rules of legal certainty of all actors. The previously applicable minimum requirements for a request for administrative assistance could be lowered with this judgment.

EU Mandatory Disclosure Regime
The EU directive that requires intermediaries (tax advisors, banks, lawyers, etc.) to report certain cross-border tax arrangements of their customers to the national tax authorities came into force on 25 June 2018. These notifications are automatically exchanged between the tax administrations of the EU member states. The member states are also free to establish rules on disclosure requirements that go beyond the directive. Transposition into national law must take place at the latest by the end of 2019, however, all activities initiated after 25 June 2018 are also impacted. Various

20 Federal Council report on the review mechanism to ensure standard-compliant implementation of the AEOI 2018/2019.

EU member states have already enacted the corresponding rules prior to the deadline. Swiss intermediaries who operate in EU countries are also impacted by this directive. They should therefore closely review tax arrangements that involve the eurozone to ensure that the criteria for a reporting obligation are met.

Tax reform and AHV financing (TRAF)
Voters and the cantons adopted TRAF in May 2019. As a result, all companies will be subject to the same, internationally accepted taxation rules in the future. The tax burden for status companies will increase, while companies that were taxed as normal will pay less taxes. To offset this, many cantons are planning to reduce taxes on earnings. The adoption of the proposal means that affected companies enjoy legal certainty and that the attractiveness of Switzerland as a business location remains intact. The Swiss banks will also benefit from this.

Stamp duty and withholding tax
Stamp duty and withholding tax are clear tax obstacles and slow down the growth of the financial centre.

None of the competing financial centres, such as the UK, Singapore, the US or Hong Kong, have comparable taxes. They therefore have a substantial advantage over Switzerland.

At the end of June 2019, the Federal Council published the parameters for a planned reform of the withholding tax. The Federal Council does not want to reform withholding tax as a whole, primarily for financial policy reasons. It proposes a reform to strengthen the debt capital market. This concerns withholding tax on interest, where the system is to be changed to relieve foreign investors and domestic legal persons of withholding tax. This would release a major brake on the issuance of Swiss debt capital and could revive the heavily underdeveloped Swiss bond market. The Federal Council would also like to abolish stamp duties on trading in Swiss bonds as far as possible, as these duties are an obstacle to trading.

For the reform outlined by the Federal Council, it is important for the banks that the complexity and costs of the new system are kept low. According to the parameters set out by the Federal Council, the new system should not be too complex.

The Federal Council aims to launch a public consultation on a proposal in autumn 2019. A parliamentary initiative from the National Council's Economic Affairs and Taxation Committee EATC goes in a similar direction. For the time being, however, the EATC wishes to wait until the Federal Council has introduced its proposal before moving ahead in this area.

Digital Tax
The current rules for the taxation of companies that operate internationally are criticised for no longer being in line with the realities of the current, increasingly digital economy. A physical presence in the form of business premises, which would constitute a tax obligation, is no longer required in order to conduct business activities in a country. A digital presence, which is difficult or even impossible to account for and can therefore not be fully taxed, is sufficient.

In February 2019, the OECD presented a consultation document containing a number of possible solutions. Common to all the proposals is that part of the profits would in future have to be taxed at the place where users reside, irrespective of the physical presence of the company. However, concrete differences exist with regards to the scope and type of companies affected. The objective is to develop a consensual solution by 2020.

For the time being, the EU has refrained from introducing a digital tax. In March 2019, the introduction of a tax of three percent on the sale of certain digital services did not receive the necessary unanimous approval from the EU finance ministers. For countries such as Ireland, the fact that the tax would be levied on turnover and not on profits, as is customary with corporate taxation, in particular met with disapproval. Among other things, this would have resulted in problems arising from the blurring of lines between that and value added tax. Irrespective of this, France introduced such a digital tax in January 2019 and similar provisions are planned in Austria and the UK.

Switzerland would be strongly impacted by a revision of taxation rights for corporate profits. On the one hand, this is because there are many corporate headquarters and internationally-oriented SMEs in Switzerland, and on the other hand because Switzerland is a comparatively small sales market. The Swiss tax authorities would therefore have to expect to see considerable losses.

Within the scope of the OECD debate, Switzerland is committed to ensuring that the place of value creation remains decisive for the allocation of profits and that tax competition is not restricted. There are no plans for the introduction of a Swiss digital tax.

Fig. 3

Selected events that moved the market place

When	Reporting	Issue
Jan. 18	Regulation	The second Payment Services Directive (PSD2) comes into force in the EU.
Jan. 18	Regulation	The Federal Council initiates consultations on the implementation of the recommendations of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum).
Feb. 18	Taxes and Compliance	The OECD initiates consultations on the «Preventing abuse of residence by investment schemes to circumvent the CRS «initiative».
March 18	Taxes and Compliance	The Federal Council adopts the dispatch on the Tax proposal and AHV financing (TRAF).
April 18	Economic policy environment	The Federal Council adopts the revised national strategy for Switzerland's protection against cyber risks (NCS).
April 18	Taxes and Compliance	The advisory board for the future of the financial centre publishes its recommendations for withholding tax reform for the attention of the Federal Council.
May 18	Structural change and growth areas	The financial market policy forum informs the Federal Council of the possibilities for strengthening the competitiveness of the Swiss financial centre.
May 18	Industry development	Founding of the association of Swiss regional banks.
June 18	Regulation	The Federal Council adopts the dispatch on the Federal Act on Recognised Electronic Means of Identification (e-ID law).
June 18	Economic policy environment	The Federal Council adopts contingency measures to protect the Swiss stock market infrastructure.
June 18	Regulation	The Swiss voting public votes decisively against the Sovereign Money Initiative.
July 18	Regulation	The FINMA fleshes out the announced regime for small banks and launches a pilot phase. The objective is to establish a regulatory regime with significantly reduced complexity.
July 18	Regulation	The SBA publishes the revised Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20).
Aug. 18	Taxes and compliance	The Federal Council adopts the dispatch on the multilateral convention to implement tax treaty-related measures to prevent base erosion and profit shifting (BEPS).
Sept. 18	Structural change and growth areas	The Bankers Association publishes guidelines for opening corporate accounts for blockchain companies.
Okt. 18	Regulation	The Federal Council initiates consultations on the implementing provisions for FinSA and FinIA.
Nov. 18	Economic policy environment	The National Working Group on Reference Rates announces that LIBOR is to be replaced by SARON.
Nov. 18	Economic policy environment	Swiss voters reject the Self-Determination Initiative.

Nov. 18	Structural change and growth areas	SIX announces that it will build a Swiss corporate API as an interface between banks and third-party providers.
Dez. 18	Economic policy environment	The Federal Council announces that it will conduct a consultation on the institutional framework agreement with the EU.
Dez. 18	Structural change and growth areas	The Federal Council adopts a report on the legal framework for blockchain and distributed ledger technology (DLT) in the financial sector.
Dez. 18	Structural change and growth areas	The advisory board for the future of the financial centre publishes its annual report for the attention of the Federal Council.
Jan. 19	Regulation	Systemically important domestic banks must now also hold gone concern capital for their possible restructuring and resolution.
Jan. 19	Structural change and growth areas	Fintech companies can accept public deposits of up to CHF 100 m under relaxed conditions provided these are not invested and no interest is paid on them.
Feb. 19	Taxes and compliance	The OECD presents a consultation document with various proposals for the introduction of a digital tax.
March 19	Regulation	The Federal Council initiates consultations on the partial revision of the Banking Act.
March 19	Taxes and compliance	The EU foregoes the introduction of a digital tax.
March 19	Industry development	Jörg Gasser, previously State Secretary for International Finance, becomes the new CEO of the Bankers Association. Daniela Stoffel becomes the new State Secretary for International Finance.
March 19	Structural change and growth areas	The Bankers Association publishes legal and regulatory guidelines for the use of cloud services by banks and securities dealers.
March 19	Structural change and growth areas	The SNB announces that companies with a fintech licence will in future be able to have a giro account at the SNB.
April 19	Regulation	The Federal Council initiates the consultation on amendments to the Capital Adequacy Ordinance.
April 19	Economic policy environment	The EU extends the Brexit deadline to 31 October 2019. The UK is obliged to participate in the European Parliament elections.
April 19	Structural change and growth areas	The SNB and the FINMA join the «Network for Greening the Financial System».
May 19	Regulation	The Federal Council initiates consultations on the new ordinance to the Financial Market Supervision Act.
May 19	Taxes and Compliance	The Swiss electorate votes in favour of the Tax proposal and AHV financing (TRAF). The proposal is to come into force on 01.01.2020.
May 19	Economic policy environment	A survey by gfs.bern shows that banks in Switzerland are generally perceived positively. They are regarded as reliable and secure and as important employers.
May 19	Taxes and compliance	The Federal Council adopts the dispatch on the AEOI with an additional 19 partner states and approves the first review report.
June 19	Economic policy environment	The Federal Council announces that it wants to sign the institutional framework agreement with the EU only after certain outstanding issues have been clarified.
June 19	Structural change and growth areas	Florian Schütz is appointed as the federal Cyber Security Delegate. He will be responsible for the Competence Centre for Cyber Security.

June 19	Structural change and growth areas	Facebook announces the introduction of the cryptocurrency Libra.
June 19	Economic policy environment	The Bankers Association holds the Politforum for the first time. The objective thereof is to strengthen the dialogue between the banking sector and the government.
June 19	Taxes and Compliance	The Federal Council resolves to once again to undertake a reform of withholding tax and adopts the objectives and parameters thereof.
July 19	Economic policy environment	Interest rate decision Fed.
July 19	Economic policy environment	The European Commission does not further extend the recognition of the equivalence of Swiss stock exchanges. In turn, the Federal Council activates contingency measures to protect the Swiss stock exchange infrastructure on 1 July 2019.

II. Consolidated trend in Switzerland's banks

Banks' aggregate business performance in Switzerland rose by 4.6 percent to CHF 65.3 bn in 2018 compared to the previous year. The annual profit increased by 17.3 percent to CHF 11.5 bn. 216 out of a total of 248 institutes generated a profit for the year. The Banks paid taxes of CHF 1.5 bn. Despite a continued decline in employment of 1.3 percent to 90,660 full-time jobs and the drop in the number of institutions by 5 to 248, the labour market in the banking sector is robust.

II. 1 Bank net income

Aggregated net income in 2018 amounted to CHF 65.3 bn (4.6 %) in 2018. This is the highest level since the financial crisis of 2008. Within the balance sheets, interest income, despite the low interest rate environment of CHF 23.5 bn (-1.8 %), was the biggest contributor to net income. The success of the remaining business units has increased continuously.

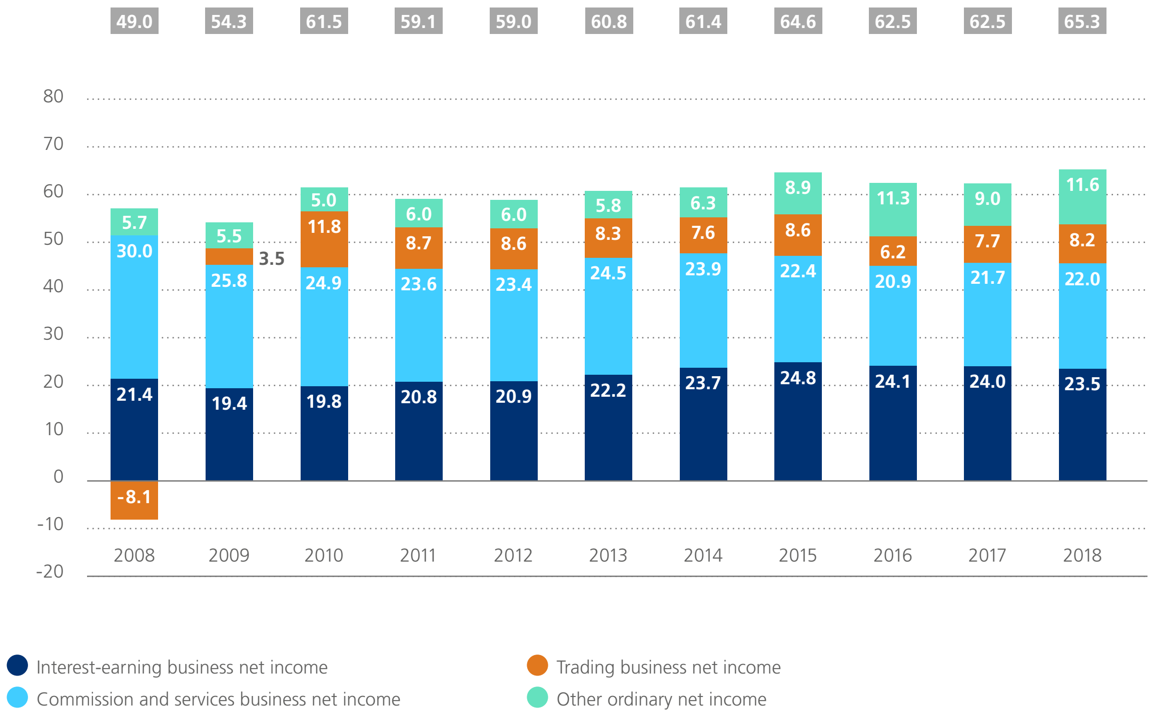
II. 1.1 Trends in 2018

II. 1.1.1 Net income by banking activity

Aggregate operating net income is calculated on the basis of net income from the commission and services business by CHF 0.3 bn (+1.2 %), the trading business by CHF 0.5 bn (+5.9 %) and other ordinary net income by CHF 2.6 bn (+28.6 %).[21] Total net income remained almost unchanged compared to the previous year by CHF 2.9 bn to CHF 65.3 bn (+4.6 %). Looking back at the past 11 years, net income reached its lowest level in 2008, at CHF 49.0 bn. Compared with 2008, net income has risen by a total of CHF 16.3 bn (+33.5 %).

Fig. 4

Net income by banking activity
in CHF bn



Source: SNB

21 The values in the figures may deviate slightly from the values in the text due to rounding differences.

The interest business biggest contributor to total net income
Accounting for 36.0 percent in 2018, net income from the interest-earning business contributed the largest share to total net income. This notwithstanding the fact that the low interest rate environment continues to put a strain on the banks' interest margin business. Net income from the interest-earning business fell marginally from CHF 24.0 bn in 2017 to CHF 23.5 bn in 2018 (-1.8 %). The slightly negative net balance is the result of the fact that interest income (2018: +CHF 6.8 bn) increased less than interest expenses (2018: +CHF 7.3 bn). The significant difference between the rise in interest income (2017: +CHF 1.3 bn) and interest expenses (2017: +CHF 1.4) compared with the previous year is the result of the big banks' transfer in 2018 of relevant business activities from foreign subsidiaries back to the parent company. Compared with the big banks, the interest income of the other banks rose by CHF 1.0 bn and interest expenses by CHF 0.8 bn in 2018.

Another reason for the high interest expenses is negative interest rates. Last year, the banks in Switzerland paid the SNB negative interest rates amounting to approx. CHF 2.0 bn, which corresponds to a rise of around CHF 27.3 m (+1.4 %) compared with the previous year. This accounts for around 8.6 percent of gross profit in 2018. Since the introduction of negative interest rates in 2015, the banks have paid approx. CHF 6.8 bn in interest expenses to the SNB.

Net income from the commission and services business increases again
Net income from the commission and services business was the second-largest contributor to aggregate operating net income, accounting for 33.7 percent thereof. It rose again in 2018, by 0.3 percent, and amounted to CHF 22.0 bn. The income items and commission expenses changed only slightly compared with the previous year. This is also reflected in the trading activities and stock exchange-related developments: although the number of IPOs in 2018 was the highest since 2001, which is likely to have positively impacted the commission and services business, markets at the same time recorded share price declines, thus dampening income from the commission and services business. Commission income from the securities and investment business amounted to CHF 20.6 bn and made the largest contribution to net income. Commission income from the «other services business» totalled CHF 4.2 bn from the lending business CHF 2.1 bn. Commission expenses amounted to CHF 5.0 bn.

Further rise in income from trading
Trading net income rose in 2018 by CHF 0.5 bn (+5.9 %) and totalling CHF 8.2 bn, it accounted for 12.5 percent of aggregate operating net income. This rise is primarily attributable to the big banks bank group (+CHF 0.5 bn) and the stock exchange banks (+CHF 0.2 bn). When considering these developments, it should be kept in mind that stock markets in part saw sharp fluctuations and negative share price developments in 2018. One reason for this was the further rise of political uncertainties. This is due on the one hand to the trade war between China and the US, and on the other hand to the ongoing uncertainties with regards to Brexit. These uncertainties generally result in higher volatility and therefore to greater trading activity.

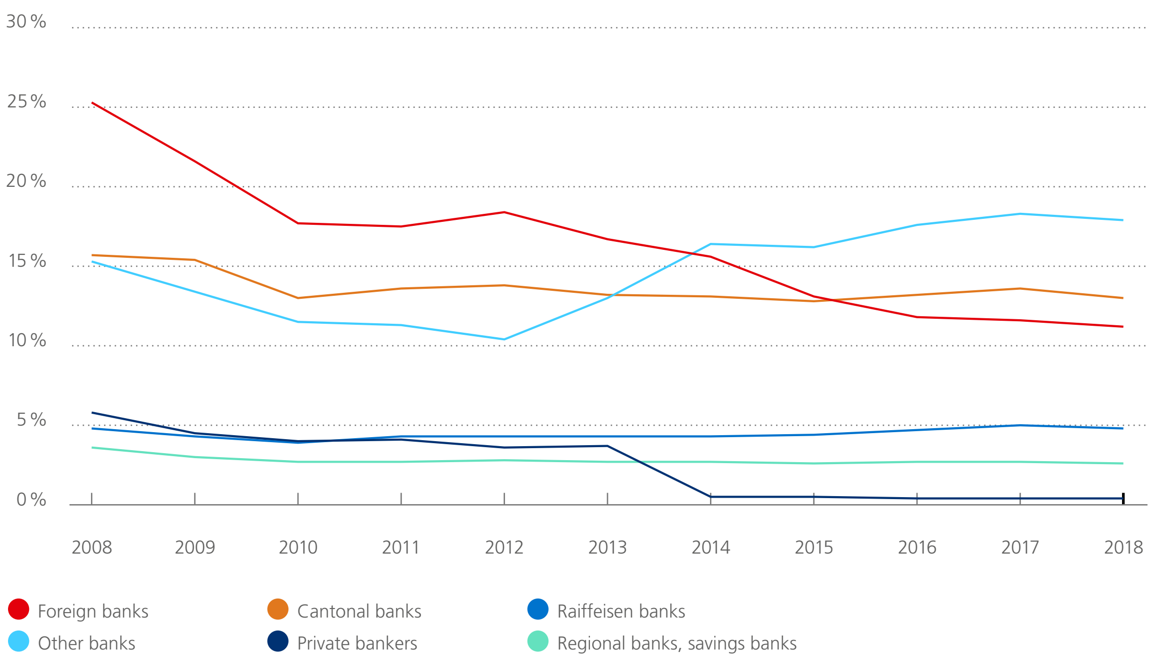
Clear rise in other ordinary income
Other ordinary net income rose by CHF 2.6 bn to CHF 11.6 bn (+28.6 %) and accounted for 17.8 percent of aggregate operating net income. This positive trend is due to an increase in income from participations of CHF 4.3 bn. The big banks accounted for a large share thereof (+CHF 4.0 bn). Among other things, they report dividends paid by their subsidiaries under this item. These include subsidiaries in Switzerland with their own banking licence. «Other ordinary income», in contrast, decreased by CHF 1.5 bn and is also primarily attributable to the big banks (-CHF 1.4 bn). For the remaining income items, there were only slight changes compared with the previous year. Income from the disposal of financial investments decreased. In contrast, income from real estate and «other ordinary expenses» increased slightly.

II. 1.1.2 Net income according to banking groups

The big banks (8.5 %), foreign banks (0.9 %), regional banks and savings banks (0.2 %) as well as «Other banks» (2.1 %), comprising the groups «Other banks» and stock exchange banks, reported a rise in aggregate operating net income compared with the previous year. Aggregate operating net income declined for the cantonal banks (-0.2 %), Raiffeisen banks (-0.05 %) and private bankers (-4.4 %) bank groups.

Fig. 5

Net income shares by bank group (excluding big banks)[22]



Source: SNB

Due to the different increases in aggregate operating net income, there were slight changes in the shares of net income attributable to the different bank groups compared with the previous year. Domestically-oriented banks with a strong focus on the interest-earning business, lost shares. The big banks recorded an increase from 48.3 percent to 50.1 percent. In contrast, the share attributable to the cantonal banks fell from 13.6 percent to 13 percent. The shares attributable to the foreign banks and «other banks» also declined, from 11.6 percent to 11.2 percent and from 18.3 percent to 17.9 percent respectively. There was only a minimal change in the shares attributable to the regional banks and savings banks, the Raiffeisen banks and the private bankers.

22 Since 2009, the share of net income attributable to the big banks has been between 46 and 51 percent, and is therefore substantially higher than the shares of the remaining bank groups. In order to better illustrate the trend for the remaining bank groups, the developments in the share of net income of the big banks is not included in this figure.

Since 2012, the share of aggregate operating net income of the «other banks» increased from 10.4 percent to 17.9 percent. The big banks also grew their share of aggregate operating net income during this period, from 46.8 percent to 50.1 percent (not shown). The shares attributable to the private bankers and foreign banks fell from 3.6 percent to 0.4 percent and from 18.4 percent to 11.2 percent during the same period. The decline experienced by the private bankers is related to the change in the legal structure of institutions since 2014. As a result, they have been categorised as stock exchange banks, which has led to structural breaks in the statistics for the «private bankers» and «stock exchange banks» bank groups. The decline experienced by the foreign banks is to some extent an international phenomenon. As part of restructuring efforts, the banks have reduced their international activities to selected areas of business. In addition to general margin pressure, the shrinking of the «cross-border premium» is a contributing factor. The shares attributable to the remaining bank groups have changed only slightly.

II. 1.1.3 Annual profit and taxes

Gross profit from the business operations of the banks in Switzerland increased by CHF 3.7 bn (+20.3 %) in 2018 and amounted to CHF 22.2 bn. This increase is mainly attributable to the rise in depreciation (+CHF 2.8 bn) as well as the simultaneous decline in operating expenses (-CHF 0.9 bn).

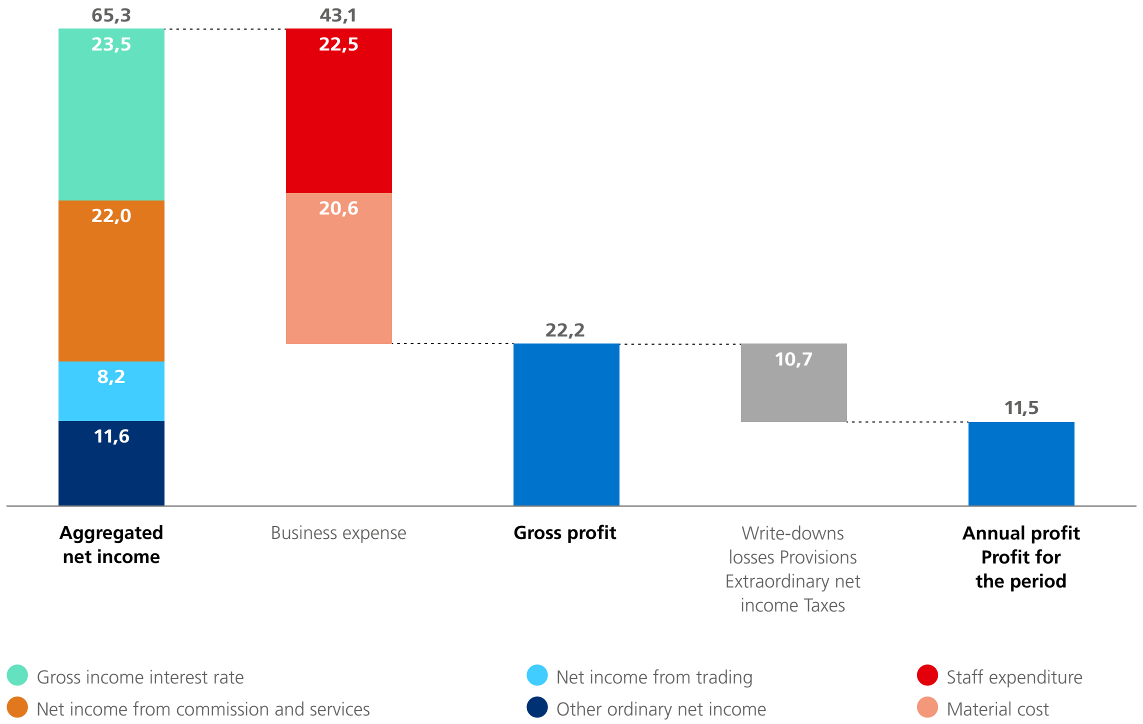
In 2018, 216 of the total 248 banks in Switzerland reported an annual profit (result for the period).[23] Their aggregate annual profit amounted to CHF 12.8 bn and was therefore CHF 2.5 bn higher than in the previous year (+24.0 %). The losses of the unprofitable banks increased by CHF 0.7 bn, from CHF 0.5 bn to CHF 1.3 bn. In total, the aggregate result for the period across all banks increased by CHF 1.7 bn (+17.3 %) compared with the previous year and is now CHF 11.5 bn. The largest share of the aggregate result for the period was reported by the big banks (CHF 4.9 bn), cantonal banks (CHF 2.9 bn) and the stock exchange banks (CHF 1.5 bn). The banks paid taxes amounting to CHF 1.5 bn. Compared with the previous year, this corresponds to a reduction of CHF 0.7 bn. One reason for this could be the

23 The result for the period is calculated on the basis of gross profit minus «depreciation of fixed assets», «write-downs, provisions and losses», «extraordinary expenses» and «taxes», plus «extraordinary income»

lowering of the US corporate tax rate as part of the Tax Cuts and Jobs Act 2017 (TCJA), which makes profit shifting to Switzerland less attractive.

Fig. 6

Derivation net income for the period of the banks in Switzerland
2018, in CHF bn



Source: SNB

II. 1.2 Trends in the current year

The International Monetary Fund (IMF) revised its growth forecasts for the global economy downwards for the third time this year. As at July, the IMF expects to see growth of 3.2 percent. In January, the forecast for 2019 was 3.5 percent. Among other factors, the IMF explains this further correction as being related to the ongoing trade conflict between the US and China and the trade tariffs that have been introduced. The uncertainties arising from Brexit, Italy's economic and financial situation and the geopolitical tensions in the Gulf region also had a dampening effect on the growth forecast.[24]

The slowdown of the global economy negatively impacts Switzerland's foreign trade. Declining capacity utilisation combined with a high degree of uncertainty is slowing companies' investments in their production capacities. For 2019, SECO therefore expects to see moderate GDP growth of 1.2 percent.[25]

The nomination of the head of the IMF, Christine Lagarde, to become Mario Draghi's successor as President of the European Central Bank (ECB) would suggest that the ECB's loose monetary policy is set to continue for some time. This puts pressure on the SNB's monetary policy, which will likely remain expansionary for the time being. According to the SNB, negative interest rates and the willingness to intervene in the foreign exchange market «remain essential».[26] The SNB policy rate continues to be -0.75 percent. The SNB remains of the view that the franc is highly valued and that the situation in the foreign exchange market is still fragile.

Trends in the stock markets are running contrary to the global economic trend and the existing political uncertainties. In the first half of 2019, share prices recovered compared with the second half of 2018. The SMI crossed the 10,000-point mark for the first time in June 2019, and has risen by around 19 percent since the beginning of the year. One reason for the share price performance is the continued expansionary monetary policy which is likely to be further expanded. It remains to be seen how the positive trend in stock exchanges will impact income from trading in 2019.

24 International Monetary Fund (2019). World Economic Outlook.
25 State Secretariat for Economy (2019). The economic forecast of the Federal Government's Expert Group.
26 Swiss National Bank (2019). Monetary policy status report of 21. March 2019.

II. 2 Balance sheet business

In 2018, the aggregate balance sheet total of all the banks in Switzerland decreased slightly by 0.8 percent. The SNB's currency interventions are impacting the breakdown of assets at commercial banks. The banks' sight deposits at the SNB remain at a very high level. Even after the introduction of negative interest rates and the lifting of the minimum euro exchange rate, the banks in Switzerland continue to fulfil their role as lenders and financing partners to the full extent.[27]

II. 2.1 Trends in 2018

II. 2.1.1 Balance sheet trends

In 2018, the aggregate balance sheet total of all the banks in Switzerland decreased from CHF 3,249.4 bn to CHF 3,225.0 bn (-0.8 %). With an increase in balance sheet total of CHF 25.0 bn, the cantonal banks reported the greatest year-on-year rise, followed by the stock exchange banks (+CHF 4.7 bn), the regional banks and savings banks (+CHF 2.2 bn) and the «other banking institutions» (+CHF 0.3 bn). The private bankers (+CHF 0.1 bn) and Raiffeisen banks (+CHF 0.1 bn) also reported a slight increase. In contrast, a decrease was reported by the big banks (-CHF 45.7 bn) and foreign banks (-CHF 11.1 bn).

27 Institute of Financial Services (2017). Study on the financing of the SME in Switzerland 2016.

Fig. 7

Balance sheet totals by banking group

In bn CHF	Balance sheet total 2017	2018	Change	Percentages 2018
Cantonal Banks	575.3	600.3	4.3 %	18.6 %
Big banks	1,566.4	1,520.8	-2.9 %	47.2 %
Regional banks, savings banks	118.1	120.3	1.8 %	3.7 %
Raiffeisen banks	225.3	225.3	0.0 %	7.0 %
Foreign banks	324.6	313.5	-3.4 %	9.7 %
Private bankers	6.2	6.3	2.0 %	0.2 %
Stock exchange banks	224.0	228.7	2.1 %	7.1 %
Other banking institutions	209.5	209.7	0.1 %	6.5 %
Total	**3,249.4**	**3,225.0**	**-0.8 %**	**100.0 %**

Source: SNB

Mortgage loans biggest asset items

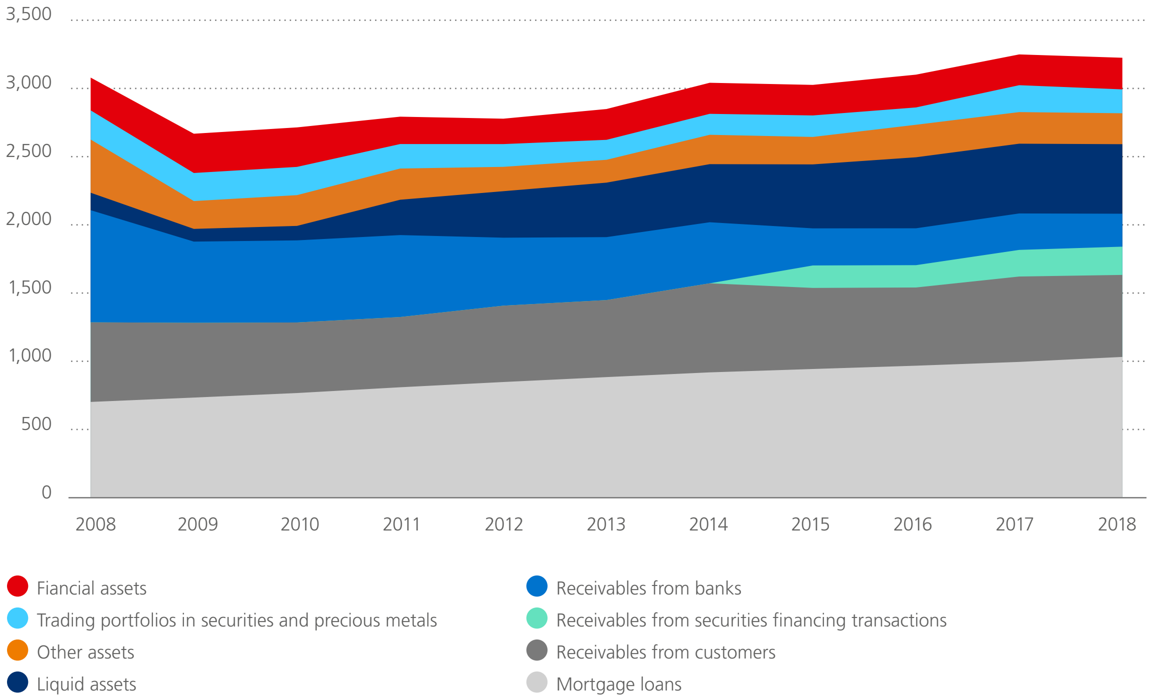
In 2018, domestic and foreign mortgage loans rose by CHF 36.6 bn (+3.7 %), from CHF 995.3 bn to CHF 1,031.8 bn compared with the previous year. Mortgage loans therefore remained the largest asset item for the banks in Switzerland in 2018, accounting for a share of around 32.0 percent of total assets. The cantonal banks (+CHF 14.6 bn), the Raiffeisen banks (+CHF 7.5 bn) as well as the big banks (+CHF 6.6 bn) in particular reported an increase in mortgage loans. As in the previous year, fixed interest rate mortgages accounted for around 80 percent of total domestic mortgage loans.

Customer loans decrease

«Remaining loans» are reported in the balance sheet under amounts due from customers. Loans decreased in 2018 by CHF 24.7 bn (-3.9 %) to CHF 601.2 bn. Accounting for a share of 18.6 percent of total assets, customer loans were the second largest item. One reason for the decline was the CHF 31.4 bn decrease in the big banks' loans to customers abroad. A very large share of this related to loans to intragroup companies. The volume of the corporate loans increased by 6.6 percent to CHF 530.8 bn. 83.2 percent of this is attributable to SMEs with fewer than 250 employees.

Fig. 8

Composition of the assets
in CHF bn



Source: SNB

Liquid assets decrease slightly
Liquid assets fell slightly compared with the previous year, by CHF 1.7 bn to CHF 509.7 bn (-0.3 %). While domestic holdings increased by CHF 9.2 bn, foreign holdings decreased by CHF 10.9 bn. This development arose from the fact that the big banks increased their sight deposits at the SNB by CHF 10.1 bn while at the same time reducing their sight deposits at foreign central banks by CHF 8.9 bn.

Increase in financial investments
The balance sheet item financial investments increased by CHF 6.2 bn (+2.7 %) to CHF 231.9 bn compared to the previous year bn. As in the previous year, this was due to an increase in domestic assets (CHF 6.6 bn). By contrast, foreign investments fell slightly (CHF 0.4 bn), as did investments (CHF 0.8 bn).

Reduction in in securities and precious metals in trading portfolios
The item trading portfolios of securities and precious metals decreased by CHF 22.1 bn (-11.2 %) to CHF 175.0 bn year-on-year. This decline is due to the negative developments in the stock market in 2018. The SMI Swiss benchmark index fell by 10.2 percent in 2018 and is thus representative of many key benchmark indices

Fundamental changes in breakdown of assets since 2008
There has been a significant change in the breakdown of assets in the last ten years. Liquid assets increased enormously between 2008 and 2018. While in 2008, holdings were at CHF 128.0 bn, by the end of 2018, they amounted to CHF 509.7 bn. A number of factors contributed to this sharp rise: on the one hand, the SNB's interventions to counteract the strong franc were a determining factor, because when selling foreign currencies, the SNB credits the sight deposit accounts of the counterparty for the equivalent value in Swiss francs. In addition, due to the low interest rates, the opportunity costs related to liquidity holdings were relatively low, which is why the banks deposited high amounts of liquidity on the sight deposit accounts held at the SNB. Despite the negative interest rates applied since 2015, the banks increased their sight deposits at the SNB from around CHF 37.2 bn in 2008 to CHF 466.7 bn in 2018.

Domestic and foreign mortgage loans also rose continuously between 2008 and 2018[28] (+47.0 %, from CHF 701.9 bn to CHF 1,031.8 bn). Their share of total assets increased from 22.8 percent (as at year-end 2008) to 32.0 percent as at the end of 2018.

The reason for this is also the persistently low interest rates as well as the associated high demand for real estate. In 2008, loans to banks accounted for 26.7 percent of total assets. In 2018, their share was down to 7.5 percent (2008: CHF 822.0 bn, 2018: CHF 241.4 bn). Among other factors, this decrease is a result of the banks consciously reducing this balance sheet item in order to reduce their linkages with other banks. This development is also attributable to the higher capital ratio required by regulation. From 2008 to 2018, holdings in securities and precious metals for trading purposes recorded a decline of 18.2 percent (2008: CHF 213.9 bn,

28 With around 2 percent of total mortgage loans in 2018, foreign mortgage loans are negligible.

2018: CHF 175.0 bn). Their share of total assets fell from 6.9 percent to 5.4 percent. This continuous reduction reflects the ongoing strategic efforts of the banks to reduce their risk-weighted assets.

Liabilities: rise in liabilities in the form of customer deposits

In 2018, the balance sheet item amounts due in respect of customer deposits, which comprises the items sight deposits, time deposits and other amounts due in respect of customer deposits, rose by CHF 26.7 bn (+1.5 %) to CHF 1,814.8 bn. These liabilities in the form of customer deposits accounted for 56.3 percent of the balance sheet total at the end of 2018. Sight deposits fell by CHF 9.4 bn (-1.1 %). Other amounts due in respect of customer deposits also declined, by CHF 3.0 bn (-0.4 %). Time deposits, in contrast, rose by CHF 39.1 bn (+17.0 %). The balance sheet item amounts due in respect of customer deposits saw the highest increase at the cantonal banks and big banks. The cantonal banks reported a rise of CHF 12.3 bn and the big banks an increase of CHF 15.5 bn. In the case of the big banks, additional deposits of intragroup entities without banking licences made a significant contribution to the rise. As in the previous year, liabilities to customers abroad declined in 2018 (-CHF 3.7 bn), while liabilities to domestic customers increased (+CHF 30.3 bn).

Liabilities to banks decrease

Liabilities to banks fell by CHF 10.5 bn (-2.7 %) in 2018. This decrease is due to a reduction in liabilities to banks abroad of CHF 14.6 bn. Liabilities to domestic banks, in contrast, rose further by CHF 4.1 bn.

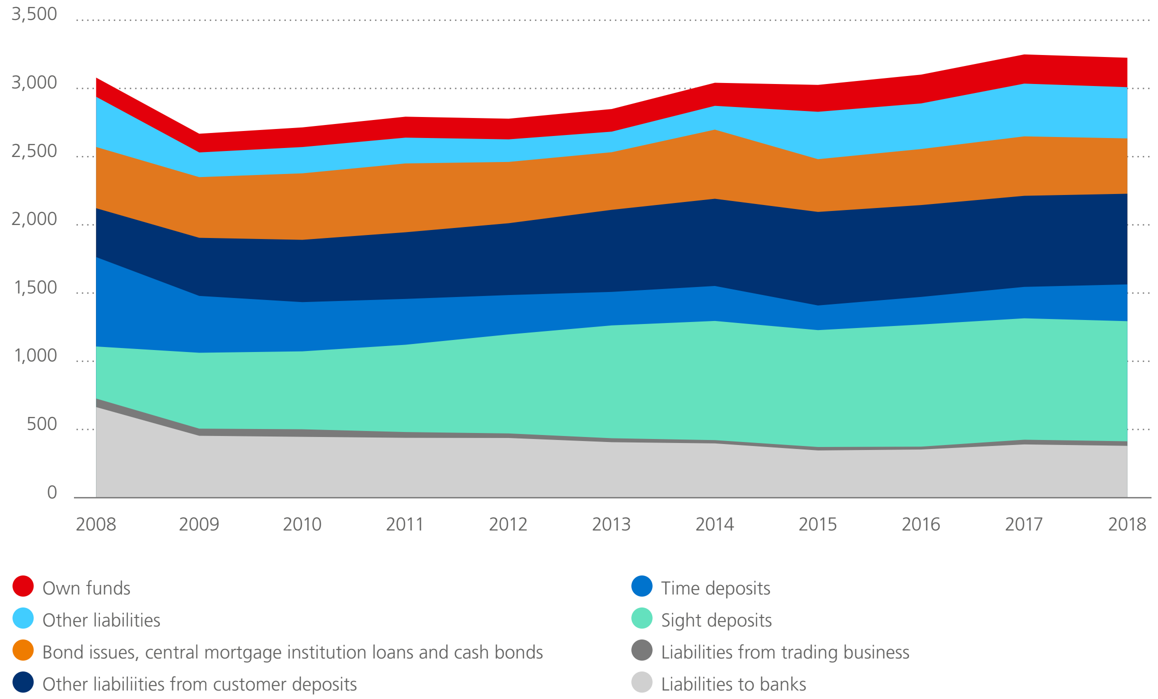
Rise in equity capital

In 2018, equity capital rose by CHF 1.7 bn (+0.8 %) to CHF 215.8 bn. Since 2015, equity capital is defined as the sum of a bank's capital, statutory capital reserve, statutory retained earnings reserve, voluntary retained earnings reserves, own shares (negative item) and profit / loss carried forward.

Fig. 9

Breakdown of liabilities

in CHF bn



Source: SNB

Decline in liabilities from trading portfolios

Trading portfolio liabilities decreased by CHF 1.1 bn (-3.1 %) to CHF 33.4 bn. Liabilities from trading portfolios comprise short positions related to the asset item «securities and precious metals in trading portfolios». Since losses were realised in the markets in 2018, it can be concluded that the short positions also decreased in the same period.

Decline in «bond issues, central mortgage institution loans and cash bonds»

The balance sheet item «bond issues, central mortgage institution loans and cash bonds» decreased by CHF 30.1 bn (-6.9 %). This decline is due to a fall in «bond issues and central mortgage institution loans» of CHF 29.0 bn. The reason for this is a decrease in the issuance by the big banks of money market instruments (-CHF 21.3 bn) and bonds (-CHF 19.4 bn) abroad. This could be attributable to expansionary monetary policy, among other things. Due to sufficient liquidity in the market, money market instruments are becoming relatively less attractive. This balance sheet item increased in Switzerland (+CHF 11.8 bn) and applied mainly for the cantonal banks (+CHF 4.8 bn) and big banks (+CHF 3.7 bn) bank groups).

Breakdown of liabilities over time

Before 2008, liabilities to banks accounted for the largest share of liabilities and have declined continuously from that time onwards. Since 2008, the reduction has amounted to 42.8 percent or a decrease of CHF 284.2 bn to CHF 379.9 bn. This shows that the interconnectedness between banks – in particular vis-à-vis banks in Switzerland – further decreased and the banks' financing is solid. Sight deposits rose from CHF 381.5 bn to CHF 880.6 bn during that same period. Sight deposits as a share of total liabilities rose from 12.4 percent in 2008 to 27.3 percent in 2018 and were therefore the biggest liabilities item at the end of 2018. At the same time, the share of time deposits fell from 21.3 percent in 2008 to 8.4 percent in 2018. In the low interest rate environment, time deposits are less attractive than sight deposits. This results in a shift from time deposits to sight deposits.

II. 2.1.2 Domestic credit business trend

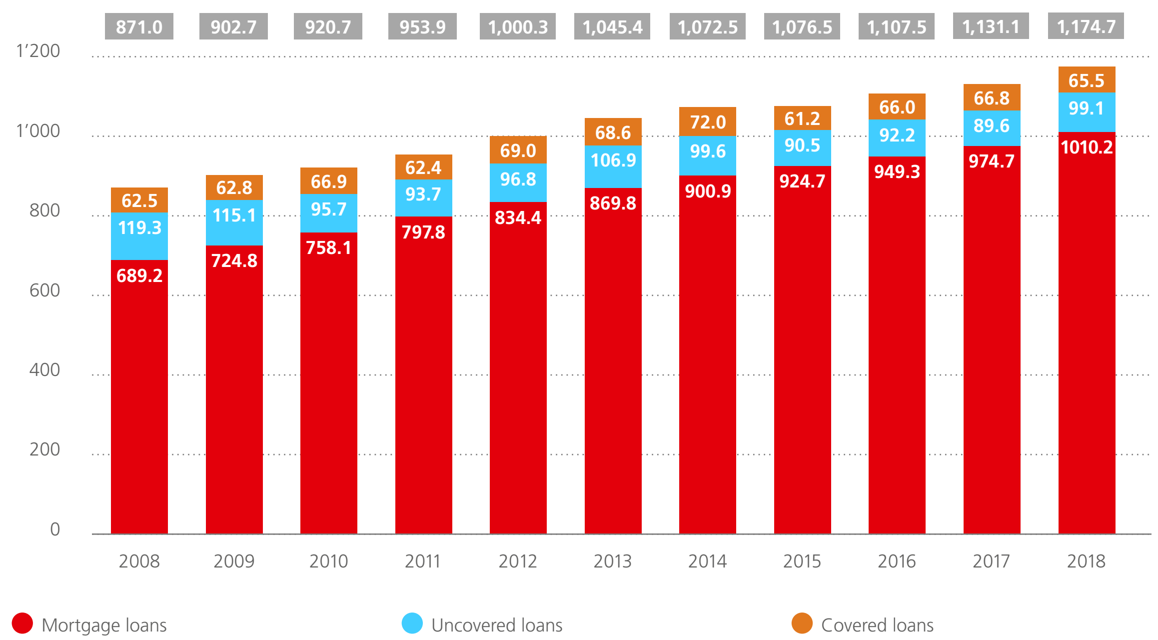
The total outstanding domestic credit volume was CHF 1,174.7 bn in 2018. Of that total, CHF 164.6 bn were secured and unsecured customer loans (companies, public corporations and consumer credit), and CHF 1,010.2 bn was attributable to mortgage loans. Compared with the previous year, the total volume of credit in Switzerland rose by 3.9 percent in 2018. Domestic mortgage lending growth, at 3.6 percent, was likewise higher than in the previous year (2017: +2.7 %). Mortgage loans have increased by CHF 321.0 bn (+46.6 %) since 2008 and their share of the domestic credit volume has grown from 79.1 percent to 86.0 percent. Mortgage loans therefore continue to account for the largest share of credit volume. Unsecured loans also increased year-on-year (+10.6 %), while secured loans fell (-2.0 %).

Non-banks are increasingly entering the mortgage loans business. Thus, for example, according to SNB, the mortgage origination through the pension funds was at 16.8 percent (2007). Mortgage loans by non-banks today are clearly above 5 percent of the overall market. At the same time, crowdfunding platforms raised around CHF 516.6 m in 2018. This corresponds to an increase of 38 percent compared with the previous year. The biggest growth drivers in this area were SME financings through crowdlending and real estate investments through crowdinvesting.[29]

Fig. 10

Domestic credit volume trends

in CHF bn



Source: SNB

29 Institute of Financial Services Zug (2019). Crowdfunding Monitoring – Switzerland 2019.

Three-quarters of total mortgage loans attributable to private households in 2008

Total outstanding mortgage loans rose by 3.7 percent to CHF 1,031.8 bn in 2018. A large majority thereof (CHF 1,010.2 bn) is attributable to customers in Switzerland. 75 percent of these were mortgages granted to private households. Fixed-rate mortgages accounted for a 78.3 percent share of outstanding mortgages in 2018. The average interest rate for outstanding domestic mortgage loans decreased in 2018, from 1.53 percent to 1.45 percent[30]. A look at the historical trend shows that mortgage loans with a term upwards of five years have increased. While their share accounted for only 12.4 percent in 2008, it amounted to 24.7 percent in 2018.

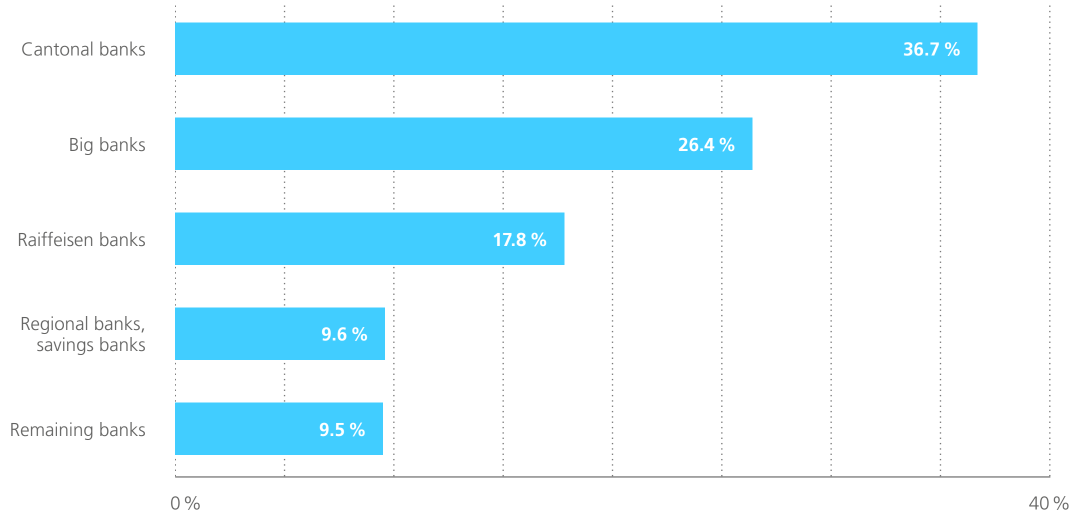
Cantonal banks have largest share of the domestic mortgage market

The cantonal banks' market share of domestic mortgage lending volumes was 36.7 percent at the end of 2018. They were followed by the big banks, with a share of 26.4 percent (see Figure 11). Over the last few years, the share of market for domestic mortgage lending has grown to a lesser extent in particular at the big banks and the regional banks and savings banks, while the other banks, led by the Raiffeisen and cantonal banks, have gained market share.

30 Meanwhile, institutional clients are even offered negative interest mortgage.

Fig. 11

Market share of domestic mortgage lending 2018



Source: SNB

First mortgages clearly strongest lending group

Broken down by lending groups, the share of first mortgages in Switzerland in 2018 was 92.6 percent. This lending group comprises mortgage loans of up to two-thirds of the market value of the respective property. This figure remained unchanged compared with the previous year. There are no relevant identifiable differences between the various bank groups in this segment. The high proportion of first mortgages likely reflects that on the one hand, mortgages are being granted with caution and that on the other hand, mortgages in the second lending group are being amortised faster.

According to the SNB's Financial Stability Report, the banks with a domestic focus are standing on a solid foundation. In recent years, the banks' eligible capital has grown substantially faster than risk-weighted assets. This has resulted in risk-weighted capital ratios that are significantly above the minimum regulatory requirements.[31]

31 sws National Bank (2019). Report on Financial Stability 2019.

Declining demand for consumer credits
Consumer credit continues to be of relatively negligible importance in Switzerland. In total, there were 565,835 loans with a volume of CHF 7.8 bn outstanding at the end of 2018. Compared with the previous year, this corresponds to a decrease in volume of 6.8 percent.

II. 2.2 Trends in 2019

Rise in balance sheet total
The aggregate balance sheet total of the banks in Switzerland rose by CHF 95.0 bn (+2.8 %) in the first five months of 2019 (December 2018: CHF 3,377.0 bn to May 2019: CHF 3,472.0 bn).[32] The negative trend seen in 2018 did not, therefore, continue and the balance sheet totals of the banks to date exceed last year's level.

Assets: rises in loan amounts, trading portfolio assets and financial investments
Over the period from January until May, the balance sheet item amounts due from securities financing transactions rose by CHF 31.0 bn (+14.7 %) and trading portfolio assets increased by CHF 10.7 bn (+ 6.2 %). This suggests that the banks grew their positions in money market and debt instruments in the first half of the year and increasingly built up amounts due from reverse repurchase transactions. Customer loans and mortgage loans also increased, by CHF 19.6 bn (+3.2 %) and CHF 15.6 bn (+1.5 %) respectively. Loans to other banks rose by CHF 6.4 bn (+2.3 %) and financial investments by CHF 1.5 bn (+0.6 %). By contrast, liquid assets declined slightly by CHF 2.8 bn (-0.5 %).

32 The monthly figures are based on sample surveys conducted by the SNB and can therefore deviate from the year-end statistics, which are based on a full survey.

Liabilities: rise in amounts due
On the liabilities side, amounts due in respect of customer deposits rose by CHF 40.2 bn (+2.2 %). Sight deposits increased by CHF 19.5 bn (+2.2 %). The rise in sight deposits is higher than in the previous year, when sight deposits increased by CHF 7.8 bn (+0.8 %) for the period. In the first five months, time deposits rose by CHF 7.2 bn (+2.6 %) and therefore to a lesser extent than in the first five months of the previous year (CHF 18.7 bn or +8.0 %). Liabilities from trading portfolios increased significantly by CHF 12.1 bn (+36.3 %). The item trading portfolio liabilities comprises short positions related to the trading business. This is an indication that investors expected to see a decline in share prices.

Liabilities from securities financing transactions also rose, by CHF 10.9 bn (+8.6 %). The items bond issues, central mortgage institution loans and cash bonds increased only slightly by CHF 6.2 bn (+1.5 %). Liabilities to other banks rose by CHF 2.1 bn (+0.5 %) and equity capital increased by CHF 2.1 bn (+1.0 %).

Moderate rise in the provision of mortgage loans
Mortgage lending grew continuously in the first five months of the year, rising by CHF 15.3 bn (+1.5 %) to CHF 1,021.0 bn. Secured and unsecured loans also increased, by CHF 2.3 bn (+3.4 %) and CHF 2.7 bn (+2.7 %) respectively. According to SECO, both the propensity of Swiss companies to invest and building permits are on the decline in Switzerland.[33] However, the possibility of a further loosening of monetary policy could change this. It therefore remains to be seen how lending will develop in the course of the year.

33 State Secretariat for Economic Affairs (2019). Konjunkturtendenzen Sommer 2019.

II. 3 Assets under management

The banks in Switzerland managed total assets of CHF 6,943.5 bn at the end of 2018. Compared with the previous year, assets under management decreased by CHF 348.4 bn (-4.8 %). The relative share of foreign customer assets remained almost unchanged at 47.5 percent. Switzerland remains the global market leader for cross-border private banking: over one-quarter (market share: around 27 %) of global cross-border assets are managed in Switzerland.[34]

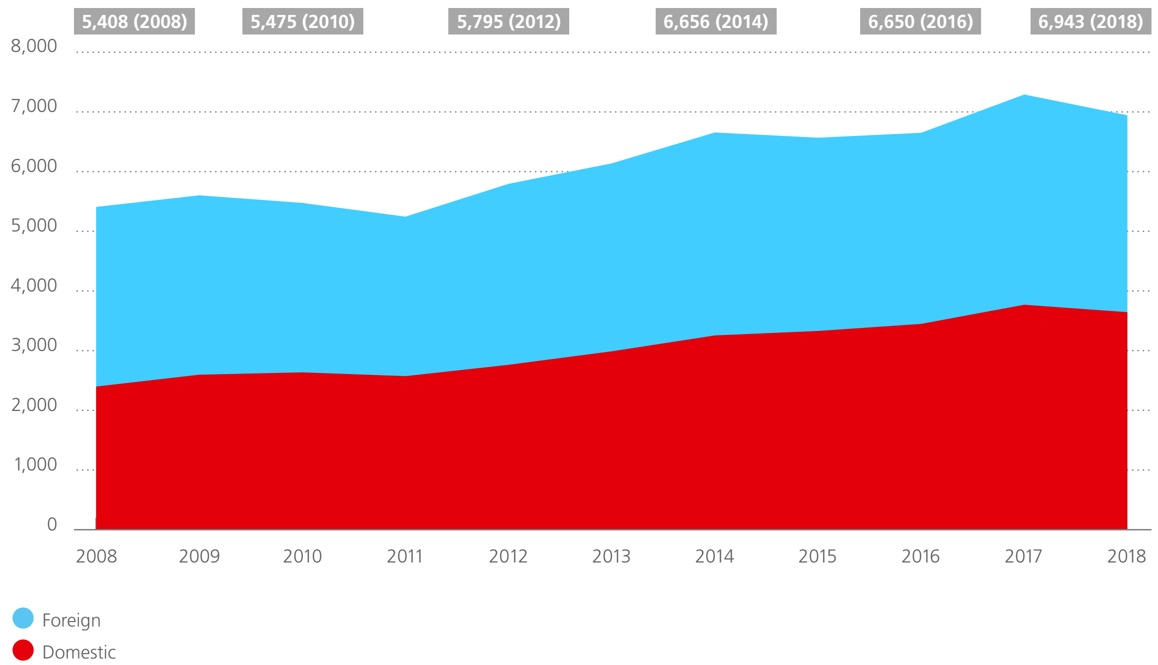
II. 3.1 Trends in 2018

The banks in Switzerland managed total assets of CHF 6,943.5 bn at the end of 2018. Compared with the previous year, assets under management fell by CHF 348.4 bn (-4.8 %). This decline is reflected both in foreign (-6.4 %) as well as domestic customer assets (-3.3 %). Assets under management consist of securities holdings in customer custody accounts (2018: CHF 5,849.3 bn), liabilities to customers excluding sight deposits (2018: CHF 934.1 bn), as well as fiduciary liabilities (2018: CHF 160.0 bn).

34 A detailed analysis of assets under management in Switzerland according to customer segment and type of management can be found in Part III: Developments in selected areas of business.

Fig. 12

Assets under management in Switzerland by customer origin*
in CHF bn



* Starting in the reporting month November 2015, the SNB for the first time conducted surveys according to the revised accounting rules for banks (ARB) of the Swiss Financial Market Supervisory Authority FINMA (ARB, FINMA Circular 15/01, formerly FINMA Circular 08/02). The ARB results in changes to the classification and content of the balance sheets and the income statements of the banks. As a result of the amendments, «assets under management» are now reported differently. The amended reporting of the items from 2006 until 2014 can result in discrepancies in the amounts reported to date.

Source: SNB

There was a sharp drop in assets under management immediately following the outbreak of the financial and economic crisis in 2008. Securities holdings in customer custody accounts at the banks in particular suffered substantial losses due to the sharp drop in stock market indices. Subsequent to this, assets under management rose successively by CHF 1,883.4 bn (+34.8 %) to CHF 7,291.8 bn in 2017.

In 2018, assets under management decreased compared with the previous year. This decline is attributable to the lower securities holdings in customer custody accounts (-6.5 %). One of the reasons for this decrease may be a valuation effect.

In 2018, for example, the MSCI World Index fell by 8.7 per cent. By contrast, liabilities to customers excluding sight deposits (+4.0 %) as well as fiduciary liabilities (+15.8 %) rose against the previous year. Because securities holdings account for by far the largest share of assets under management, the decline in securities holdings dominates.

The share of assets attributable to foreign customers fell from 55.7 percent to 47.5 percent between 2008 and 2018. The decline in the share of assets held by foreign customers is the result of a number of factors. One is the currency effect. Foreign customers hold a significantly higher portion of their assets in euro and dollars than domestic customers. The shares of assets are calculated in Swiss francs. If the franc appreciates against other currencies, the assets of foreign customers automatically fall in relation to those of domestic customers. There has been only a slight change in the share of assets attributable to foreign customers since Switzerland committed to the AEOI in 2013.[35]

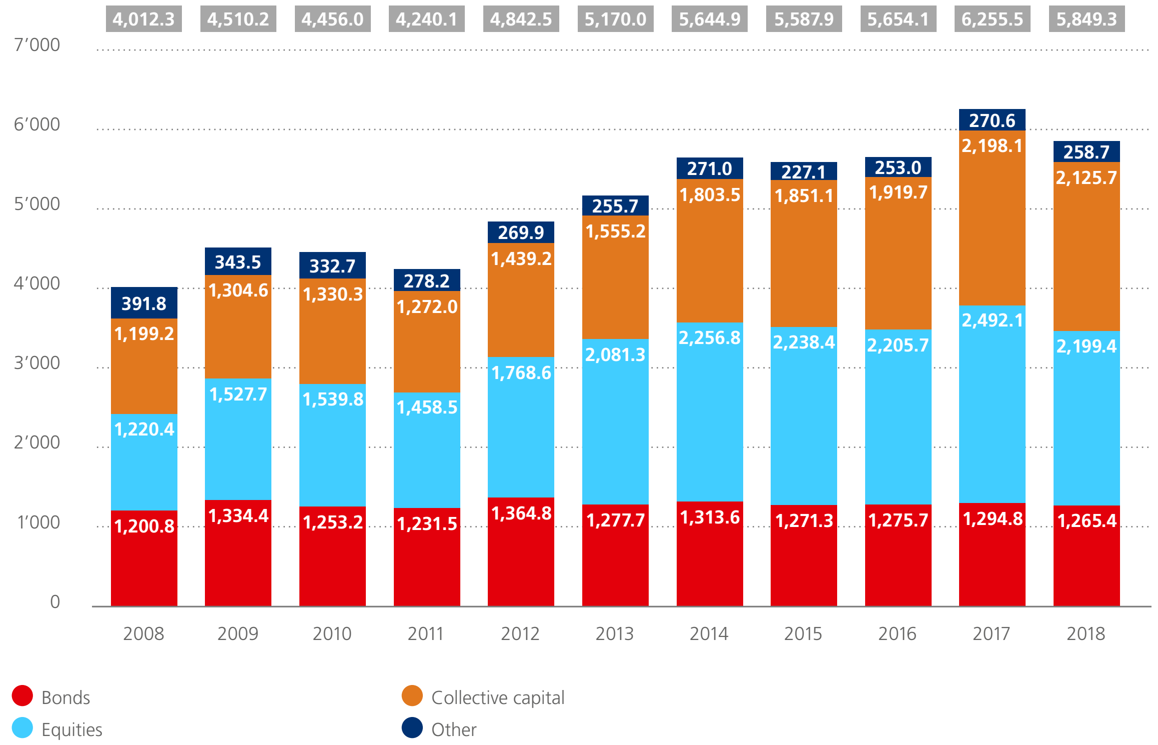
Decrease in securities holdings

Securities holdings in customer custody accounts fell by CHF 406.2 bn (-6.5 %) to CHF 5,849.3 bn. Securities holdings are broken down into the categories equities (37.6 %), collective capital investments (36.3 %), bonds (21.6 %) and «other» (4.4 %). Positions in all of these categories decreased compared with the previous year. Equities saw the largest decline (-11.7 %), followed by «other» (-4.4 %), collective capital investments (-3.3 %) and bonds (-2.3 %). Swiss franc-denominated securities holdings fell by CHF 207.7 bn (-6.8 %). This was followed by securities held in euros (-CHF 121.3 bn or -14 %) and dollars (-CHF 42.7 bn or -2.7 %).

35 For a detailed analysis of asset development since 2013, see Part III.

Fig. 13

Secutities holding in customer custody accounts by type
in CHF bn



Source: SNB

Significant decrease in equity holdings

Equity holdings in customer custody accounts at the banks fell by 11.7 percent compared with the previous year. At the end of 2018, equity holdings amounted to CHF 2,199.4 bn. Accounting for a share of around 37.6 percent, equities were the largest position in terms of securities holdings.

Decline in demand for collective capital investments

Accounting for a 36.3 percent share, collective capital investments, consisting primarily of investment funds, were the second-largest securities category. They also decreased in 2018, by 3.3 percent to CHF 2,125.5 bn.

Decrease in bond holdings

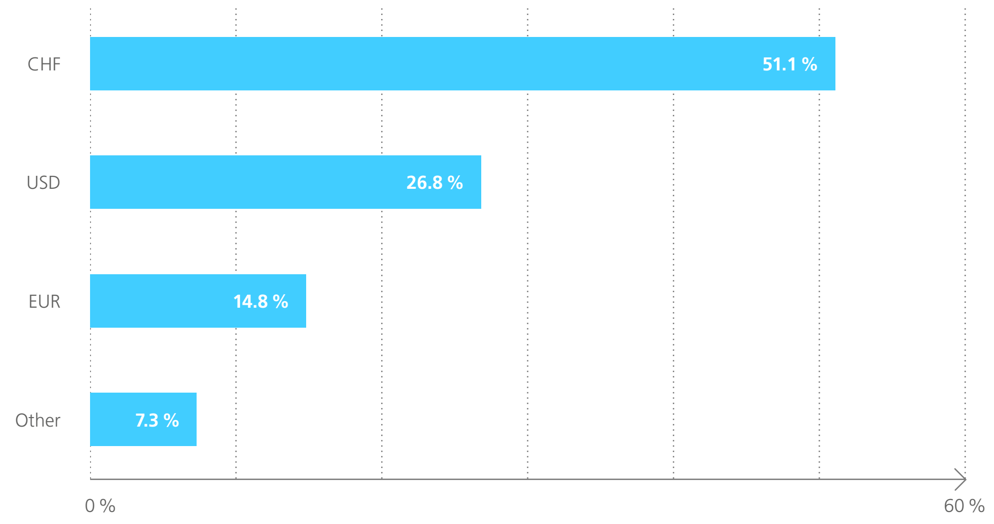
Bond holdings fell by 2.3 percent to CHF 1,265.4 bn in 2018. Bonds were the third-largest asset class in customer custody accounts, accounting for a share of 21.6 percent thereof.

Decrease in «other» securities holdings

«Other» securities holdings decreased by 4.4 percent in 2018 to 258.7 bn and accounted for 4.4 percent of customer custody accounts.

Fig. 14

Deposits by currency at the end of 2018



Source: SNB

Dollar-denominated investments rise, euro-denominated investments fall

The importance of the euro as an investment currency declined slightly in 2018. The share of euro-denominated investments decreased from 15.8 percent to 14.8 percent of total securities holdings in 2018. However, deposits in US dollars sank in absolute terms compared with the previous year (-2.7 percent), although their share of total deposits increased from 25.7 percent to 26.8 percent. At 51.1 percent, the Swiss franc continued to be by far the most important investment currency.

Slight fall in savings and investment liabilities

Savings and investment liabilities to customers amounted to CHF 664.7 bn at the end of 2018, which corresponds with a reduction of 0.4 percent compared to the previous year. A total of 89.6 percent of customer savings and investment deposits were attributable to domestic customers in 2018. These assets include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar).

Fiduciary deposits rise once again

The fiduciary deposits managed by the banks in Switzerland increased by CHF 21.8 bn to CHF 160.0 bn (+16.0 %) in 2018. The majority of inflows (82.7 %) originated from abroad. This marks a renewed increase in fiduciary deposits. In 2008, fiduciary deposits under management amounted to CHF 382.4 bn. They declined continuously until 2015, when they reached CHF 114.0 bn. At 2.3 percent of total assets under management, fiduciary deposits have only a negligible impact on private banking in Switzerland.

II. 3.2 Trends in 2019

At the end of May 2019, the banks in Switzerland managed total assets of CHF 7,426.1 bn, which represents an increase of CHF 528.5 bn (+7.7 %) compared with December 2018 (December 2018: CHF 6,897.6 bn) and exceeds the record high achieved after the financial crisis at the end of 2017 (December 2017: CHF 7,291.8 bn).[36] This increase is due to a rise in securities holdings of CHF 491.2 bn (+8.5 %), from CHF 5,785.9 bn to CHF 6,277.1 bn. Liabilities to customers excluding sight deposits increased during the same period by CHF 20.6 bn (+2.2 %) to CHF 969.9 bn. Fiduciary liabilities also rose, by CHF 16.7 bn (+10.3 %) to CHF 179.2 bn. One possible reason for this trend is the fact that the equity markets recovered significantly in the first half of 2019 compared with the second half of 2018 and have since returned to a similar level as prior to the slump which began at the end of September 2018.

36 The monthly figures are based on sample surveys conducted by the SNB and can therefore deviate from the year-end statistics, which are based on a full survey.

II. 4 Employment at Switzerland's banks

At the end of 2018, the banks in Switzerland employed 90,660 people (in full-time equivalents, in Switzerland), which corresponds to a decrease of 1.3 percent compared to the previous year. At 2.3 percent, the unemployment rate in the banking industry was significantly lower than that of the overall economy.

According to a survey conducted by the SBA, the employment trend in the first half of 2019 declined slightly. Around 60 percent of the banks surveyed expect the employment situation to remain flat in the second half of 2019.

II. 4.1 Trends in 2018

In 2018, the banks employed 90,660 people in Switzerland (in full-time equivalents), of which around 23,000 were employed in private banking (see Chapter III 2.7). The number of jobs fell by 1,240 jobs (-1.3 %) against the previous year.[37] As in the previous year, part of this decrease can be explained by the fact that jobs were transferred to intragroup entities that are not included in the banking statistics.

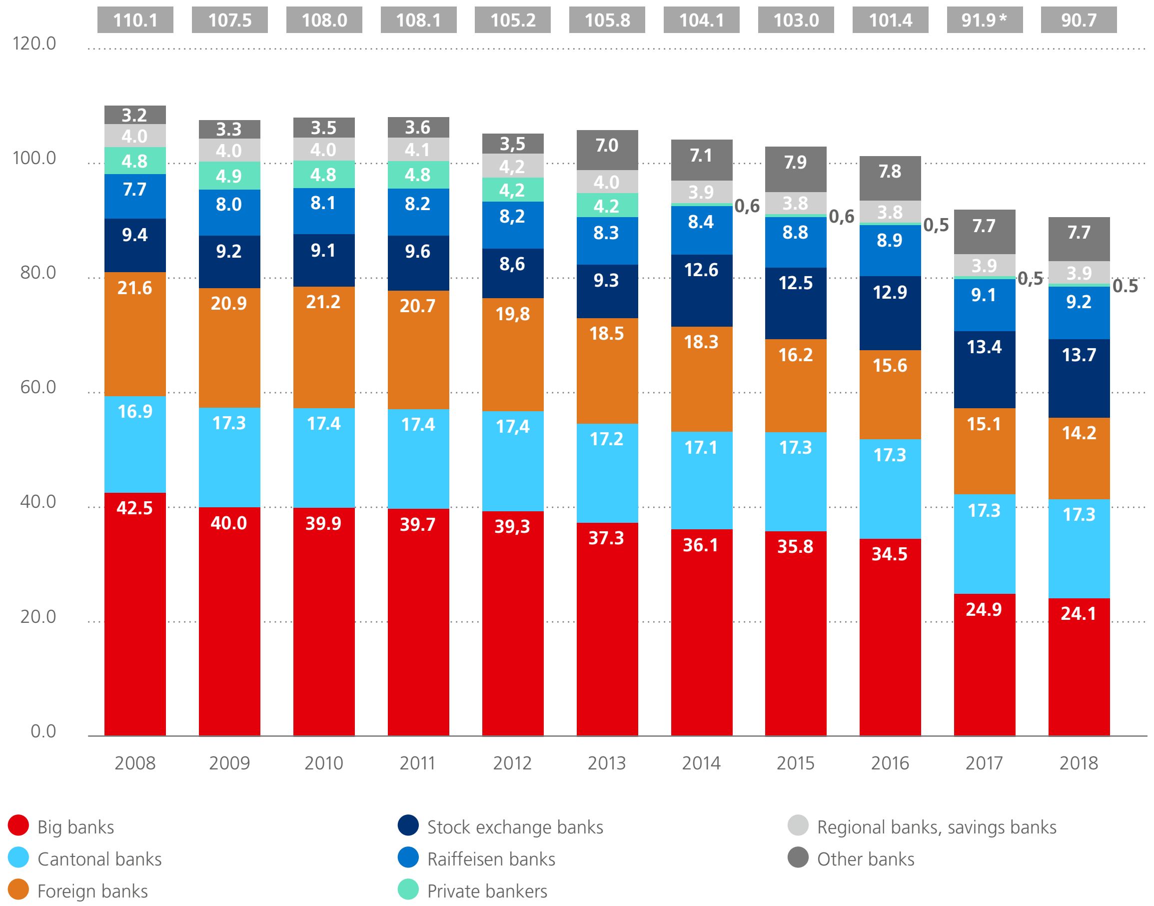
According to SECO, the average unemployment rate in the Swiss banking sector was 2.3 percent in December 2018. It was thus 0.4 percentage points below the figure for the overall economy, which was 2.7 percent, and is therefore comparatively low. Overall, an annual average of 3,418 people were registered as unemployed in the banking sector in 2018, which corresponds to a reduction of 581 compared to 2017.[38] Considering the major challenges faced by banks, the labour market continues to be highly robust.

37 The domestic staff levels for 2017 were corrected by the SNB on 27.06.2019 due to a retroactive correction from 93,554 to 91,900 made by a reporting bank.
38 State Secretariat for Economic Affairs (2019). Die Lage auf dem Arbeitsmarkt.

The trend towards consolidation in the banking sector has been ongoing for many years. The low interest rate environment, the stricter rules for lending and the new capital requirements are putting pressure on margins. The outsourcing and digitalisation of business processes make it possible to reduce labour costs and increase the efficiency of processes.

Fig. 15

Staff levels at the banks in Switzerland (domestic)
in thousands full-time equivalents



* This reflects a one-off effect caused by a big bank's transfer of employees to an intragroup service company. The domestic staff levels for 2017 were corrected by the SNB on 27.06.2019 due to a retroactive correction from 93,554 to 91,900 made by a reporting bank.

Source: SNB

Cuts at foreign banks and big banks
The big banks, foreign banks, «other banking institutions» and private bankers cut 1,775 jobs in 2018. The foreign banks accounted for the greatest decline in staff levels, with a reduction of 878 (-5.8 %) jobs. The big banks reduced their staff levels by 813 jobs (-3.3 %). Conversely, the cantonal banks, regional banks and savings banks, Raiffeisen banks and stock exchange banks created 535 additional jobs in 2018. The strongest growth was reported by the stock exchange banks with 292 jobs (+2.2 %), and the Raiffeisen banks with 136 jobs (+1.5 %). Staff levels increased by 47 (+0.3 %) new jobs at the cantonal banks and by 60 (+1.6 %) at the regional banks and savings banks. One reason for this was the decline in staff levels.

Rise in the number of female employees
The number of gainfully employed fell from 16,800 to 16,330 (-2.8 %) in the 15 to 24-year-old segment. A slight increase from 48,000 to 48,230 (+0.5 %) was reported for the 25 to 39-year-old segment. The 40 to 54-year-old segment also saw an increase, from 49,400 to 52,120 (+5.6 %). For the 55 to 64-year-old segment, the number of employed persons decreased from 15,600 to 15,320 (-1.7 %).[39]

At the end of 2018, Swiss banks employed 34,421 women in Switzerland (full-time equivalents). The share of female employees once again increased slightly compared to the previous year, from 37.5 percent to 39.5 percent. As in previous years, the regional banks and savings banks, and the Raiffeisen banks reported the highest share of female employees at 44.9 percent and 44.8 percent respectively.

39 Federal Statistical Office (2019). Swiss Labour Force Survey (SLFS).

II. 4.2 Trends in 2019

The annual SBA survey on employment trends at the banks shows a slight rise in the employment figures for Switzerland for the first half of 2019. The number of jobs increased from 87,596 to 87,617 between the end of 2018 and June 2019. Compared to the end of 2018, 21 jobs were added in Switzerland, which is an additional 0.02 percent. In contrast, staff levels abroad declined during this period, namely by minus 0.25 percent or 212 jobs.

Fig. 16

Employees Domestic total*

Full-time equivalents	As at 31.12.2018	As at 30.06.2019	Trends in the first half of 2019			
			Total change	Change in %	Joined	Left
Domestic	87,596	87,617	21	0.02 %	4,922	4,901

NB: Number of responses: 153

* Staff levels in Switzerland at the end of 2018 were lower according to the SBA survey than to the SNB statistics. The reason for this disparity is the response rate to the SBA survey. 215 banks in Switzerland were surveyed. The response rate was 71 percent, which represents 96.6 percent of staff levels at the banks in Switzerland.

Source: SBA employment survey (2019)

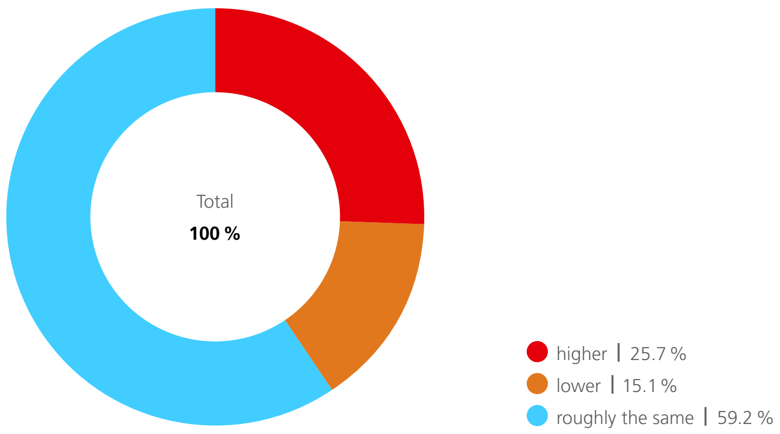
The detailed results regarding incoming and outgoing staff show that there were 4,922 incoming domestic employees at the banks in Switzerland in the first six months of the year. 4,901 outgoing employees were reported for the same period, which resulted in a slight rise in staff levels of 0.02 percent.

Expectation of flat employment trend broadly shared
59.2 percent of the banks surveyed expect employment levels to remain unchanged in the second half of 2019, which corresponds to a decrease of 2.1 percentage points compared to the previous year's survey. 25.7 percent of survey participants expect staff levels to rise in Switzerland and 15.1 percent expect to see lower levels. The bank representatives surveyed were therefore substantially more cautious with regard to domestic employment trends than one year ago. Because those survey

participants who expect no change or higher employment levels represent a share of approximately 85 percent of total employment, the trend for overall employment is expected to be at least flat for the second half of 2019.

Fig. 17

Expected employment trend in the second half 2019



Note: Number of responses: 152. Shares as percentage of all responses.

Source: SBA survey (2019)

Increase in expectation of lower employment

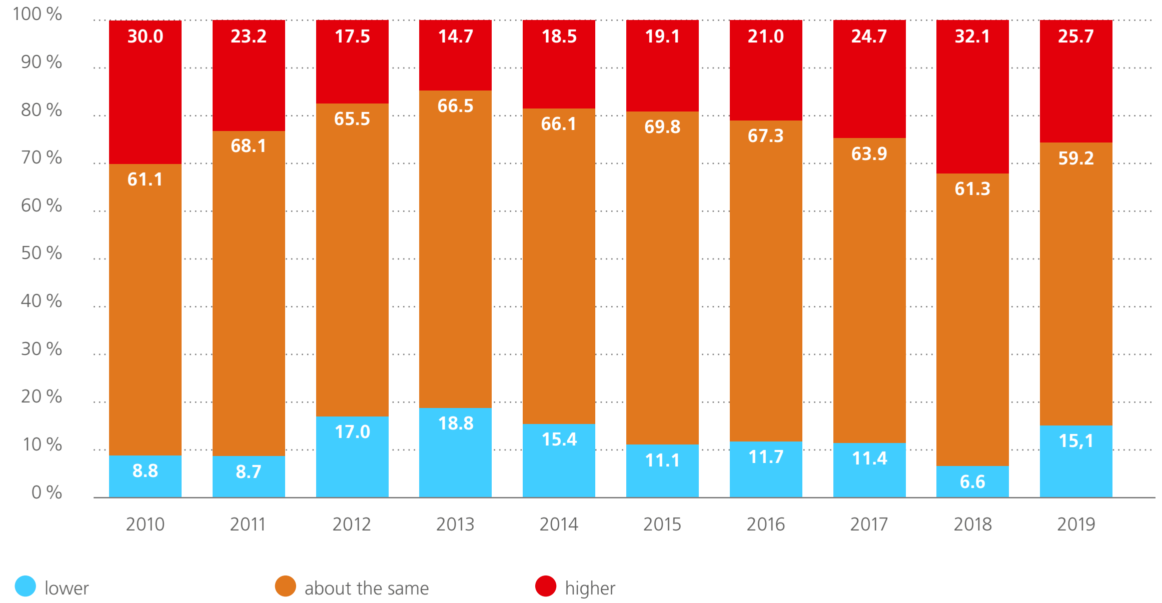
In past surveys on employment trends, the «about the same» category has always dominated. However, since 2013, expectations of lower employment have been decreasing, while expectations of higher employment have been rising. For the second half of 2019, however, the banks were somewhat less optimistic. The share of responses from banks that expected a lower employment trend increased. This share more than doubled compared to the previous year.

The share of banks that expect to see higher employment levels in the second half of 2019 fell from around one-third to around one-quarter.

Fig. 18

Survey results regarding employment expectations for second half of 2019

Shares as a percentage of all responses



NB: Number of responses: between 90 and 105 depending on business activity. For «total», the number of responses is 152. Because the number of responses for «total» is much higher than those for the individual business activities, the significance of «total» is strongest. Trends are derived from the responses weighted by numbers employed in Switzerland as at June 2019.

Source: SBA survey (2019)

Employment expectations unchanged for almost all business areas

A comparison of the statements regarding trends for the individual business areas weighted by the corresponding employment levels of the banks at the end of June 2019 indicates that the expectation that the employment trend will remain unchanged for all business segments dominated.[40] Nevertheless, several differences can be inferred with regard to the expectations for the future. For example, over 95 percent of the banks surveyed expect the employment trend to remain flat for institutional asset management and the trading business. For private banking,

40 The Employers Association of Banks in Switzerland regularly publishes the latest employment figures in its «Bankenmonitor online». Due to the different methods for analysing the results and the varying time horizons under review, the results of the study by the Employers Association and those of the SBA survey may differ.

however, around 15 percent of the banks surveyed expect to see an increase in staff in the second half of 2019 and only one percent expect to see a decrease. For retail banking, positive expectations (10 %) and negative expectations (7 %) are more or less balanced. For logistics and operations, around 20 percent of the banks surveyed expect to see employment fall in the second half of 2019.

Fig. 19

Employment trend in the second half of 2019

Total	Retail Banking	Private banking	Institutional asset management	Trading business	Logistics and operations (back office)
→	→ (↗)	→ ↗	→	→	→ ↘

NB: Number of responses: between 90 and 105 depending on business activity. For «total», the number of responses is 152. Because the number of responses for «total» is much higher than those for the individual business activities, the significance of «total» is strongest. Trends are derived from the responses weighted by numbers employed in Switzerland as at June 2019.

Source: SBA survey (2019)

Stable unemployment rate for the banking sector

According to the monthly statistics of the State Secretariat for Economic Affairs (SECO), the unemployment rate in the banking sector in the first half of 2019 was unchanged compared with December 2018 and remained at 2.3 percent. The unemployment rate was therefore slightly above the overall average for Switzerland, which was 2.1 percent in June.

III. Developments in selected areas of business

Banks in Switzerland operate in various areas of business, which have developed in different ways. Of the CHF 3.7 tn of private assets under management at the end of 2018, CHF 2.3 tn came from customers domiciled abroad. Assets in cross-border wealth management rose by a total of CHF 300 bn compared to 2013. Investment management conducted in Switzerland amounts to a total of CHF 3.3 trillion in assets. Around 20 percent of investments managed in the Swiss investment management industry are sustainably invested, in contrast to a global average of 11 per cent.

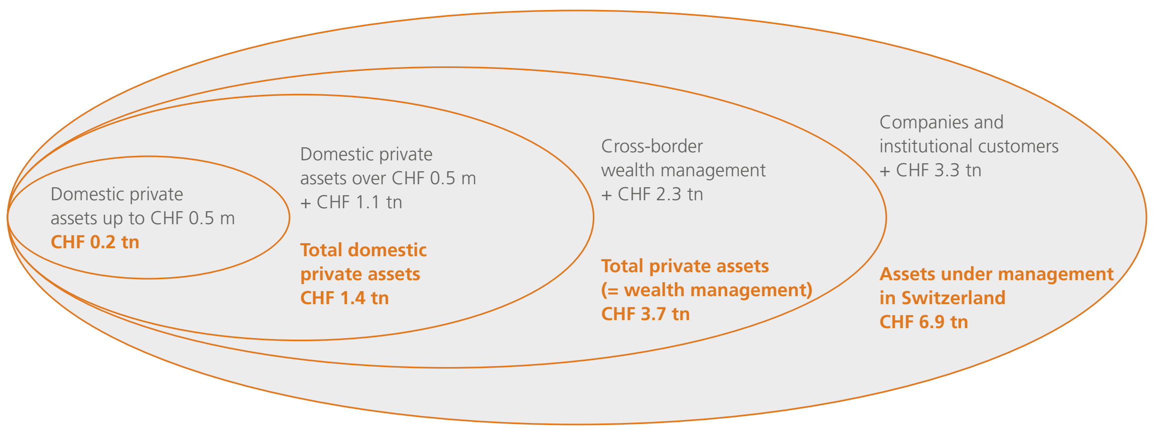
III. 1 Overview of assets and investments under management

Banks in Switzerland had a total of CHF 6.9 tn of assets under management at the end of 2018.[41] Domestic private customers with assets of up to CHF 0.5 m accounted for CHF 0.2 tn of this sum.[42] A further CHF 1.1 tn of this figure comprises domestic customers with larger volumes of assets. In total, CHF 2.3 tn is managed in the cross-border wealth management business. Private customers in Switzerland and abroad hold 53 percent of total assets at banks in Switzerland. The other 47 percent of total assets under management amount to CHF 3.3 tn and are held by companies and institutional clients. The CHF 6.9 tn consists of CHF 1.1 tn of bank deposits and CHF 5.8 tn of securities.

41 Swiss National Bank (2019). Banks in Switzerland 2018. This total comprises professionally managed assets as well as assets deposited with banks.
42 Boston Consulting Group (2019). Global Wealth 2019: Reigniting Radical Growth. The information on asset segments was all provided by BCG.

Fig. 20

Segmentation of assets by beneficial owner 2018



Note: Indicative representation, deviations due to rounding differences According to the Swiss National Bank (SNB), total assets at Swiss banks amount to CHF 6.9 tn. The breakdown of assets by customer segment is based on BCG figures.[43]

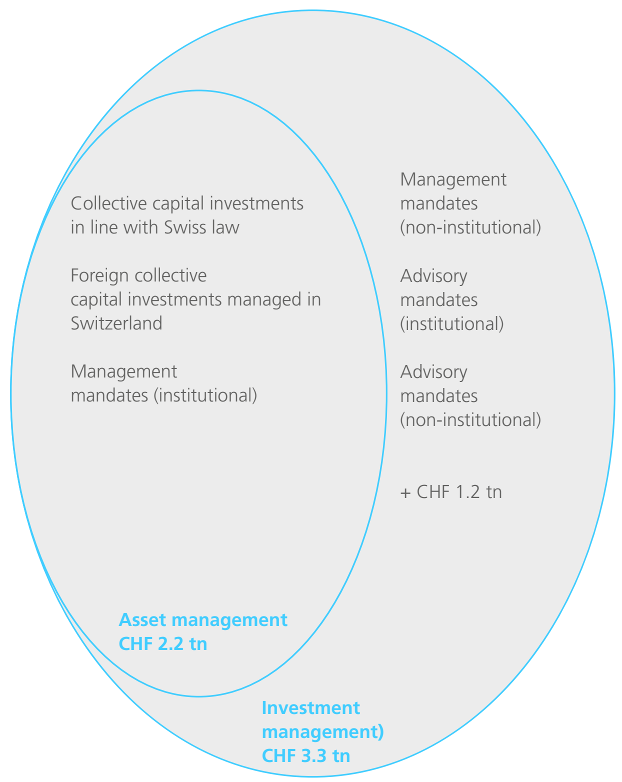
Source: SNB, BCG, IFZ/AMP, SBA

Some of the assets in this country are managed via investment solutions created in Switzerland. A total of CHF 3.3 tn of assets is managed in the Swiss investment management industry. Collective investments under Swiss and foreign law as well as the discretionary mandates of institutional clients account for CHF 2.2 tn of this sum. A further CHF 1.2 tn are managed in the form of discretionary mandates of non-institutional clients as well as advisory mandates.

43 BCG has published the Global Wealth Report annually since 2001. The study aims to determine the volume of private financial assets in 97 countries and to forecast how it will develop in the future. It also sets out the implications and trends for wealth managers. The study is based on publicly accessible data sources, BCG models and experts, as well as a survey of 150 wealth managers globally. BCG has kindly provided the SBA with detailed data for this year's Banking Barometer. The full Global Wealth Report 2019 is available at: www.bcg.com.

Fig. 21

Investment management at the Swiss financial centre 2018



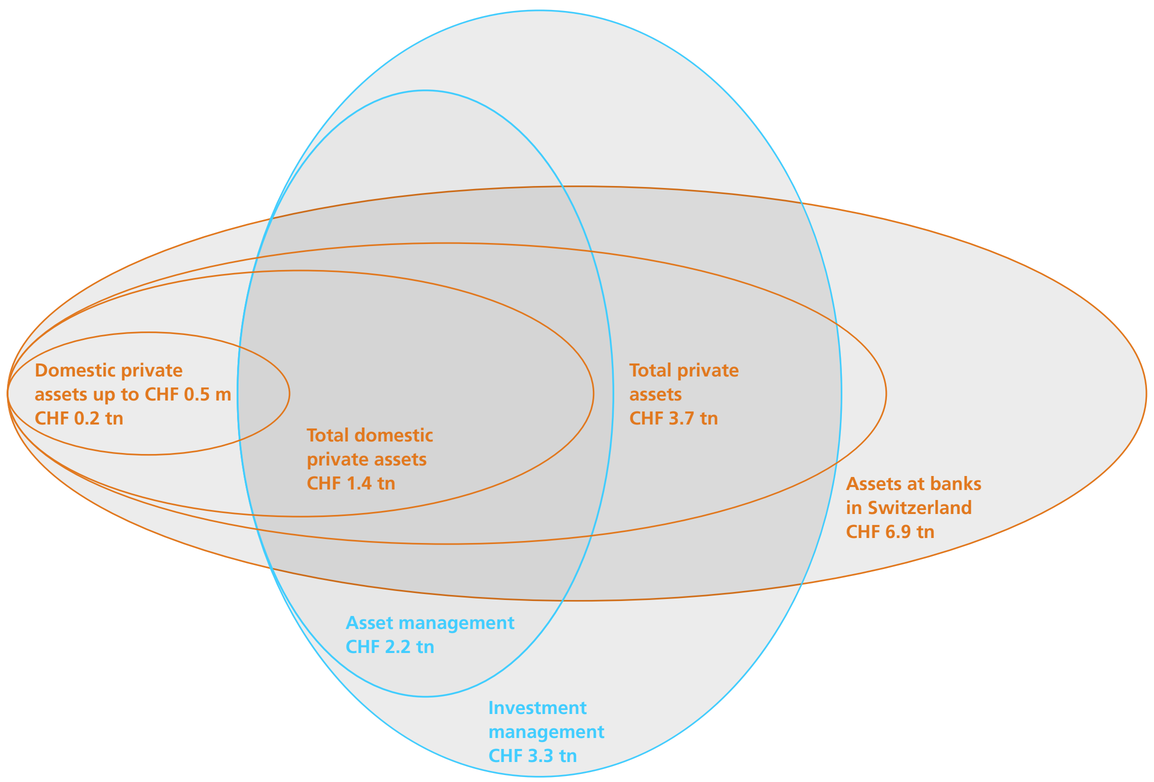
Note: Indicative representation, deviations due to rounding differences A total of CHF 3.3 tn of assets is managed in the Swiss investment management industry. Collective investments under Swiss and foreign law as well as the discretionary mandates of institutional clients account for CHF 2.2 tn of this sum. A further CHF 1.2 tn are managed in the form of discretionary mandates of non-institutional clients as well as advisory mandates.

Source: SNB, BCG, IFZ/AMP, SBA

The breakdown of assets reveals a closely interconnected financial centre. The various customer segments benefit significantly from the combined expertise of investment management. At the same time, the assets held by private customers drive strong demand for investment expertise. Overall, this creates advantages for both sides of the market. The labour market, in which experts can move between the various functions, plays an important role in promoting the exchange of knowledge and fostering mutual understanding between market participants.

Fig. 22

The Swiss financial centre is tightly interconnected (2018)



Note: Indicative representation, deviations due to rounding differences. The assets held at banks in Switzerland are partly managed by the Swiss investment management industry and partly by customers themselves or by foreign providers. The Swiss investment management industry additionally manages assets held at banks abroad.

Source: SNB, BCG, IFZ/AMP, SBA

In addition to the assets booked with commercial banks, the SNB holds CHF 816 bn of financial investments – mainly in foreign currencies and foreign investments. However, they are not located at commercial banks but instead at foreign central banks as well as the Bank for International Settlements (BIS). Consequently, the SNB assets do not appear in the statistics on banks in Switzerland and are not considered in this publication. The SNB's expertise in the field of investment management nevertheless makes a further contribution to investment expertise in Switzerland.

III. 2 Swiss wealth management

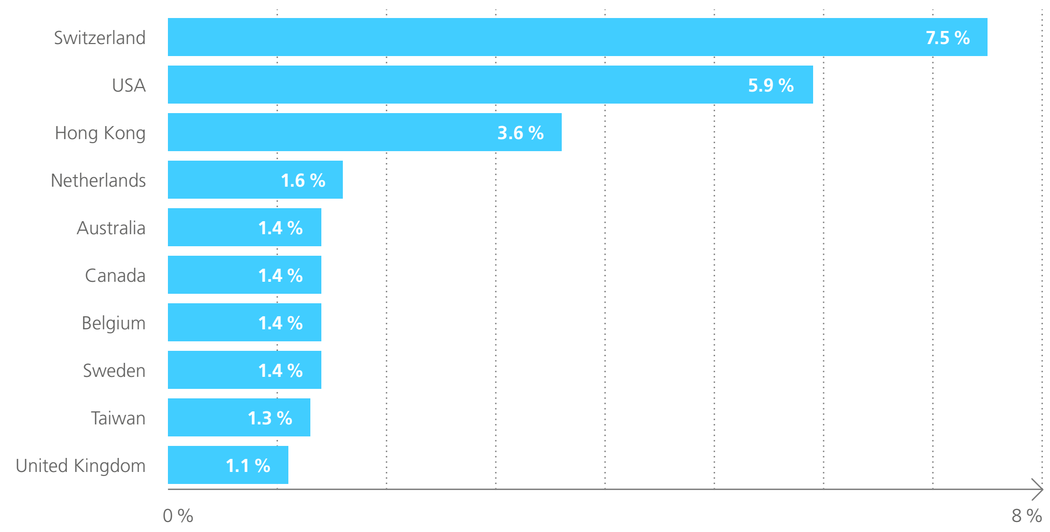
Wealth management – i.e. the management of private assets – is the Swiss financial centre's leading area of expertise. It encompasses the provision of comprehensive financial services for private individuals and the management of their assets. In 2018, banks in Switzerland managed a total of CHF 3.7 tn of private assets, of which around 62 percent originated from customers domiciled abroad. Wealth management is thus one of the most important services exported by Switzerland.

The domestic wealth management market benefits from the constant accumulation of wealth by the Swiss population and from assets brought by immigrants. According to BCG, Switzerland has the highest density of asset millionaires in the world, amounting to 7.5 percent of the domestic population. By 2023, a further 10,300 people should exceed this threshold according to BCG forecasts, representing the fifth-strongest growth rate in an international comparison.

Fig. 23

Switzerland has the highest density of millionaires globally

Proportion of the adult population with assets exceeding CHF 1 m, selected countries, in percent, 2018



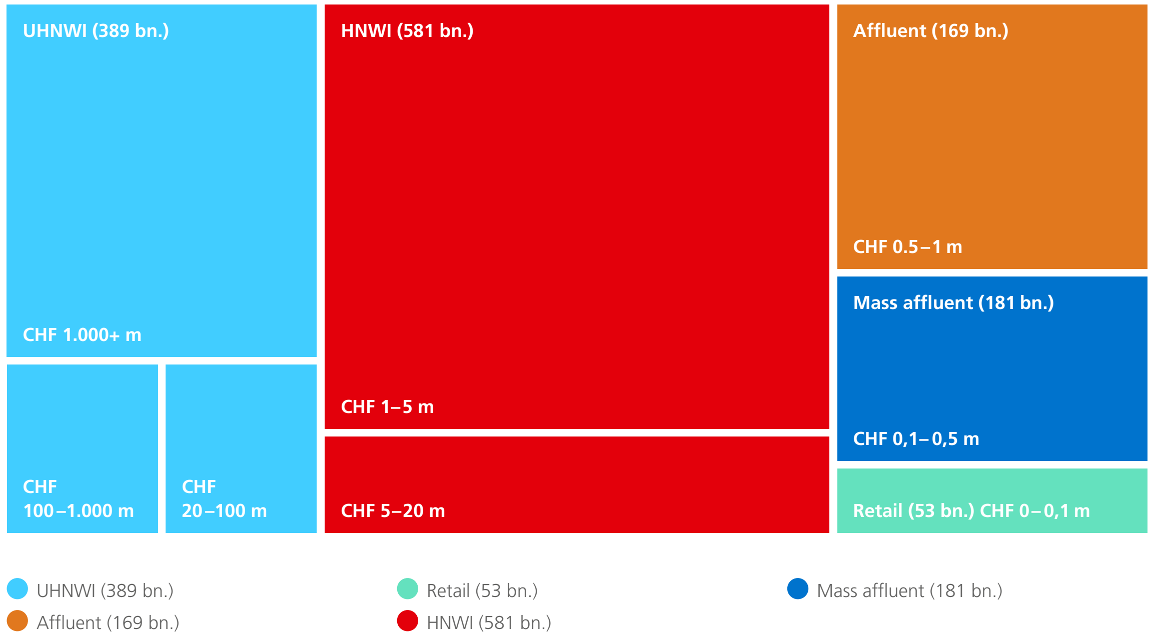
Source: BCG

A total of CHF 1.4 tn of domestic private assets are managed in Switzerland (see Fig. 24). The high-net-worth individuals (HNWI) segment accounts for around 42 percent of these assets, while a further 28 percent comes from the ultra-high-net-worth individuals (UHNWI) segment. Even if the number of customers within the affluent, mass affluent and retail segments is significantly higher, cumulatively they account for only just under 30 percent of private wealth across the whole of Switzerland. Banks typically segment their customers according to asset volume and sometimes other criteria (see box on page 81).

Fig. 24

Assets under management of domestic private customers 2018

According to segment, investable assets (cash, bank deposits, securities)



Source: BCG

Typical customer segmentation by asset volume in the private customer segment:

Up to CHF 100,000:	Retail
CHF 100,000 – 1 m:	Mass affluent/affluent
CHF 1 m – 20 m:	HNWI (high-net-worth individuals)
Over CHF 20 m:	UHNWI (ultra-high-net-worth individuals)

Note: Customer segmentation varies from bank to bank. In some cases, criteria (e.g. advisory form chosen, family environment, mortgages) are considered in addition to asset volume.

III. 2.1 New regulations require the adaptation of business models

Switzerland is the leading centre for cross-border wealth management globally. With a total of CHF 2,300 bn of foreign private assets, Switzerland's cross-border business is as large as the cumulative volume of the two financial centres that rank behind it in terms of size: Singapore and Hong Kong. The complexity of the cross-border wealth management business is not only due to specialist financial requirements but also to a series of regulations that differ depending on the customer's domicile. The regulatory landscape for banks has altered significantly since the 2008 financial crisis. Fig. 25 provides an overview of the most important regulatory developments. Regulatory changes created the need for significant adjustments to bank business models – especially in cross-border wealth management. Financial institutions are confronted with much stricter requirements regarding their transparency vis-a-vis customers and their compliance with tax obligations, resulting in significantly higher internal compliance costs. At the same time, the new compatibility of Swiss regulations with international standards as a result of regulatory adjustments should lay the foundations for improved access to foreign markets – especially in the European Union.

The Swiss Federal Supreme Court's ruling on retrocessions, as well as the Swiss Financial Services Act (FIDLEG), affect all areas of wealth management – not solely the cross-border business. Financial institutions must therefore adapt their business models accordingly, a process that has already largely been completed.

Fig. 25

Important regulatory changes in wealth management

Year	Business area	Notes
2012	Swiss Federal Supreme Court ruling on retrocessions	Retrocessions (i.e. commission paid for distributing financial products) must essentially be passed on to customers. Numerous banks have responded to this decision by introducing retrocession-free mandates and by charging advisory fees with a view to ensuring a transparent fee system for wealth management services.
2014	FATCA	The Foreign Account Tax Compliance Act (FATCA) is designed to ensure that all foreign bank accounts held by persons liable for taxation in the US can be taxed. The Swiss FATCA law allows for the easier implementation of FATCA for US persons by Swiss financial institutions.
2017	Automatic Exchange of Information (AEOI)	The AEOI is an international standard governing the way in which the tax authorities of participating countries exchange information about the accounts and custody accounts of persons who are liable for taxation, with the aim of preventing tax evasion. For the individuals concerned, this means that banking confidentiality is waived vis-à-vis the tax authorities in their country of domicile.
2018	MiFID II	This is the EU directive that is designed to improve financial stability and investor protection. It also aims to increase market efficiency and competition. It mainly affects the cross-border business with EU customers.
2019	Swiss-US DTT	In July 2019, the US Senate approved the protocol to amend the double tax treaty (DTT) between Switzerland and the US. This means that the exchange of tax information between the two countries upon request has been introduced in accordance with the international standard. The protocol for the amendment of the DTT will formally enter into effect on the date on which the ratified documents are exchanged.
2020	FIDLEG	FIDLEG contains rules of conduct that financial services providers in Switzerland must observe with regard to their customers. Its core content is comparable with the EU directive MiFID II.

III. 2.2 Role and relevance of wealth management in Switzerland

With CHF 3.7 tn of assets, wealth management is of central importance to the financial centre and the Swiss economy. Banks offer a comprehensive range of services for private customers and cover all areas of holistic asset planning (see Fig. 26).

There are few financial centres that can provide a similar density of specific services and long-standing expertise in the field of wealth management compared to Switzerland. These services range from investment advisory, tax advisory and inheritance advisory to philanthropy advisory. Switzerland's international focus and multilingualism, as well as the knowledge of cultural differences in target markets, its central location in Western Europe and its first-class transport links allow banks in Switzerland to provide customised services for customers from all regions of the world.

Fig. 26

Central role of wealth management for the Swiss economy

Economic relevance
- Efficient asset allocation
- Effective risk/return ratio
- Contributes to the liquidity and stability of financial markets

Ecosystem "Producers"

Internal banking services:
- Basic services (accounts, deposits, cards, online services, mortgages, etc.)
- Asset management (e.g. funds)
- Management mandates, advisory mandates, etc.
- Issuers of structured products
- Private label funds

Other financial service providers:
- Financial markets
- External asset managers
- Issuers of private equity, venture capital
- Fintech start-ups

Advisory:
- Trustees, lawyers
- Tax experts
- Relocation companies

Wealth management

Holistic asset planning (not exhaustive)
- Investment strategy / asset allocation
- Access to financial markets / products / exclusive investment (e.g. IPOs, hedge funds, etc.)
- Financing (Lombard loans, aircraft/ yacht finance, etc.)
- Research
- Suitability and appropriateness testing for investment products
- Pension planning, tax and inheritance consulting
- Succession solutions
- Custody solutions
- Philanthropy services

Wealth management Customers

Internal banking services:
- Private individuals
- Families
- Entrepreneurs
- Family offices
- Foundations, trusts

Spillover effects

For other economic sectors:
- Tourist, event organisers
- Luxury goods, art trade
- Image of Switzerland

Within banks:
- Retail customers benefit from wealth management expertise
- Refinancing
- Transformation of retail customers into wealth management customers

Quelle: SBA

In addition to direct value creation, wealth management is closely connected with other banking segments – as a trading partner or a provider of preliminary services. For example, wealth management and its customers are purchasers of investment products supplied by the investment management industry and are trading partners and financiers of loans, initial public offerings (IPOs) and private equity. Around

27 percent of the collective investments managed by asset managers in Switzerland, corresponding to CHF 345 bn, are held by private customers.[44] A further CHF 516 bn are held in discretionary mandates. The retail segment and the corporate clients business benefit from the expertise of the wealth management industry and also provide a pipeline of customers moving into this segment.

In Switzerland, numerous services have developed that complement wealth management. They are supplied by various providers of advisory services such as fiduciaries, lawyers and tax experts who offer asset-related services to domestic and foreign bank customers. In addition to these indirect effects, wealth management also drives demand in further areas of the economy. For example, tourism and the luxury goods and art trade also benefit as they address similar target groups to wealth management.

From a macroeconomic perspective, wealth management makes a significant contribution to the efficient allocation of assets as well as to the relationship between the overall economic return and overall economic risk. Banks and their customers thus lay the foundations for the liquidity and stability of financial markets, which ultimately contributes to the economic success of the entire national economy.

III. 2.3 Competition between wealth management centres

With a market share of around 27 percent, Switzerland is by far the most important financial centre for cross-border wealth management. In addition to its unparalleled range of high-quality services, its highly experienced workforce and its favourable regulatory landscape, Switzerland's geographical and cultural proximity to what were previously the most important growth markets was a major factor contributing to this result.

In view of the continued difficult economic environment in Western Europe – the most important market for wealth management – and as a result of significant regulatory changes, the Swiss wealth management industry has experienced weaker growth in recent years than other locations, especially in Asia. During the last few

44 Estimate by the SBA based on a survey conducted as part of the IFZ/AMP Asset Management Study 2019.

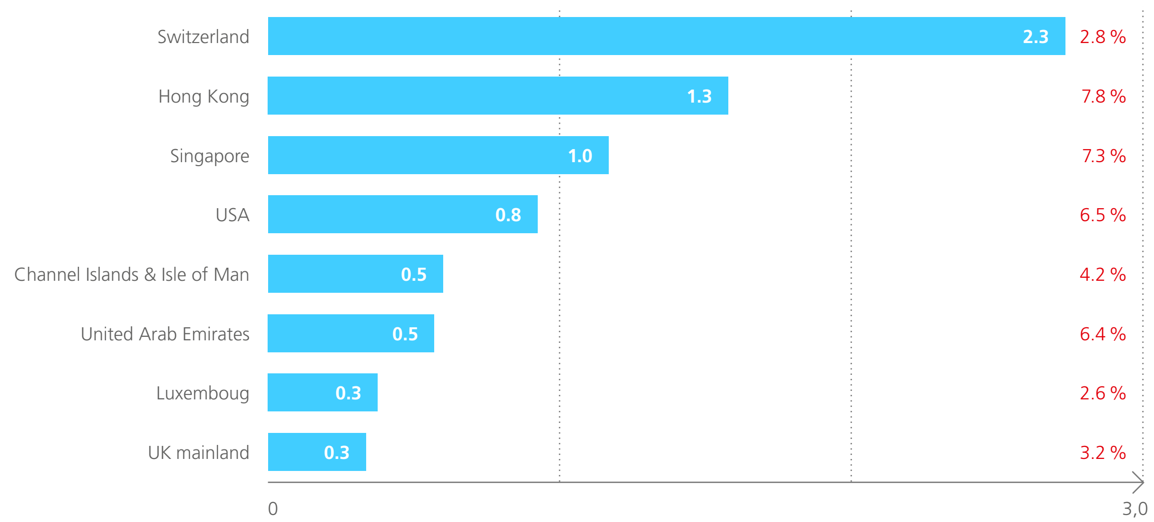
years, emerging markets in the Far East, Latin America, the Middle East and Eastern Europe have seen the strongest growth in private wealth. This is also the reason why Swiss banks have, for some time, been operating at a local level in foreign locations and are increasing the scale of these operations. Customers are also more and more interested in receiving services from different locations and on a combined basis.

This trend is likely to continue in the medium term, according to a forecast by BCG (see Fig. 27). Growth in managed cross-border assets of 2.8 percent is forecast for the Swiss wealth management industry, which is significantly below the growth rate in Hong Kong and Singapore. These two financial centres are deriving the greatest benefit from the enormous accumulation of wealth in neighbouring countries, especially in China. Other European wealth management centres such as Luxembourg, the Channel Islands and the UK mainland are also likely to see slower growth for the same reasons as Switzerland.

Fig. 27

Assets under management and growth forecasts for the largest cross-border wealth management centres 2018–2023

Assets under management in CHF tn, growth forecasts in percent



NB: The blue bars represent the assets under management in CHF tn. The red percentages (red) represent the annual growth forecasts.

Source: BCG

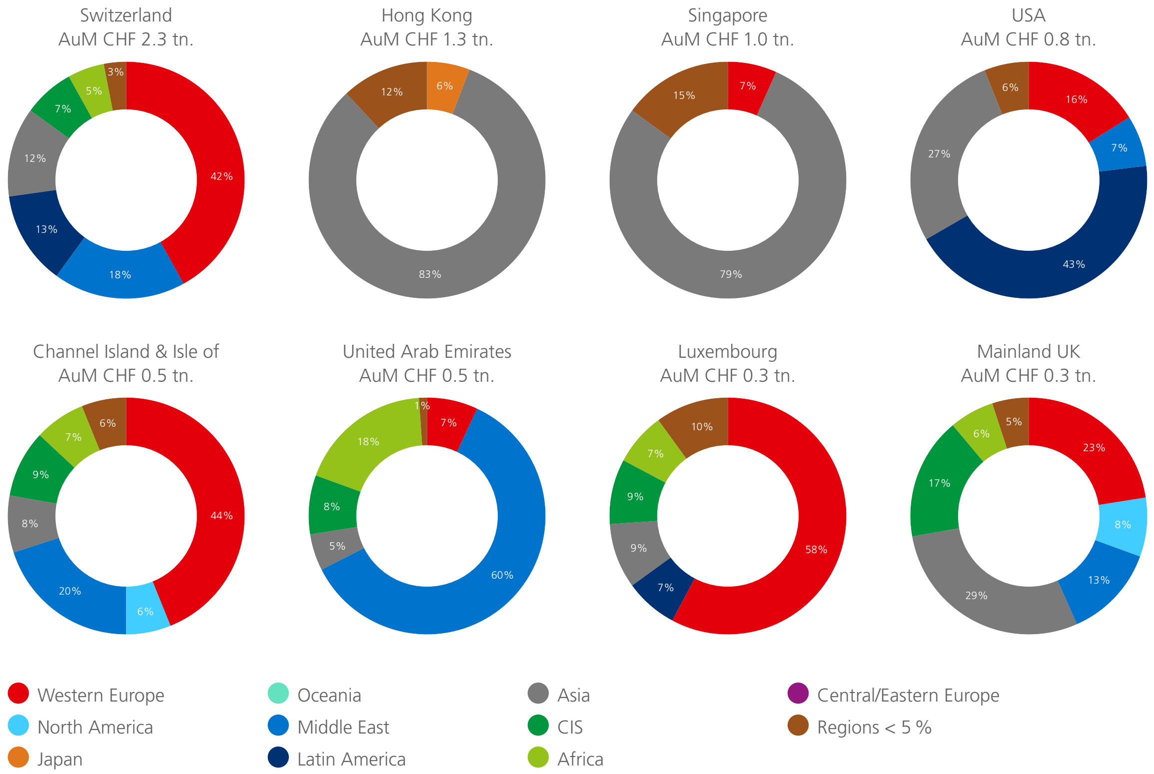
Western Europe is by far the most important market for Swiss wealth management, accounting for 42 percent of assets under management, followed by the Middle East, Latin America and Asia. Even though Switzerland does not border on the most important growth markets and gains less benefit from their development than other wealth management centres, it displays a high level of global diversification in terms of customer domiciles: four regions of the world account for more than 10 percent of assets under management and no one region has a proportion of over 50 percent. Apart from the UK mainland, which has a significantly lower volume of assets under management, none of the other main competing financial centres displays a similarly diversified portfolio of customer domiciles. Singapore and Hong Kong are, for example, focused unilaterally on customers from Asia. Luxembourg and the Channel Islands are focused on Western Europe, the U.A.E. on the Middle East, and the US on Latin America. Consequently, Switzerland is less exposed to weak growth in individual regions of the world than other wealth management centres.

High compliance-related fixed costs for servicing individual customer domiciles can thus be balanced more effectively if the respective market is of a sufficient size. Diversification thus offers considerable benefits for business success.

Fig. 28

Switzerland is the best diversified financial centre

2018, breakdown of cross-border private assets under management by region, in percent, based on customer domicile (AuM: assets under management)



Source: BCG

In terms of the banking services taken up by customers, a shift is occurring away from self-managed assets and external asset managers towards advisory mandates (see Fig. 29).[45] In contrast, the proportion of discretionary mandates and account deposits has remained stable. This trend means that banks are providing an ever-larger proportion of services and are generating value accordingly. At the same time, the largest proportion of cross-border assets is managed by customers themselves (33 %) or held in accounts (24 %). The period under review, starting in 2015, was characterised by a zero or negative interest rate environment as well as positive

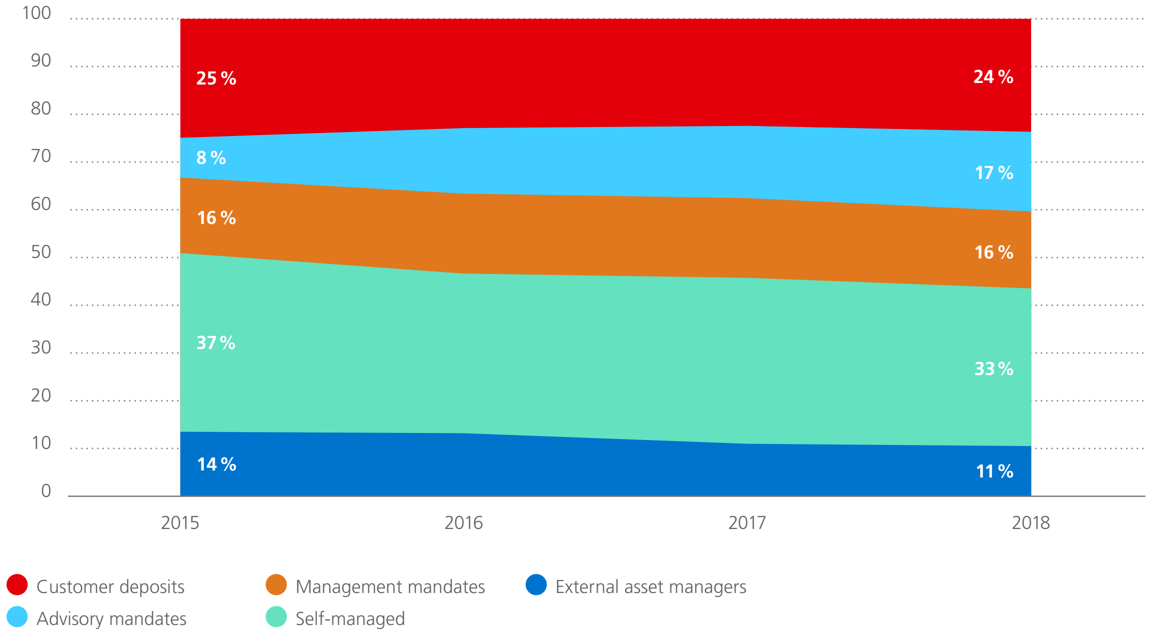
45 In advisory mandates the consulting institution gives recommendations for implementing the customer's investment strategy. In management mandates, the bank makes investment decisions in accordance with the customer's pre-defined investment strategy.

financial market developments. Account balances would probably have generated higher income if this money had been invested – e.g. in the form of mandates. Thanks to innovative, digitally supported offerings, discretionary and advisory mandates should account for an ever-larger proportion of total assets under management in the future.

Fig. 29

Advisory form selected for cross-border assets at Swiss banks

Proportion in percent, domestic and cross-border customer relationships



Source: BCG

III. 2.4 The financial centre is attractive and complies with the rules

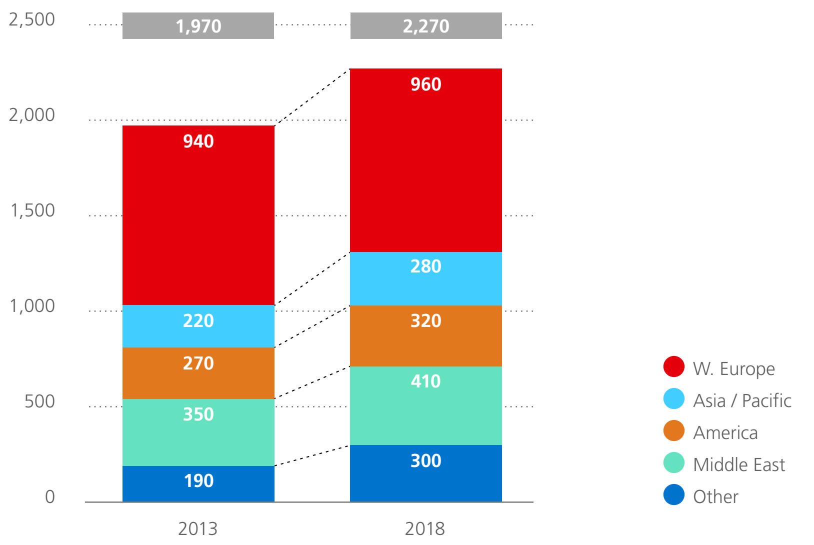
In view of the far-reaching regulatory changes in cross-border wealth management (see Chapter 1), fears have been expressed on several occasions that the importance of the Swiss financial centre could diminish. In particular, the introduction of the Automatic Exchange of Information with 89 partner countries at present – and the subsequent disclosure of customer assets at the start of 2017 – was expected to lead to a substantial outflow of assets. Following the entry into force of the majority of the new regulations and the transfer of the first customer data to foreign tax authorities, it was determined at the end of 2018 that while the business had undergone significant changes, the worst fears have not materialised.

Overall, the volume of assets under management in Switzerland grew from CHF 1,970 bn in 2013 to CHF 2,270 bn in 2018 (see Fig. 30). The volume of assets from customers from all regions of the world increased. The largest growth of CHF 110 bn was seen in the category «Other», which encompasses Eastern Europe, CIS countries and Africa. Customers from the Middle East as well as Asia/Pacific collectively accounted for around CHF 120 billion of additional assets. The net growth in assets from customers in the Americas and Western Europe regions was lower at CHF 50 bn and CHF 20 bn, respectively, but remained clearly positive.

Fig. 30

Change in assets under management in the cross-border business

CHF bn, by region



Source: BCG

In addition to the net inflow of assets, investment performance is also responsible for part of the changes. In Western Europe, the most important cross-border market for Swiss wealth management, the growth in assets of CHF 20 bn since 2013 reflects a net outflow of CHF 95 bn on the one hand, and an increase in the value of continuing customer relationships of CHF 115 bn on the other (see Fig. 31). The outflow corresponds to around 10 percent of assets under management from Western European customers. This is a substantial figure but is well below the expectations of numerous commentators, who estimated the effects of the transition to the Automatic Exchange of Information to be significantly higher.[46]

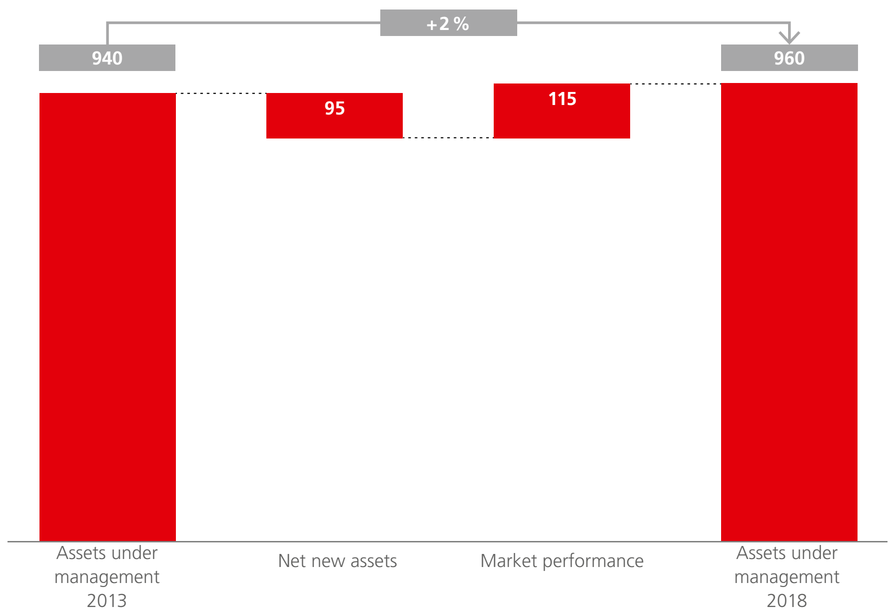
46 E.g. Neue Zürcher Zeitung of 27 April 2019: «Bankenplatz hat Hunderte Milliarden verloren.» The author of the article estimates the reduction in assets between 2009 and 2019 to be between CHF 300 and 400 bn.

Looking at total assets under management, it emerges that the outflow was more than offset by successful investment strategies and favourable market performance. This shows that the Swiss wealth management offering is intact and continues to attract strong demand from foreign customers.

Fig. 31

Assets of Western European customers at banks in Switzerland

In CHF bn



Source: BCG

III. 2.5 Income remains stable, margin declines

The level of income generated in the wealth management industry has not, however, been entirely unaffected by the regularisation of foreign assets and by further changes in the market and the legislative framework. According to estimates by BCG, gross income from domestic and foreign customers totalled CHF 25 bn for the entire sector in 2018, with two-thirds stemming from the cross-border business (see Fig. 34). Compared to 2013, the volume has increased by 0.3 percent annually, which represents avery low growth rate compared to the increase in assets of 3.2 percent. Margins have thus been reduced. The «return on assets» indicator shows the level of gross income generated by financial institutions for each CHF they manage. From 2013 to 2018, this figure decreased by 12 basis points, from 90 to 78 basis points, for the entire business. The reduction is more significant in the case of the cross-border business but the domestic business, which traditionally has lower margins, is also affected.

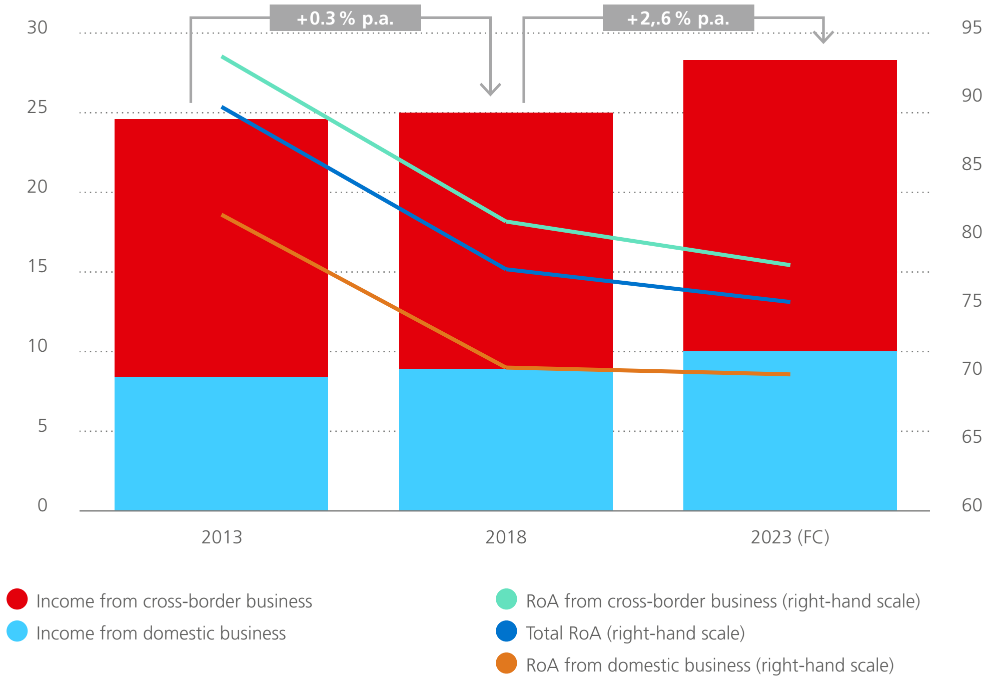
Margins are already at a similar level to the financial centres that are Switzerland's main competitors. Margins are therefore unlikely to decrease strongly in the coming years. BCG expects to see a decrease of 2.4 basis points by 2023, which is a low figure compared to developments in the past. In view of the anticipated strong growth in assets under management, overall income should once again grow by 2.6 percent annually. The Swiss wealth management industry can increasingly offer its high-quality services without charging a premium compared to other financial centres.

However, gross income and the return on assets are indicators that show only part of the financial impacts of regulations on banks: increased requirements governing customer tax compliance have driven up costs in cross-border wealth management. The effects cannot be quantified using the available data but they are likely to have a decisive influence on the profitability of cross-border customer relationships – especially in the transition phase.

Fig. 32

Income and margins in Swiss wealth management

Gross income: in CHF bn; return on assets (RoA) in basis points (right-hand scale)



Note: Margins: Return on assets (RoA) excluding lending business.

Source: BCG

In view of the far-reaching changes in the area of cross-border wealth management, the Swiss wealth management industry has proven very robust. The anticipated net outflows from customers in mature markets such as Western Europe and North America were more than offset by inflows from other regions. At around 10 percent of assets under management, the effect among Western European customers was also much lower than anticipated or suggested by other sources. This shows that even in a market with tax transparency, the majority of customers served by the Swiss wealth management industry want to benefit from the advantages offered by Switzerland and the high-quality advice of its financial institutions. With their broad range of services, these institutions have all the necessary strengths to prosper in a competitive environment in which advisory quality is more of a determining factor than pricing or national regulations.

III. 2.6 A highly innovative financial ecosystem

The wealth management industry benefits from a highly specialised ecosystem in the Swiss financial centre. It has a high concentration of asset managers, providers of structured products, innovative fintech companies and other banking services such as investment banking, as well as an advanced financial infrastructure. This allows for a wide-ranging dialogue and competing ideas that facilitate the continuous further development of products and services for private customers. The relationship between wealth management and investment management was analysed in detail in a comprehensive study by the Swiss Bankers Association in December 2018.[47]

Another important relationship exists between wealth management and providers of structured products, which are used primarily by private customers: with CHF 179 bn at the end of 2018, Switzerland is by far the largest market for this type of investment globally, according to the Swiss Structured Products Association.

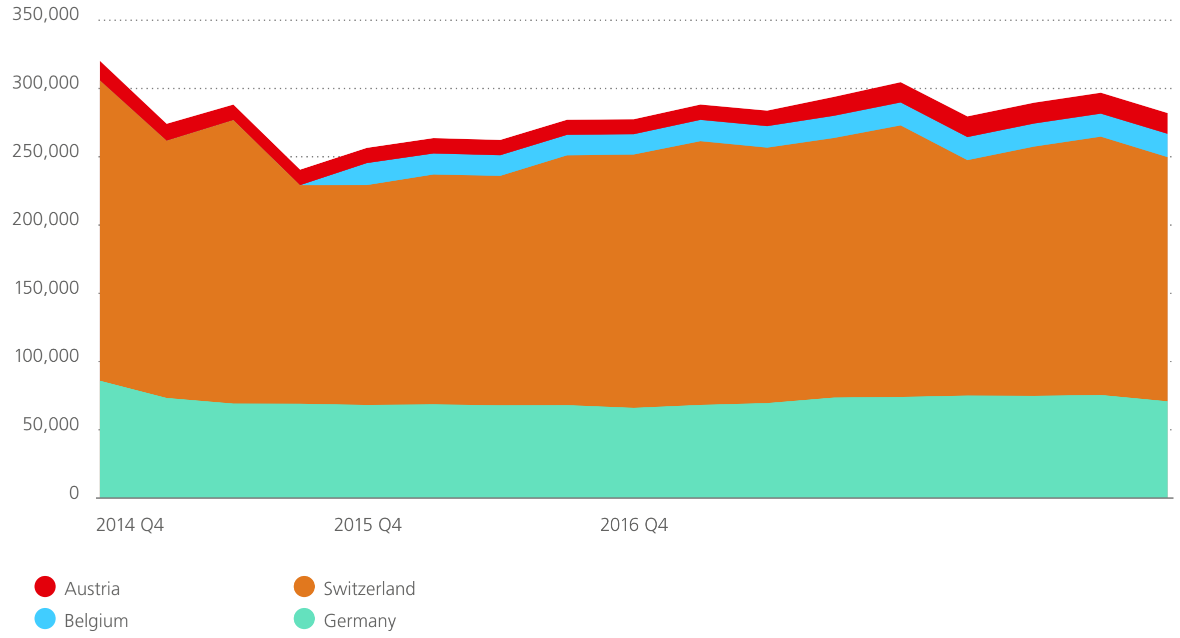
Among the markets evaluated in Europe, Switzerland accounts for more than 60 percent of the market volume and is around 2.5 times larger than the corresponding market in Germany in terms of volume (see Fig. 35).

47 Swiss Bankers Association (2018). Switzerland – A strong hub for investment management.

Fig. 33

Pending structured products in bank assets

In CHF m, for each custodian bank location[48]



Source: EUSIPA, SNB

In addition to their size, Swiss providers are also leaders in product innovation and the Swiss financial centre has been the first globally to launch various products. Customers of the Swiss wealth management industry thus benefit from an exceptionally large selection of novel investment products and from considerable expertise concerning the implementation of those products in individual investment strategies.

According to the IFZ, a total of 66 (or 19 %) of the 356 Swiss fintech companies were focused on wealth management at the end of 2018. In addition to robo advisors, this encompasses automated pension solutions, software to support advisory discussions and other applications. These firms are partly competing with banks and partly collaborating with them. In both cases, customers of the Swiss wealth

48 For Switzerland, figures were determined at the location of the issuer. The Swiss figures therefore include a small proportion of structured products issued in Switzerland but managed abroad.

management industry can benefit from this dynamic innovative environment, which may be less likely in financial centres with a less advanced technological landscape.

In addition to banks, the Swiss financial centre's ecosystem includes a large and competitive insurance sector. In addition to direct relationships based on products (e.g. insurance linked securities such as catastrophe bonds), banks benefit indirectly from this concentration of insurance expertise in Switzerland: their geographical proximity and the labour market ensure the movement of specialists between banks, insurers, fintech start-ups and other companies.

Customers of the Swiss wealth management industry find themselves in a financial centre characterised by strong innovation and a competitive ecosystem. This gives them access to every kind of investment opportunity and to longstanding experience in the area of individual wealth management.

III. 2.7 Employment, talent pool and certification in wealth management

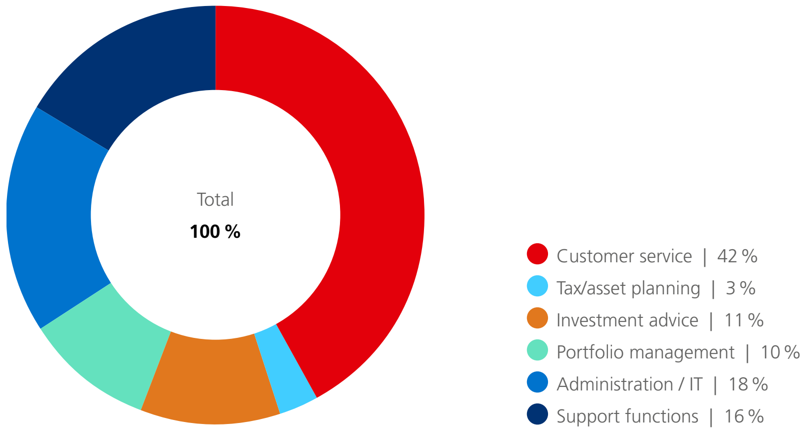
Wealth management is undergoing a significant transformation: customer advisory services are increasingly being supported by digital solutions and the expertise of specialists. Furthermore, regulatory developments concerning customer advice, the selection of suitable investment products and tax regulations now require the continuous and comprehensive further training and development of specialist staff. The demands placed on employees in various parts of the value chain are thus rising continuously. More than in almost any other industry, wealth management needs a pool of well-qualified and motivated talents who are capable of learning.

Around one-quarter of all bank employees in Switzerland work in the field of wealth management. This corresponds to 23,000 employees (full-time equivalents). At 40 percent, by far the largest share are responsible for advising customers (see Fig. 34). Other directly customer-oriented functions such as portfolio management, tax and wealth planning, as well as investment advisory and portfolio management, cumulatively account for 24 percent of employees. A further 34 per cent are employed in the areas of administration, information technology and other support functions. To meet the customer demand for individual advice complemented by specific expertise, the proportion of customer-oriented functions is significantly higher than in other banking segments. Depending on the business model, level of digitalisation, customer requirements and focus of the respective bank, the nature of these functions can vary very significantly.

Fig. 34

Employees in wealth management, listed by function

2018, proportion in percent, full-time equivalents



NB: SBA estimate based on a survey of member banks as well as on annual reports.

Source: SBA

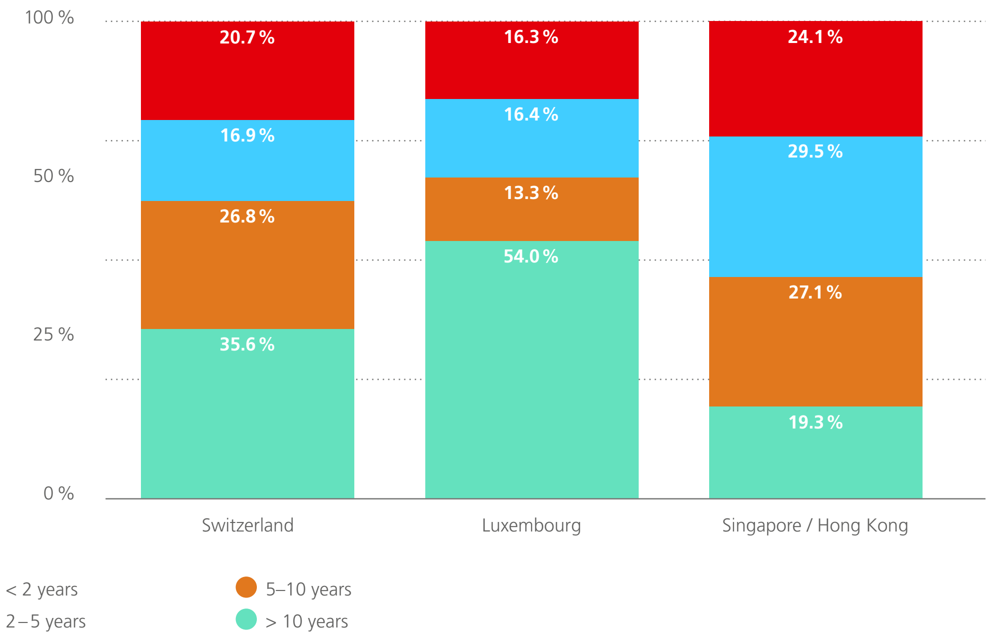
Wealth management requires a high level of experience. The longer client advisors have been addressing the circumstances of private individuals and their families and the more precise their understanding of their requirements, the better they can identify their individual needs. It is particularly for this reason that the wealthiest customers are often served by the most experienced advisors. At the same time, lifelong learning is considered important, even in the case of client advisors with long careers. Innovative financial products, digital solutions and regulatory developments all create the need for customer-facing employees to constantly engage in further training. At the same time, banks must ensure that younger, talented and highly qualified client advisors are given the opportunity to assume responsibility and gain experience.

More than one-third of client advisors working in the Swiss wealth management industry have more than ten years of experience with their organisation, and almost two-thirds have over five years of experience (see Fig. 35). Switzerland can therefore offer a much greater wealth of experience in advising customers than, for example, Asian financial centres such as Singapore and Hong Kong, where client advisors with many years of experience tend to be something of an exception. In contrast, in Luxembourg more than half of client advisors have been working for the same institution for more than a decade. However, younger client advisors are comparatively rare in Luxembourg. Furthermore, in Switzerland, there is also a visible trend where a large proportion of client advisors assume other responsibilities in the financial centre in the course of their careers, e.g. as product specialists, portfolio managers, in investment management or at other institutions.

Fig. 35

Experience of key account managers

Number of years of experience at the same institution



Source: BCG

Skilled client advisors are the key to a bank's success. Constantly growing customer needs and compliance requirements, as well as new digital applications, necessitate the ongoing training of customer-facing employees to ensure the provision of high-quality advice. Since 2017, the SBA has recommended that its members have their client advisors certified to the standards of the person certification «Client Advisor Bank» of the Swiss Association for Quality.[49] This allows the quality, professionalism and excellence of the customer advisory offering to be promoted effectively and sustainably and to be documented for customers. An independent proof of competence demonstrates to customers that both the bank and each of its employees gives the highest priority to this goal.

Depending on the advisory function, the SAQ has defined different certifications, with the category «Certified Wealth Management Advisor» (CWMA) representing by far the most frequent form of certification. It requires candidates to pass a written banking examination as well as a verbal customer consultation test. Each individual must prepare properly for the examination, with or without completing a preparatory training course. Furthermore, client advisors must undergo recertification measures every three years in order to renew their certification.

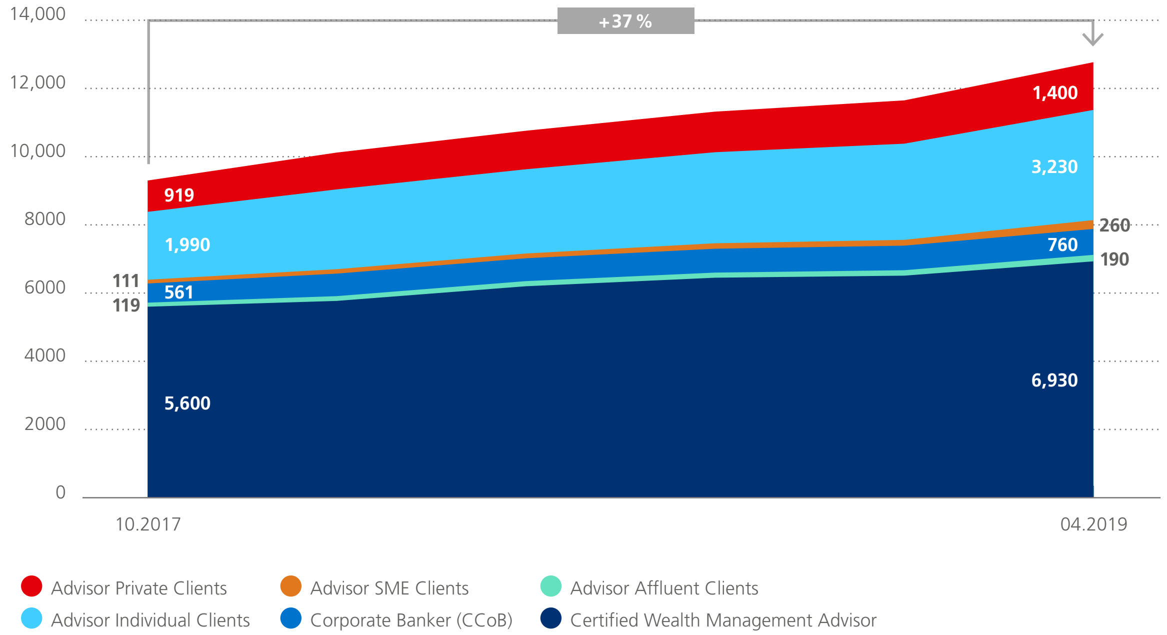
At present, almost 13,000 bank employees[50] have a valid certification as a client advisor, of which more than half are in the category CWMA (see Fig. 36). Around one-quarter of these employees are certified as an «Advisor Individual Clients» and a further 1,400 as an «Advisor Private Clients». Compared to October 2017, the total number of certifications has risen by 37 percent, with increases across all categories. With the support of the SBA, Swiss banks want to have the SAQ person certification «CWMA» recognised in various European countries.

49 Swiss Bankers Association (2017). Recommendation for SAQ person certification.
50 The number of certificates is spread across the wealth management, retail banking and corporate banking segments.

Fig. 36

12,770 certified bank employees

Number of certifications by area of specialisation



Source: SAQ

III. 2.8 Conclusion und outlook: securing a leadership position

The Swiss wealth management industry remains a central pillar of the Swiss financial centre despite far-reaching macroeconmic, regulatory and technological changes. Inflows from various regions of the world as well as market performance have more than offset the outflow of assets from European customers. At the same time, banks are operating with narrower margins on assets under management. However, this means that in terms of the fees it charges, the Swiss wealth management industry can compete with foreign financial centres and has become more efficient. Geographically, the key growth markets for private assets are located far from Switzerland. Other financial centres thus benefit more significantly from the automatic advantages that exist for neighbouring countries. Nevertheless, the trend towards globally-oriented customer needs is likely to benefit Switzerland's internationally focused and diversified financial centre.

The nature of competition has altered. In the past, it was influenced primarily by national regulatory differences, whereas today, there is a trend towards competition based on quality and performance. Swiss financial institutions are at a significant advantage in this context: almost no other location has such a comprehensive, high-quality, professional, and culturally and linguistically diversified wealth management industry as Switzerland. Virtually no other location has a similarly well-diversified portfolio of customer domiciles and can thus balance the relevant compliance requirements and the related fixed costs with sufficiently high economies of scale.

In view of the major economic importance of the financial centre in general, and of the wealth management industry in particular, the current challenges facing the sector make it all the more vital to eliminate comparative regulatory disadvantages – especially regarding the following topics:

- **EU market access and stock market equivalence:** as already stated in the introductory chapter 1.1, the wide-reaching lack of market access for institutions operating out of Switzerland at present represents a challenge for Swiss banks active in the field of wealth management. To preserve value creation, jobs and tax revenues in Switzerland, practicable solutions governing market access need to be found. Now that Switzerland has equivalent regulations to the EU in technical and transparency terms, there are no longer any legitimate reasons to exclude Switzerland from the European single market. The European Commission's decision not to extend Switzerland's stock market equivalence is one example that shows the difficult nature of the corresponding negotiations, which are not void of political interests.

- **Withholding tax and stamp duty:** these levies, which are specific to Switzerland, represent a self-imposed disadvantage. By abolishing stamp duty and reforming withholding tax, the Swiss financial centre could win back parts of the value chain that have been transferred abroad. Furthermore, it would become more attractive for foreign private wealth in important areas.

- **A level playing field in cross-border wealth management:** with US FATCA legislation, US financial centres previously enjoyed unilateral advantages. While Switzerland and other financial centres had to deliver data on US persons, they were not supplied with any information in return. This situation should change as a result of the additional protocol to amend the dual Swiss-US double tax treaty between Switzerland and the US approved by the US Senate in July 2019.

In addition to its existing strengths, the Swiss wealth management industry needs to focus its attention on the issues of tomorrow. From today's perspective, the Swiss financial centre can set itself apart in the following areas in particular:

- **Sustainable finance:** in view of climate change and the growing awareness about ESG (environmental, social, governance) topics, investors are assigning ever-greater importance to the sustainability of their investments. According to a 2018 study by Swiss Sustainable Finance, the volume of sustainable investments in Switzerland has already reached CHF 716 bn.[51] This corresponds to around 20 percent of professionally managed assets and is clearly ahead of the estimated global average of around 11 percent.[52] Switzerland is predestined to take ownership of this topic and to subsequently derive locational advantages from it.

- **Digitisation:** digital technologies are unstoppable and are transforming the financial centre – in wealth management and in other areas of the banking industry. Trends and new developments require new business models along the entire value chain. These new models have a partly disruptive impact on existing structures and can trigger profound changes. At the same time, Switzerland has an opportunity to position itself as a digitally leading financial centre in order to secure long-term advantages. The initial basis for this is already in place with «Crypto Valley» and other success stories.

51 Swiss Sustainable Finance (2019). Swiss Sustainable Investment Market Study 2019.
52 McKinsey & Company (2019). Performance Lens Global Growth Cube; Global Sustainable Investment Alliance (2014, 2016 & 2018).

- **Political stability:** the transition to a tax-transparent cross-border wealth management business has largely been completed at a regulatory level. In view of the continued instability of the banking system in the Eurozone, the high level of sovereign debt and uncertainty surrounding Brexit, Switzerland has emerged as a reliable financial centre for cross-border customer relationships. In this changed operating environment, the Swiss wealth industry now has the opportunity to enter a new phase as a haven of stability.

III. 3 Switzerland – a strong investment management hub

Global investment management is a growing area of the finance industry in Switzerland, like in other countries. In recent years, investment management for institutional and private customers has established itself as the central pillar of Switzerland's finance industry and as part of its value proposition. Investment management generates significant added value for the financial sector and real economy through the efficient allocation of capital and by ensuring efficient markets and the professional management of institutional and non-institutional assets.

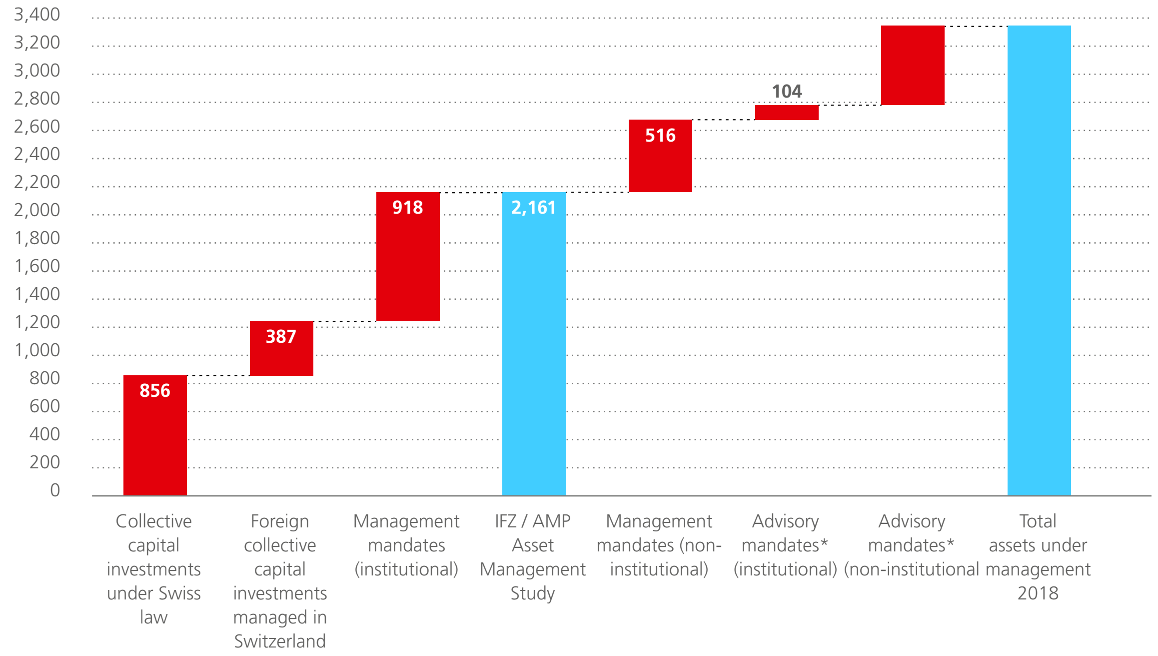
The term «investment management» encompasses the management of collective investment schemes (including exchange traded funds) and discretionary and advisory mandates for both institutional and non-institutional clients. The SBA study published in 2018[53] broadly examines this area and shows the strengths of the combined institutional and non-institutional investment management industry in Switzerland. This broad definition also allows for a symbiotic relationship between both types of business and for their positive interaction in terms of innovation and infrastructure, given the enormous combined pool of investible assets that exists.

53 Swiss Bankers Association (2018). Switzerland – A strong hub for investment management.

Fig. 37

CHF 3.3 tn assets under management in the investment management industry

2018, in CHF bn



* Advisory mandates do not comprise any cash and self-directed portfolios. They consist exclusively of the pure mandates business.

Source: SBA; IFZ / AMP Asset Management Study 2019

In 2018, investments totalling CHF 3.3 tn were managed in Switzerland (see Fig. 37). This figure is around five times larger than Swiss GDP and around four times larger than the total volume of Swiss pension fund assets.

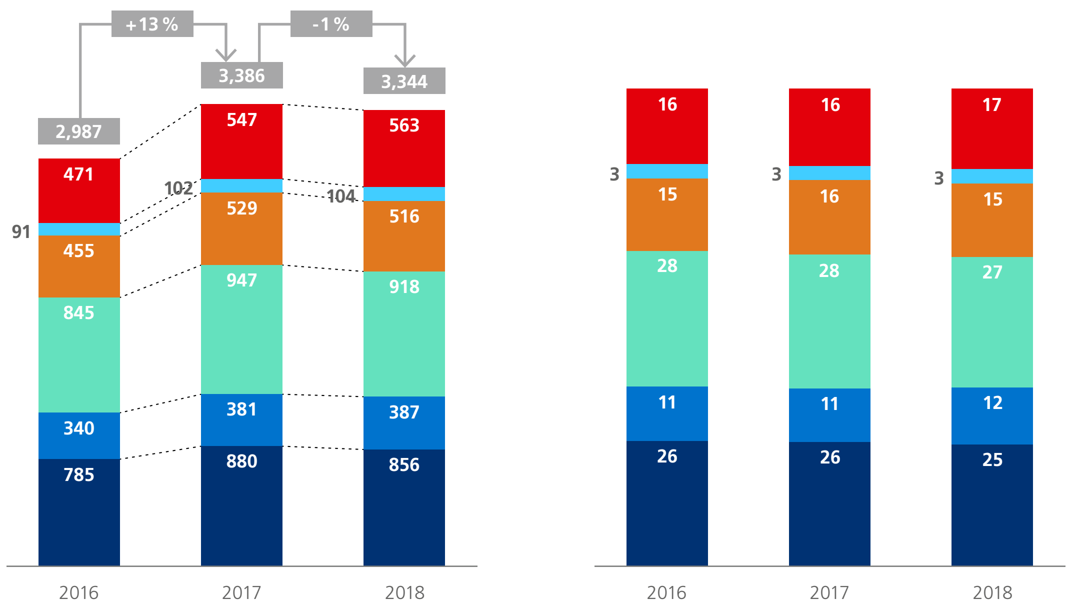
Compared to the previous year, assets under management decreased by around 1 percent, reflecting a combination of market movements of around -2.8 percent and inflows of new money of around 1.8 percent. There have been few changes in the composition of assets. The structural trend towards advisory mandates has partially offset negative market performance, resulting in only a slight decline.

Fig. 38

Decline in assets under management in investment management of 1 % from 2017 to 2018

Managed assets in CHF bn

Proportion as a percentage



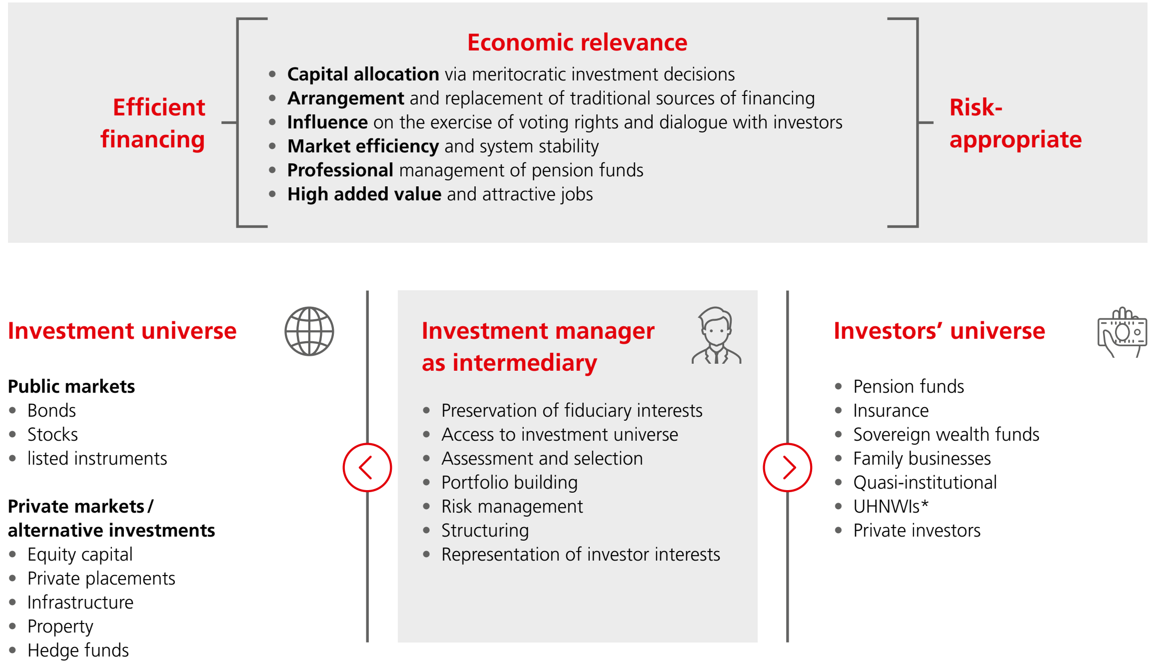
- Advisory mandates (non-institutional)
- Advisory mandates (institutional)
- Management mandates (non-institutional)
- Management mandates (institutional)
- Foreign collective capital investments under management in Switzerland
- Collective capital investments under Swiss law

Source: SBA, IFZ / AMP

Investment management plays a central role in the allocation of capital, the creation of market efficiency and the generation of returns for investors. It is precisely for this reason that sustainable investments are of major and growing importance for the Swiss financial centre.

Fig. 39

Role and relevance of investment management



* Ultra high-net-worth individuals

Source: SBA, BCG

Switzerland's strength in institutional and non-institutional investment management sets it apart and represents a competitive advantage that benefits domestic and foreign customers in equal measure. Switzerland is the leading financial centre globally for the management of the cross-border wealth of private customers as well as one of the largest investment management hubs in Europe. There is a «cross-fertilisation» effect between the two vast pools of associated assets, promoting investment activity.

The following five facts about investment management in Switzerland are evidenced by various studies and the measurement of relevant variables:

1. **Switzerland offers good operating conditions for investment managers** such as talent, expertise, a stable economy and political system and a modern infrastructure to attract domestic and foreign customers with their products and solutions. Industry surveys show that «access to talent» ranks as the top priority for investment management alongside market access. According to the IMD World Talent Ranking that is produced annually, Switzerland once again came out on top in 2018.[54] More specifically for investment management, the CFA Institute also measured CFA charterholder penetration in core investment management functions in 2016.[55] Here, Switzerland occupies fourth place globally, with only the English-speaking countries where the CFA Institute originated ranking higher.

2. **Swiss investment management can compete globally**, thus boosting the export of this service. Of the CHF 3.3 tn of assets under management in Switzerland, 34 percent are managed for customers in foreign markets, thus underscoring the Swiss economy's increased focus on exports (see Fig. 41). This figure has increased even further compared to previous years.

   To continue achieving growth in a fiercely competitive and saturated Swiss investment market in the future, investment management firms will increasingly need to focus on foreign customers.

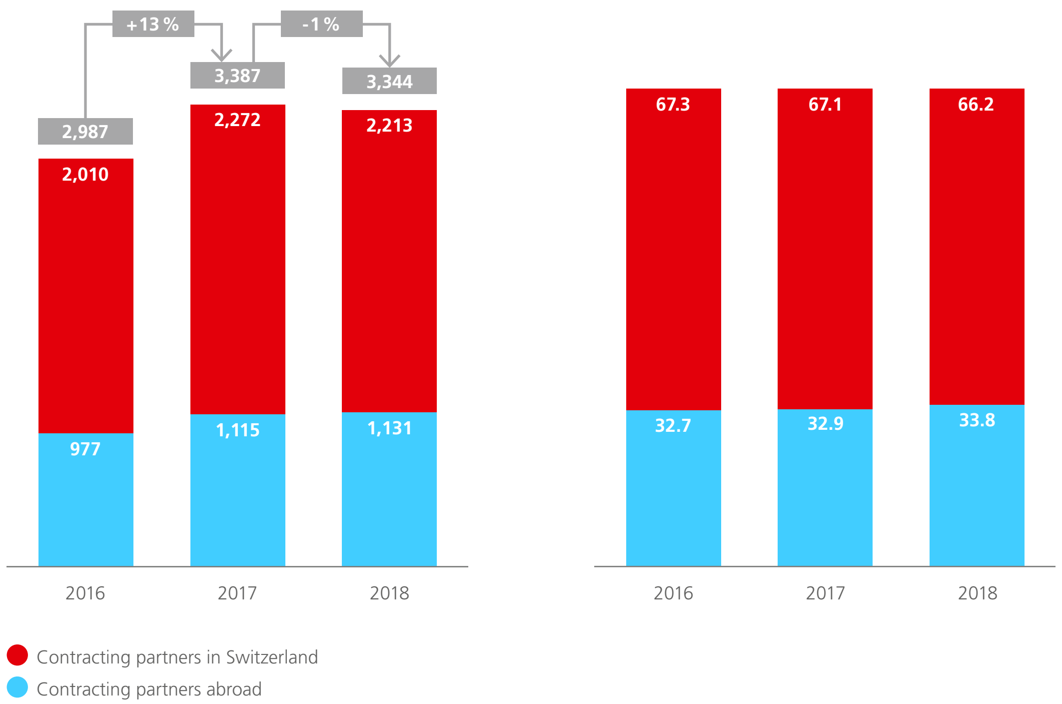
54 International Institute for Management Development (2018). IMD World Talent Ranking 2018.
55 Swiss Bankers Association (2018). Switzerland – A strong hub for investment management.

Fig. 40

The proportion of foreign contracting partners in investment management continues to grow

Managed assets in CHF bn

Proportion as a percentage



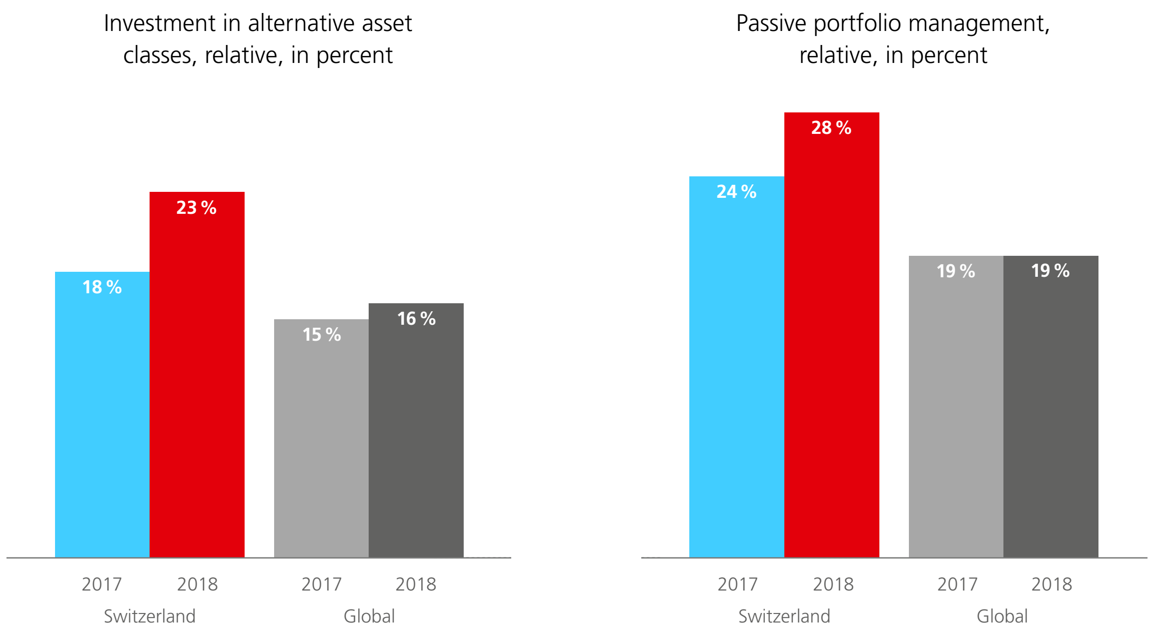
Source: SBA, IFZ / AMP Asset Management Study 2019

3. **Switzerland is an innovation hub in the investment management industry.** The relationship between institutional and non-institutional investment managers in Switzerland is becoming more symbiotic since bank-client confidentiality is today less relevant for private customers. Investors are increasingly placing an emphasis on performance. The increased joint holdings of investible assets of institutional and private customers creates incentives for innovation within the industry. Switzerland has the necessary infrastructure, talent, knowhow, tax law, liberal immigration laws and stable political system to support the highly innovative investment management industry. The volume of alternative investments is significantly lower than that of traditional asset classes but a large proportion of investment managers in Switzerland take alternative asset classes into consideration. The proportion of alternative asset classes (22 %) is significantly higher than

the global average (15 %). At 27 percent, the proportion of passive investments in Switzerland is also above the global average of 20 percent. Compared to the previous year, significant growth was recorded both in the proportion of alternative asset classes, which rose by 5 percent, and the proportion of passive investments, which increased by 4 percent.

Fig. 41

Switzerland is an innovation hub in investment management



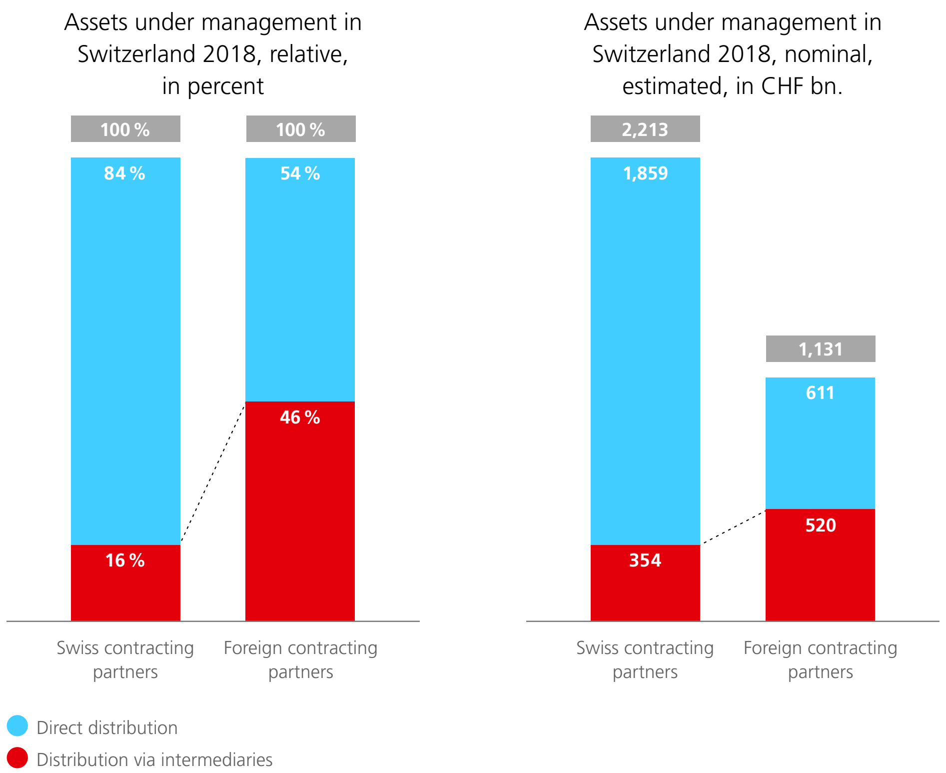
Note: Alternative investments comprise private equity, hedge funds, real estate, insurance linked securities (incl. catastrophe bonds), investments in commodities and infrastructure; the charts represent the production view, not the distribution view, of assets in Switzerland in 2017 and 2018.

Source: SBA, IFZ/AMP, BCG

4. **The Swiss investment management industry is liberalised and open to foreign products.** Switzerland has a liberal market economy and is an open economy that has attracted more and more foreign investment managers. From among the 20 largest fund managers in Switzerland (based on assets from a distribution view), eight companies are domiciled outside Switzerland. Those eight companies distribute around 12 percent of assets. Of the top 20 investment management products in Switzerland, the proportion distributed by foreign companies rose from 11.1 percent in 2008 to 15.4 percent in 2017.

Fig. 42

Distribution to foreign contracting partners is more highly dependent on intermediaries than distribution to domestic contracting partners



Note: Estimates of nominal values are based on the relative proportions of estimated assets under management in the Swiss investment management industry.

Source: SBA, IFZ/AMP

5. **Highly developed financial products are a factor determining the success of the Swiss investment management industry.** Switzerland offers highly developed products and has considerable experience in providing focused and sophisticated customer solutions. It sets itself apart from other financial hubs such as Hong Kong or Singapore with its structured investment advisory processes, its solid pool of highly-talented professionals as well as its long tradition of wealth management.

   The continued polarisation in investment management in terms of volumes (e.g. passive products) on the one hand and niche products (e.g. alternative products) on the other is likely to continue. In addition, investment managers will have to leverage technologies in order to optimise administration and management, as well as offering integrated and digitalised platforms for customer interaction.

   Switzerland has the necessary conditions – a strong economy, a large pool of talent, expertise, access to capital, a stable political system and an independent judiciary – to support a robust investment management industry. However, care needs to be taken that other prerequisites such as access to European institutional clients, appropriate regulation and tax laws are structured in such a way as to facilitate innovation, attract foreign investment and stimulate the continued growth of the industry.

Six trends in global and Swiss investment management
In its analysis of company- and industry-specific data, the SBA identified six main trends in the area of global and Swiss investment management:

- **Symbiosis of institutional and non-institutional investment management:** Switzerland is in the enviable position of having a strong investment management industry servicing both institutional and non-institutional clients. This increases the pool of investible assets, incentivises innovation and provides global credibility.

- **Investment management is increasingly focused on scale or specialised products:** providers need to focus either on asset scale (active or passive products) or on sophisticated, higher-margin products. Businesses are increasingly accessing private capital markets for debt and equity, which will increase the share of these products in investment management. Players in the mid-market are at risk: competition is becoming fiercer, regulatory requirements and technology will continue to exert pressure on margins. Firms must identify sustainable competitive advantages in scalable or non-replicable niche products to materially grow assets under management and remain relevant.

- **Technology presents key opportunities:** on the one hand, technology will require material investment and increase transparency, which applies pressure on margins; on the other hand, technology gives investment managers the opportunity to make their businesses more efficient while providing customers with an integrated investment management platform.

- **Institutional and non-institutional investment management products and solutions are becoming increasingly homogenous:** non-institutional clients increasingly expect the same service and performance as institutional clients while investment management's access to a larger asset mass drives innovation. Non-institutional investment managers will increasingly leverage products and solutions developed in the institutional business.

- **Switzerland needs to strengthen the prerequisites for its investment management industry to maintain its position in global investment management:** pro-business conditions such as a stable political system, a liberal market economy, the independent rule of law and the tradition of an open economy must be maintained. Basic prerequisites for the investment management business such as access to talent, local expertise, high volumes of investible assets and appropriate financial regulation must be strengthened. Finally, regulatory conditions in the dynamic and fiercely competitive global investment market need to take account of the ability of Swiss players to compete.

- **Government and industry support is needed to drive competitive advantage for the Swiss investment management industry:** maintaining good access to foreign specialists, the recognition of «equivalence» to ensure access to European institutional clients, the abolition of stamp duty and the reforming of withholding tax would improve the competitiveness of Swiss investment managers.

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