Swiss Banking

Banking Barometer 2021

Economic trends in the Swiss banking industry

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Content

Excecutive Summary

The banking sector makes a vital contribution to the success of Switzerland's economy and financial centre. The country is one of the world's leading financial centres and the number one in cross-border wealth management. At the end of 2020, there were 243 banks operating in Switzerland.

Part I: The Swiss banking sector

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

Economic environment dominated by COVID-19 – federal and cantonal governments and banks supporting Swiss economy

The Swiss economy has withstood the COVID-19 pandemic well so far. The decline in economic output during 2020 was modest by international standards. Strong growth is expected for 2021. The federal and cantonal governments are supporting the Swiss economy with a broad range of measures. During the first phase of the pandemic, banks worked with the federal government to launch COVID-19 bridging credits, offering the companies affected a quick and straightforward way to secure liquidity.

Central banks making large-scale asset and currency purchases to stabilise markets

The Swiss National Bank (SNB), US Federal Reserve (Fed) and European Central Bank (ECB) have made large-scale purchases of currency and assets to stabilise markets and support the economy during the pandemic. Despite a rise in eurozone and US consumer prices in the first half of 2021, both the ECB and the Fed are sticking to their expansionary monetary policy for the medium term. Swiss inflation forecasts range from 0.5% to 1%, and no end to the negative interest rate policy is in sight.

Private digital money and central bank digital currency attracting attention worldwide

Various central banks, other banks and technology firms around the world are currently working on forms of digital money. Depending on the form it takes, it can fundamentally transform banks' business models and the work of central banks. The discussion paper published by the SBA is a contribution to an important debate on the design and use of digital money and its implications for business and society.

Global increase in government debt making exit from expansionary monetary policy harder

The pandemic has led to further growth in the already high levels of government debt. Household and corporate debt have also risen. These high debt levels are making an exit from expansionary monetary policy harder. There is a strong incentive for central banks to maintain low interest rates and give less weight to inflation risks. The danger is that monetary policy will increasingly become an instrument of fiscal policy, amid growing concerns over the independence of central banks.

No institutional framework agreement between Switzerland and EU

In May 2021, the Federal Council decided not to sign the institutional framework agreement with the EU. Cross-border wealth management for private clients based in the EU is a key export sector for

Switzerland. Export-oriented banks rely on practicable and sustainable market access. It is essential to consolidate the bilateral approach and find future-proof solutions for developing it going forward.

Meanwhile, efforts to work out new arrangements governing relations between Switzerland and the United Kingdom (UK) have moved forward. Exploratory talks have gone well so far, and concrete progress on some specific issues is expected by the end of the year. The UK recognised the equivalence of Swiss stock exchange regulation in February 2021, as a result of which Switzerland deactivated the measures to protect its stock exchange infrastructure in respect of UK trading venues.

Progress made towards abolishing stamp duty and reforming withholding tax

Switzerland's stamp duties and withholding tax are a serious competitive disadvantage for the country's financial centre. The Federal Council adopted the dispatch on the reform of withholding tax in April 2021. It provides for withholding tax on domestic interest to be abolished with no replacement. The Council of States supports a National Council motion to abolish stamp duty on a staggered basis. Both of these reforms should lend a fresh boost to the Swiss capital market.

Part II: Consolidated trend in Switzerland's banks

The banks in Switzerland recorded a solid business performance in 2020. Their aggregate net income in particular increased thanks to the result from trading activities. Total assets also increased. The banks were able to maintain the supply of credit even in the midst of the pandemic. The number of staff in the banking sector rose slightly for the first time since 2010.

Result from trading activities responsible for biggest share of aggregate net income

After a large fall in the prior year, the result from trading activities rose by 46.7% in 2020. This combined with a slight decrease in the result from interest operations (due to low interest rates, as in previous years) and an increase in the result from commission business and services to lift aggregate net income by 5.8% to CHF 69.9 bn. The increased result from trading activities was linked to higher market volatility and the attendant rise in trading among customers. This also bolstered income from commissions in securities and investment business. Since the SNB increased the threshold factor in April, the banks in Switzerland paid less negative interest to the central bank in 2020 than they had in 2019. Overall, the SNB earned around CHF 1.4 bn from negative interest. Most of this came from banks, and this continues to be reflected in their results.

The banks' gross operating profit rose by 18.3% in 2020. They paid taxes amounting to CHF 1.9 bn.

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

The aggregate balance sheet total of all banks in Switzerland grew by 4.5% to CHF 3,467.3 bn in 2020. This growth was aided by a sharp increase of 26.1% in liquid assets, which corresponds to the marked rise of 24.1% in the banks' sight deposits with the SNB as a result of the higher threshold factor. The raising of the threshold factor also gives the banks increased scope for lending. Mortgage loans are the largest asset item on the Swiss banks' balance sheet, accounting for 31.7% of total assets. Liquid assets and mortgage loans have been the driving forces behind assets over the past decade. Liquid assets showed a dramatic increase from CHF 106.1 bn in 2010 to CHF 684.6 bn in 2020. This was due to the Basel III liquidity rules, the strong franc and low interest rates, among other things. Low interest rates have made residential property more attractive, leading to a rise of around 43% in mortgage loans over the same period.

Diverging trends in sight and time deposits

On the liabilities side, amounts due in respect of customer deposits rose by 8.7% and made up 56.9% of the balance sheet total at the end of 2020. This increase was triggered by a sharp rise of 29.2% in sight deposits, a component of amounts due in respect of customer deposits. At the same time, time deposits fell by around 16%, continuing the trend observed in the past ten years. More and more money has been moved out of time deposits and into sight deposits in view of the low level of interest rates. The strong year-on-year growth in sight deposits is also attributable to the exceptionally high savings rate caused by the slump in consumer spending during the successive lockdowns.

Slight fall in assets under management despite increase in securities holdings

Assets under management showed a slight fall of 0.2% in 2020, primarily due to foreign customer assets. While the volume of domestic customer assets invested in securities increased despite the volatile markets, the corresponding figure for foreign-domiciled customers was unchanged. Fiduciary liabilities and amounts due to customers excluding sight deposits declined for both domestic and foreign customers. Foreign currencies make up a larger share of foreign customers' assets than those of domestic customers, which is why an appreciating Swiss franc has a greater negative impact on foreign customer assets when they are valued in francs. The shift from time deposits into sight deposits has prevented a significant increase in assets under management.

Number of staff at banks in Switzerland rising in spite of pandemic

In 2020, the 243 Swiss banks' recorded an increase in headcount of 414 full-time equivalents, the first since 2010. Consolidation within the industry, more stringent regulation and outsourcing had caused the number of staff in the banking sector to fall steadily in recent years. Last year's increase does not necessarily signal a reversal of this trend. According to the State Secretariat for Economic Affairs (SECO), the unemployment rate in the financial sector was 3.3% at the end of the crisis year that was 2020, slightly lower than that of the overall economy. The sector was less affected by the pandemic than others.

Fig. 1

The structure of the Swiss banking sector at the end of 2020

	2019	2020	Additions	Reclassifications	Removals
Cantonal banks	24	24	0	0	0
Big banks	4	4	0	0	0
Regional and savings banks	60	59	0	0	1
Raiffeisen banks	1	1	0	0	0
Foreign banks	94	94	2	0	1
Private bankers	5	5	0	0	0
Stock exchange banks	42	39	0	–1	3
Other banking institutions	16	17	0	1	0
Total	**246**	**243**	**2**	**0**	**5**

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

The regional banks and foreign banks shed around 1,000 jobs in 2020, while banks in the remaining categories added a total of 1,414. The main reason for the fall among the regional banks and the increase among the big banks was statistical effects resulting from the merger of Neue Aargauer Bank with Credit Suisse (Switzerland) Ltd.

According to the SBA survey, the Swiss banks' headcount rose by around 1% in the first half of 2021, with the number of foreign jobs growing faster (by 1.8%) than the number of domestic jobs (0.2%). The SECO figures show that the unemployment rate in the financial sector fell to 2.8% in the same period. The outlook for the remainder of the year is positive. Only 9.5% of the banks surveyed expect their headcount to fall, whereas a quarter expect it to rise. The survey shows that the best prospects for the second half of the year in this respect are in logistics and operations (back office) and wealth management.

First half of 2021 dominated by recovery from pandemic

In the first half of 2021, the easing of measures to contain COVID-19 around the world led to an economic recovery, monetary policy remained expansionary, and the stock markets performed well. This is all reflected in the Swiss banks' balance sheets and assets under management. Following a slight fall in 2020, the latter rebounded by 6.9% in the first five months of 2021 The aggregate balance sheet total grew by 3.0% in the same period, with amounts due from securities financing transactions and amounts due from banks showing the largest increases on the assets side and sight deposits and amounts due to banks on the liabilities side. Time deposits also posted a rise after falling sharply in 2020. Whether this trend can continue in the second half of the year depends to a great extent on how the pandemic situation develops going forward.

Fig. 2

Swiss banking sector: key figures

	2019	2020	Change YoY
No. of institutions	**246**	**243**	**–3**
Number of staff (full-time equivalents in Switzerland)	**89,527.6**	**89,941.9**	**0.5%**
in CHF bn			
Aggregate net income	**66.1**	**69.9**	**5.8%**
Result from interest operations	23.8	23.6	–0.9%
Result from commission business and services	22.4	23	3.0%
Result from trading activities	7.4	10.9	46.7%
Other result from ordinary activities	12.5	12.4	–0.8%
Gross profit	**23.2**	**27.4**	**18.3%**
Taxes paid on revenue and profits	**2.3**	**1.9**	**–17.3%**
Result of the period (annual profit/loss)	**0.6**	**13.7**	**n/a**
Annual profits	13	14.5	11.5%
Annual losses	12.4	0.8	n/a
Balance sheet total	**3,317.6**	**3,467.3**	**4.5%**
Lending volume	**1,213.8**	**1,259.1**	**3.7%**
Assets under management in Switzerland	**7,893.4**	**7,878.7**	**–0.2%**
Cross-border assets under management for private customers (2015 - 2020)	**1,827.2**	**2,160.7**	**18.3%**

Note: The increase in annual losses and the much lower result of the period in 2019 are mainly attributable to high value adjustments by a big bank following a change in the principles used to value its parent company's participations. The SNB notes that, without this effect, the banks in Switzerland would have posted a profit similar to that recorded in the previous year. For this reason, the changes in the result of the period and annual losses are not shown here. More information on this can be found in the Banking Barometer 2020.

* Due to the changing calculation basis, a 5-year comparison is shown.

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

1. Economic policy environment

Economic developments

The Swiss economy has withstood the COVID-19 pandemic well. The decline in economic output during 2020 was modest by international standards. The forecast for 2021 is for a recovery and strong growth.

The first half of 2020 was dominated by the COVID-19 pandemic. The first lockdown, with restrictions on travel and events and the closure of facilities such as schools, shops, restaurants and hairdressers, led to a sharp drop in economic activity. Comparable or even more far-reaching measures were adopted around the world, resulting in disruption to global supply chains and a negative worldwide demand shock.

Many businesses were largely able to reopen in the third quarter, prompting a strong recovery in Swiss domestic economic output. The momentum slowed somewhat in the fourth quarter as restrictions were reimposed. However, private consumption declined much less than in the first phase of the pandemic. Industry benefited from an upturn in demand in Asia.[1] In all, Swiss gross domestic product (GDP) fell by 2.9% in 2020. The global economy contracted by 3.5%; for the European Union (EU), the figure was 6.1%.[2] Switzerland was thus among the countries least impacted by the slowdown.

The first quarter of 2021 once again saw restrictions on economic activity due to COVID-19. This time, however, the contraction was less pronounced than the first time round: partly because the containment measures were less sweeping; and partly because many firms were better prepared, more extensive state support measures came into effect, and consumers were not required to change their behaviour so drastically.[3] Beginning in the second quarter, the restrictions were progressively relaxed as the vaccination programme advanced. Overall, the Swiss economy is forecast to make a strong recovery in 2021. According to the State Secretariat for Economic Affairs (SECO), the biggest risks to economic performance in 2021 are second-round effects of the crisis such as bankruptcies, large-scale redundancies and setbacks in combating the pandemic, for example due to mutations of the virus.[4]

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[1] SECO (2021). Konjunkturtendenzen, spring 2021.
[2] IMF (2021). IMF World Economic Outlook April 2021.
[3] SECO (2021). Konjunkturtendenzen, spring 2021.
[4] SECO (2021). Konjunkturtendenzen, summer 2021.

Fig. 3

GDP growth industrialised countries

2020 and 2021 (forecast), in percent

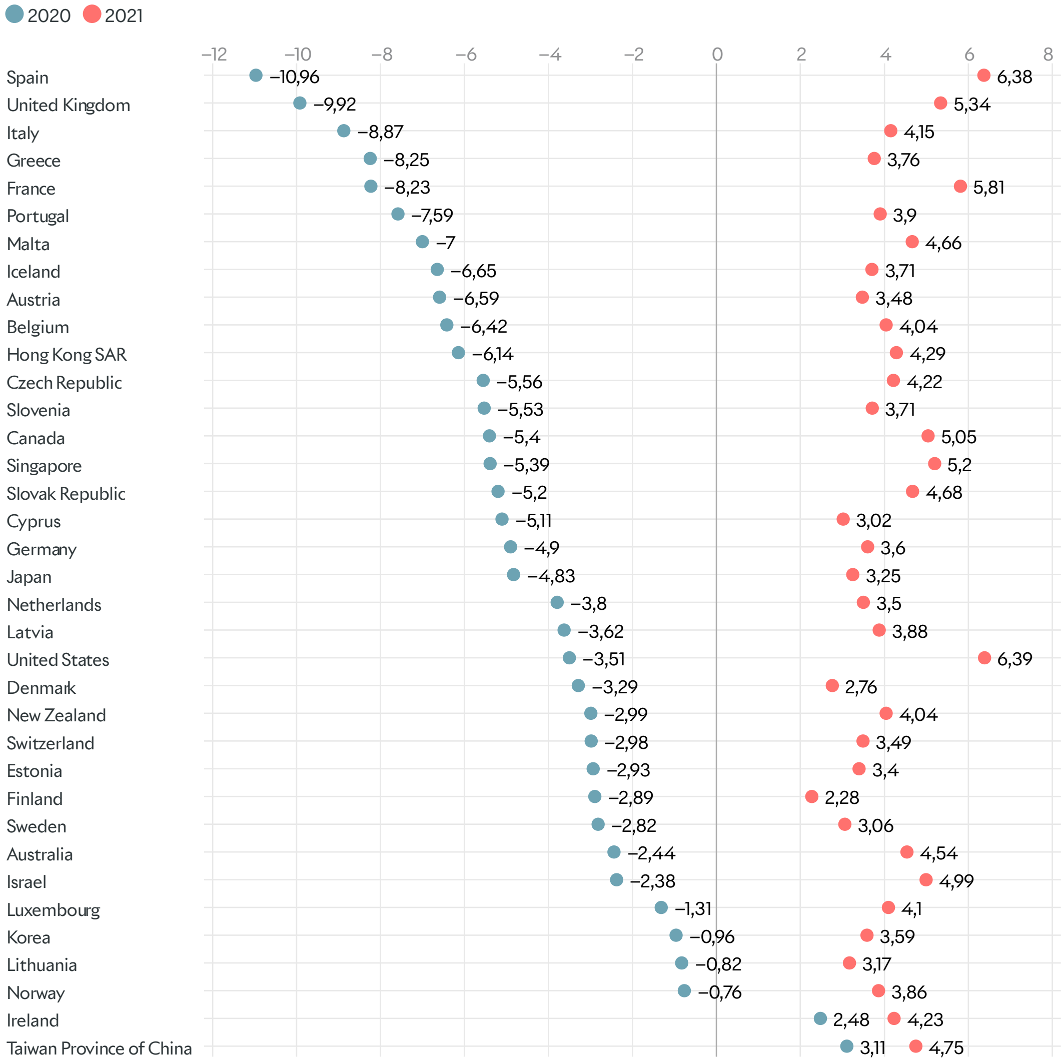


Chart: Swiss Bankers Association Source: IMF World Economic Outlook April 2021

Government measures to cushion the economic impact of the COVID-19 pandemic

The Swiss federal government is supporting the Swiss economy through the COVID-19 pandemic with a broad package of measures worth CHF 70 bn. Swiss banks maintained the supply of liquidity to the firms affected by swiftly rolling out the COVID-19 bridging credits.

The federal government adopted a series of measures amounting in total to more than CHF 70 bn to mitigate the economic impact of the COVID-19 pandemic. They are intended principally to prevent redundancies, secure wages and support the self-employed. The period during which compensation for short-time working could be claimed was substantially extended, and compensation for loss of earnings due to COVID-19 was introduced for the self-employed. Companies that are hit especially severely can also claim support as a hardship case, and certain sectors also receive targeted support. In June 2021, the Federal Council agreed on the content of the transition strategy for a return to business as usual in economic policy. It has three main pillars: normalisation, supporting the recovery, and revitalisation.[5]

During the first phase of the pandemic, Swiss banks worked with the federal government to launch COVID-19 bridging credits. Put together in a very short time, these offered the companies affected a quick and straightforward way to secure liquidity. They involve interest-free loans of up to CHF 500,000 that are 100% guaranteed by the federal government. Loans above this amount are 85% guaranteed by the federal government, up to a maximum of CHF 20 mn per company. This programme of credits backed by joint and several guarantees was developed jointly by the authorities, banks and the SBA, and was incorporated into ordinary law in December 2020 via the COVID-19 Joint and Several Guarantee Act. In total, around 139,000 credits with a volume of CHF 17 bn were granted.[6]

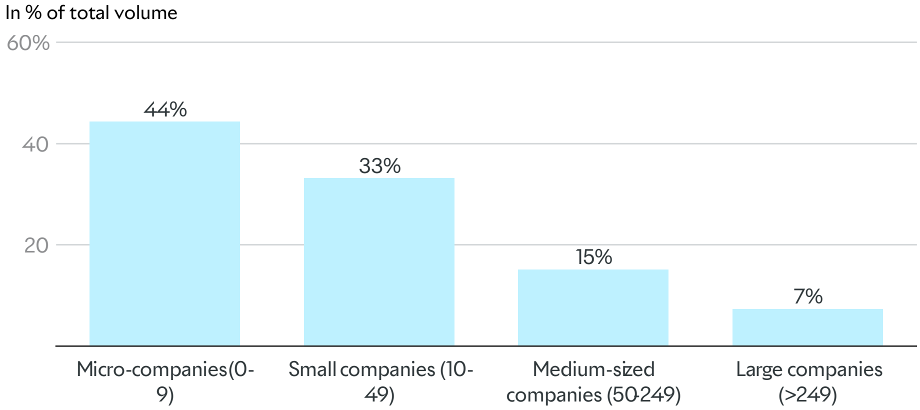
The Swiss National Bank (SNB) supported the programme by introducing the temporary standing SNB COVID-19 refinancing facility (CRF). This allows banks to draw liquidity as a covered loan against claims arising out of COVID-19 credits. The SNB also increased the threshold factor, which is used to calculate the portion of sight deposit account balances exempted from the negative interest rate, from 25 to 30, in order to strengthen the banks' role as lenders. Following a request from the SNB, the Federal Council lowered the countercyclical capital buffer (a component of the Basel III regulatory framework) to 0%, thereby relaxing the capital requirements for mortgage loans. The Swiss Financial Market Supervisory Authority (FINMA) also lowered the requirements for the leverage ratio by temporarily excluding central bank reserves from the calculation of the ratio. The Bank for International Settlements (BIS) postponed the introduction of Basel III by a year to 2023, to give banks more capacity to manage the COVID-19 crisis. The support measures adopted by the SNB and FINMA are making a valuable contribution to ensuring that the banks can continue to perform in full their important function of supplying credit to the economy, even in these economically challenging times. The SNB's quarterly talks with companies in all parts of the country indicate that lending conditions in Switzerland are essentially unchanged since the start of the COVID-19 pandemic.[7] Moreover, according to the Federal Statistical Office, the number of

5 Federal Council (2021). COVID-19 economic policy transition strategy.
6 https://covid19.easygov.swiss/en/
7 SNB Quarterly Bulletins 2/2020 to 2/2021.

corporate and private bankruptcies in 2020 was 6.6% lower than in the previous year, thanks mainly to the various support measures and the COVID-19 credits.[8]

Fig. 4

COVID-19 credits by company size (FTEs)



Source: https://covid19.easygov.swiss,/as at: 26.08.2020

Interest rate situation

The Swiss National Bank, US Federal Reserve and European Central Bank made extensive currency and asset purchases to stabilise the markets and support the economy in the COVID-19 crisis. No end to the expansionary monetary policy is in prospect.

The Federal Reserve (Fed) lowered the target range for its key interest rate in two steps to 0.0 to 0.25% as a result of the COVID-19 pandemic. It also made large-scale asset purchases and granted temporary emergency loans to banks. As a result, its balance sheet grew from USD 4.2 tn in January 2020 to USD 8 tn in June 2021. The European Central Bank (ECB) left its benchmark refinancing rate unchanged at 0%. In the wake of the COVID-19 crisis, it also further improved the conditions of an existing programme of long-term funding for commercial banks at very attractive terms ("targeted longer-term refinancing operations") and carried out extensive asset purchases under its pandemic emergency purchase programme (PEPP).

Despite a rise in consumer prices in the first half of 2021, both the Fed and the ECB are sticking to their expansionary monetary policy for the medium term. The upturn in inflation is viewed as no more than a temporary phenomenon. The Fed plans to maintain monthly securities purchases amounting to USD 120 bn, and interest rates are not expected to rise before 2023.[9] Similarly, the ECB will continue to conduct asset purchases under the PEPP until at least March 2022, and not adjust its benchmark interest rate until inflation forecasts all fall into line with its inflation target. The PEPP has a total volume of EUR 1,850 bn.[10]

[8] https://www.bfs.admin.ch/bfs/de/home/aktuell/medienmitteilungen.assetdetail.16564157.html
[9] Fed (2021). FOMC statement and Implementation Note issued June 16, 2021.
[10] ECB (2021). Monetary policy decisions, 10 June 2021.

The Swiss National Bank (SNB) is maintaining its negative interest rates in view of the impaired economic situation as a result of the pandemic, its opinion that the Swiss franc remains highly valued, and its forecast of close-to-zero inflation.[11] However, in the wake of the COVID-19 crisis it has refrained from cutting rates further. In April 2020, to bolster the banks' role as lenders, it raised the threshold factor used to calculate the portion of sight deposit account balances exempt from the negative interest rate from 25 to 30. At the end of 2020, around CHF 221 bn in sight deposits attributable to the banks and other financial market participants were subject to negative interest rates in Switzerland, from which the SNB earned CHF 1.4 bn.[12] Since March 2020, the SNB has also conducted extensive currency purchases, boosting its total assets from CHF 850 bn to over CHF 1,000 bn in April 2021. The US Treasury Department added Switzerland to its list of currency manipulators at the end of 2020 but removed it in April 2021.

The effectiveness of the extraordinary monetary policy interventions to steer the economic trend is waning while the risks of the negative interest rate policy are growing.[13] The SNB is faced with a monetary policy "trilemma", in which only two of the three objectives – stable exchange rates, free movement of capital, and autonomous monetary policy – can be achieved at the same time. The SNB's decision not to cut interest rates further amidst the COVID-19 crisis may be an indication that it views the effectiveness of such a move as low when set against the risks it entails, and recognises the risk to stability posed by narrowing interest margins.

Government debt

Government debt has risen further around the world in the wake of the COVID-19 pandemic. The very high debt levels are hindering the process of exiting from the expansionary monetary policy and encouraging governments to blur the line between fiscal and monetary policy objectives.

The COVID-19 pandemic has led to further growth in the already high levels of government debt. Average public debt worldwide hit a new high of 97% of GDP in 2020.[14] Household and corporate debt have also risen.[15] As a result, FINMA sees an increased risk to the Swiss financial centre from defaults or adjustments to corporate loans and bonds abroad.[16] Very high debt levels also make an exit from the expansionary monetary policy difficult, because it would tip economies back into recession. To avoid the damaging impact of sovereign defaults, there is a strong incentive for central banks to maintain low interest rates and give less weight to inflation risks. The danger is that monetary policy will increasingly become an instrument of fiscal policy, amid growing concerns over the independence of central banks.

Thanks to the debt brake, Switzerland had low levels of government debt by international standards prior to the COVID-19 pandemic, and sufficient fiscal leeway to fund the exceptional measures in support of the Swiss economy. In June 2021, the Federal Council decided to open a consultation on two options for reducing the exceptional levels of debt resulting from the pandemic. The first involves achieving that goal entirely through funding surpluses, while the second involves offsetting part of the debt against the debt

[11] SNB (2021). Monetary policy assessment of 17 June 2021.
[12] SNB (2021). Annual Report 2020.
[13] See https://www.swissbanking.ch/_Resources/Persistent/3/5/0/5/35055adfebd3b2978cc1d101d648aa73647131a6/SBA_Negative_interest_rates_EN.pdf.
[14] IMF (2021). Fiscal Monitor April 2021.
[15] Institute of International Finance (2021). Global debt monitor. COVID drives debt surge – stabilization ahead?
[16] FINMA (2020). FINMA Risk Monitor 2020.

reductions of recent years. Both envisage recording the SNB's supplementary distributions as extraordinary income and so using them directly to cut the debt. Neither cost-saving measures nor tax rises are envisaged. Cutting the debt within a short timeframe will ensure that COVID-19 debts do not have to be borne unilaterally by the young generation, and that Switzerland retains its freedom to act in future crises. Care must be taken to ensure, however, that economic recovery is not held back by attempts to reduce debt too quickly.

Fig. 5

Public debt of industrialized countries as % of GDP, 2019 and 2020

Chart: Swiss Bankers Association Source: IMF World Economic Outlook April 2021

Market access

The Federal Council decided not to sign the framework agreement between Switzerland and the EU. Negotiations on a financial services agreement between Switzerland and the UK, meanwhile, are making progress.

In May 2021, the Federal Council decided not to sign the institutional framework agreement between Switzerland and the EU. The agreement would have helped to strengthen bilateral relations over the long term, increase legal certainty and improve market access for Swiss banks. The SBA regrets that efforts to resolve issues between Switzerland and the EU did not lead to a successful outcome. It is now all the more important to consolidate the bilateral approach and act swiftly to find ways of developing it further going forward.

Cross-border wealth management for private clients based in the EU is a key export sector for Switzerland: the country's banks manage assets totalling around CHF 1,000 bn belonging to clients from the EU, generating tax income of approximately CHF 1.5 bn per year and employing some 20,000 people in Switzerland.[17] The creation of practicable and sustainable market access solutions is essential so that foreign-oriented banks can continue to meet their customers' needs, and to ensure that value added, jobs and tax revenues remain in Switzerland.

On 30 June 2020, Switzerland and the UK signed the "Joint Statement between the Federal Department of Finance and Her Majesty's Treasury on deepening cooperation in financial services". This forms the basis for ambitious plans to liberalise and expand mutual market access in the area of financial services, including banking. The goal is to enshrine the essential elements of this in an international treaty within a reasonable timeframe. The agreement is to be based on the principle of mutual recognition of financial market regulation and the supervisory regime, which the sector regards as expedient.

In January 2021 the two sides spoke positively of the progress made to date in their exploratory talks, and agreed further steps towards concrete negotiations on individual topics, with the goal of achieving substantial progress by the end of the current year. In an initial step, in February 2021 the UK recognised the equivalence of Swiss stock exchange regulation. Switzerland responded by deactivating the measures to protect Swiss stock exchange infrastructure in respect of UK trading venues. The potential for enhanced cooperation between the two nations in the financial sector was also discussed by sector experts at an event organised by the British-Swiss Chamber of Commerce.

Structural change

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

In 2019, roughly one eighth of Swiss gross value added was attributable to the financial sector.[18] A number of banks have adapted their organisational structures in response to competition and the regulatory environment, and transferred staff to group service companies without a banking licence. As a

[17] SBA (2019). Market access for Swiss banks: importance and outlook. SBA background paper.
[18] https://www.bak-economics.com/fileadmin/documents/publizierteArtikel/2020_BAK_Economics_Economic_Impact_Swiss_Financial_Sector_Executive_Summary.pdf.

consequence, banks' direct value added appears smaller than it actually is. Additionally, digital platforms (crowdfunding, payment services) that are not operated directly by conventional financial institutions are not included in the financial sector's value added, despite their very close links to it.

As of 2019, some 8% of all jobs in Switzerland are directly or indirectly dependent on the financial sector.[19] Digitalisation is transforming the skills required within the banking industry, with increasing demand for expertise in IT, credit and risk management, research and product development. Basic transversal competencies are becoming much more sought alongside specialist skills.

Swiss banks' value creation models are also being transformed. The models of the future will be based on open infrastructures with data and systems integrated end to end, digital capabilities, technical and organisational agility, and collaboration in ecosystems beyond the individual company.[20]

It is becoming increasingly rare for customers to obtain all their financial products from a single provider: they now shop around to find the best possible combination. There is great potential in opening up interfaces to collaboration between banks and fintechs. The key issue is that working together on the basis of market solutions generates added value for customers. To this end, the SBA and Swiss FinTech Innovations have liaised with all the relevant financial centre stakeholders to agree on the roles each will play in future cooperation on open finance.[21]

Cloud services are vital for banks to exploit new technologies such as artificial intelligence and bring innovative products quickly to their customers. The SBA therefore regularly updates its guidelines on the use of cloud services. Most recently, it has offered guidance on auditing cloud services and the means used.[22]

Technology firms are making increasing inroads into the financial services market, focusing on payment apps, financial and asset management, and credit. Although the Facebook spin-off Diem/Libra has withdrawn its application for a FINMA licence, Switzerland remains a good environment for technological innovation, as its top position in the IMD Competitiveness Ranking 2021 confirms.[23] However, the entry of tech firms into the financial market and the sharply increased share of pension funds in the mortgage market also entail risks. It is therefore essential that regulators cease to regard the stability of the banking sector alone as synonymous with financial stability in general.

Private digital money and central bank digital currency offer potentially huge social and economic benefits. Various central banks, other banks and technology firms around the world are currently working on forms of digital money. Depending on the form it takes, it can fundamentally transform banks' business models and the work of central banks. The discussion paper published by the SBA is a contribution to an important debate on the design and use of digital money and its implications for business and society.[24]

For further developments see the SBA's Annual Report 2020/2021 (published on 16.9.2021).

[19] https://www.bak-economics.com/fileadmin/documents/publizierteArtikel/2020_BAK_Economics_Economic_Impact_Swiss_Financial_Sector_Executive_Summary.pdf.

[20] https://www.swissbanking.ch/_Resources/Persistent/9/d/b/e/9dbe91218153293fa5bd8ea3301745101159259e/SBA_Accenture_Perspectives%20on%20the%20Future%20of%20Swiss%20Banking_EN_kurz.pdf.

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

[22] https://www.swissbanking.ch/_Resources/Persistent/a/4/f/b/a4fb72f65d7f039abe516a40a078554523c31f90/SBA_Cloud-Guidelines_2020_EN.pdf.

[23] https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/.

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

Regulation

Regulation of the banks and financial markets plays a key role in the attractiveness and competitiveness of the financial centre. Switzerland is also among the best-placed countries in the second edition of the Global Financial Regulation, Transparency, and Compliance Index (GFRTCI).[25]

In September 2020 the Federal Council decided to introduce the net stable funding ratio (NSFR). The NSFR complements the liquidity coverage ratio (LCR), which is designed to boost banks' resilience in short-term liquidity crises, and aims to ensure stable funding over the long term. The amendment to the relevant ordinance comes into force in July 2021.

In the dispatch adopted in June 2021, the Federal Council amended the partial revision of the Post Organisation Act in response to feedback from the consultation. PostFinance's entry into the lending and mortgage market is now to be accompanied by its privatisation. The intention is for Swiss Post to give up its majority shareholding in PostFinance, which is to be spun off from the Swiss Post Group. The SBA has argued that a removal of the prohibition on PostFinance providing loans and mortgages must be linked to its complete privatisation.[26]

For further developments in regulation see the SBA's Annual Report 2020/2021 (published on 16.9.2021).

Taxes

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

The development of Switzerland's capital market is being substantially held back by tax obstacles such as stamp duty and withholding tax. In January 2020 the Economic Affairs and Taxation Committee (EATC) of the National Council opened a consultation on parliamentary initiative 09.503 to progressively abolish stamp duties and create jobs. It aims to do away with stamp duty on new issues, transfer stamp tax, and stamp duty on insurance premiums, and so boost the competitiveness of the Swiss financial centre compared with rivals where such duties do not exist. The Council of States called in December 2020 for the motion to be suspended, but revisited its decision in June 2021 and now favours moving ahead with the abolition of stamp duty.

The Federal Council adopted the dispatch on the reform of withholding tax in April 2021. The reform aims to abolish withholding tax on domestic interest payments, without replacement. It will revive the Swiss capital market, prompting Swiss companies to move their financing activities back to Switzerland and issue their bonds on the Swiss market. This will increase value added and create new jobs in Switzerland.

The Organisation for Economic Cooperation and Development (OECD) plans to change the rules on taxation of corporate profits, not least to open up new sources of income. Firstly, a greater proportion of a company's profits are to be taxed where its customers reside, irrespective of the company's physical

[25] https://www.swissbanking.ch/en/news-and-positions/news/finanzregulierung-transparenz-und-compliance-die-schweiz-international-bei-den-besten
[26] https://www.swissbanking.ch/_Resources/Persistent/6/e/9/5/6e95b6fa27f402b897aac209fa23f72e534b73cb/Stellungnahme%20der%20SBVg%20zur%20vorgeschlagenen%20Teilrevision%20des%20Postorganisationsgesetzes%20POG%20%28Aufhebung%20des%20Kredit-%20und%20Hypothekarvergabeverbots%20von%20PostFinance%29.pdf

presence. Secondly, corporate profits are to be subject to a certain minimum level of taxation. A basic framework for implementing the reform was adopted in July 2021, and Switzerland agreed, subject to reservations. A detailed proposal is to be drafted by the end of 2021. Switzerland would be substantially impacted by changes to the principles governing taxation.[27]

For further developments in tax policy see the SBA's Annual Report 2020/2021 (published on 16.9.2021).

[27] https://www.swissbanking.ch/en/news-and-positions/news/oecd-s-digital-levy-still-raises-many-questions

2. Net income

The aggregate net income of the banks in Switzerland rose by around 5.8% year-on-year in 2020 and was well above the ten-year average.

The aggregate net income of all banks in Switzerland rose by 5.8% year-on-year to CHF 69.9 bn. This was largely due to the result from trading activities rising by an impressive 46.7% to CHF 10.9 bn. However, continuing low interest rates and increasing market activity on the part of non-banks caused the result from interest operations to show a slight fall of 0.9%. The big banks in particular were able to increase their share of aggregate net income by a further three percentage points. At the other end of the spectrum, the foreign banks' share fell to just 9.8%.

Statistical effects of accounting principles

This publication is based on data provided by the SNB compiled from the individual financial statements of banks (parent companies) as required by law. In the case of the big banks in particular, these statements may deviate from the group financial statements. This is usually caused by accounting effects that cannot be distinguished from operational effects at group level in the SNB banking statistics. The revised Banking Ordinance of 30 April 2014 provided for a transition period until the full implementation of the Ordinance on 1 January 2020 for certain rules, including those on the individual valuation of participations, tangible fixed assets and intangible assets. In view of these changes, the parent company of a big bank changed the way it values participations from the portfolio valuation method to the individual valuation method in 2019. This resulted in a value adjustment of CHF 15.3 bn on participations due to regulatory factors, which affected the result for 2019 in the SNB statistics. The SNB notes that, without this effect, the banks in Switzerland would have posted a profit similar to that recorded in the previous year. No comparable effects were recorded in 2020.

2.1 Trends in 2020

Net income by banking activity

Aggregate net income comprises the results from interest operations, commission business and services, and trading activities as well as the other result from ordinary activities. It increased by 5.8% in 2020 due to a sharp rise in the result from trading activities.

With a share of 33.8%, the result from interest operations remained the largest contributor to net income despite a slight fall of 0.9% from CHF 23.8 bn to CHF 23.6 bn and the fact that low interest rates are still hindering the banks' margin business. The lower result from interest operations was caused by a CHF13.7 bn (27%) decrease in interest income and a similarly high CHF 13.5 bn (49%) decrease in interest expense. This includes, for example, the cost of negative interest on sight deposits held with the SNB. Compared with the previous year, the SNB's income from negative interest fell by around CHF 561 mn to CHF 1.4 bn, most of which came from banks. One reason for this sharp fall was the increase in the exemption threshold factor from 25 to 30 in April 2020. The SNB's intention with this move was to ease the burden of negative interest for banks during the COVID-19 pandemic and thus give them greater room for manoeuvre financially.

The result from commission business and services is the second-largest contributor to net income, accounting for 32.9%. In contrast to interest operations, commission business and services showed an increase of around 3%. This was primarily attributable to commission income from securities trading and investment activities, which rose by CHF 1.1 bn in 2020.

Fig. 6

Net income by banking activity

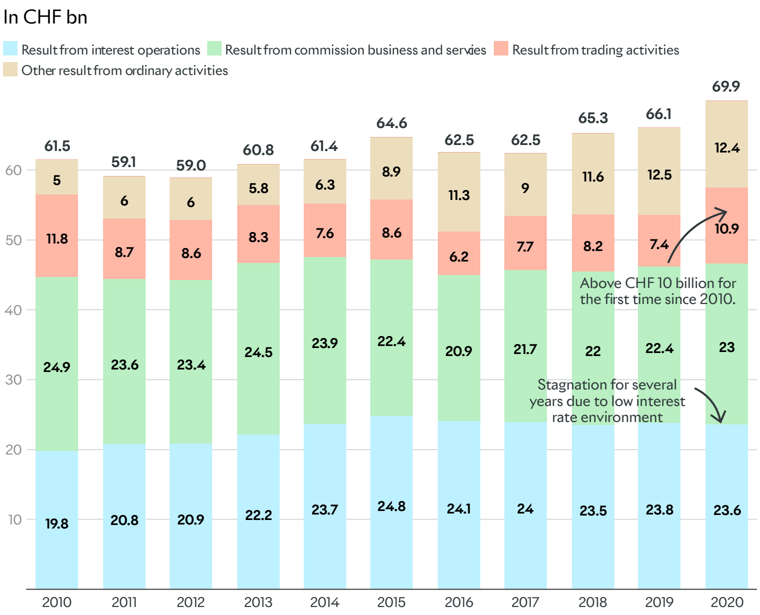


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

The main driver behind the trend in net income is the increase in the result from trading activities, which rose by almost 50% year-on-year and was thus above CHF 10 bn for the first time since 2010. One reason for this was the high market volatility seen in 2020, especially compared with 2019. This normally goes hand in hand with high levels of trading activity for banks, both on behalf of their clients and for their own account.

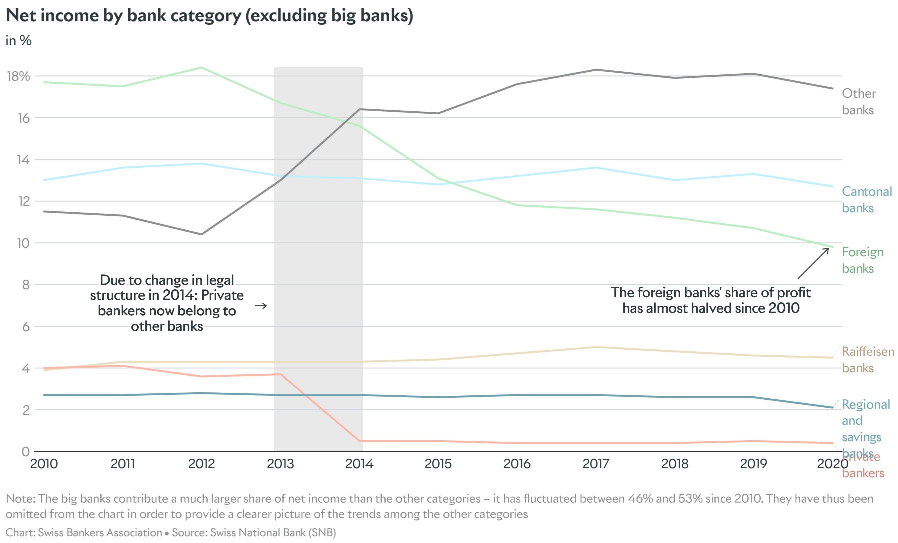
Net income by bank category

While the share accounted for by the foreign banks fell further, those of the other categories were relatively stable, albeit with a shift in favour of the big banks due to their larger trading volumes.

Fig. 7

Net income by bank category (excluding big banks)

In %



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

Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

All bank categories apart from the big banks saw their share of net income fall compared with 2019. The decreases ranged from 0.1 of a percentage point for the Raiffeisen banks to 0.9 of a percentage point for the foreign banks. The latter thus continued their downward trend and now account for less than 10% of the sector's net income. The big banks (not shown in the chart), meanwhile, were able to increase their share from 50.1% in 2019 to 53.1% in 2020, mainly thanks to the success of their trading activities, which make up a greater proportion of their income than is the case for banks in the other categories.

Statistical effects of allocation to bank categories

The SNB allocates individual banks to the various categories at its own discretion. The composition of the categories can change over time as a result of mergers, spin-offs, newly formed banks and other structural changes. For example, Neue Aargauer Bank (NAB) was merged with Credit Suisse (Switzerland) Ltd in 2020, so its business is now allocated to the category of big banks for statistical purposes rather than regional and savings banks. A number of banks in the "private bankers" category changed their legal form in 2014 and now belong to other categories, in particular that of stock exchange banks. This has caused structural disruptions to the statistics for the "private bankers" and "stock exchange banks" categories.

The share of total net income contributed by the "other banks" category has increased from 11.5% to 17.4% since 2010. The big banks also increased their share over the same period, from 47.2% to 53.1% (not shown). The private bankers' share fell from 4.0% to 0.4% during the period, that of the foreign banks from 17.7% to 9.8%. The reduction among foreign banks is partly due to the financial crisis, which led to many branch closures in Switzerland. In addition, some banks have cut their international activities back to specific fields of business in recent years as part of restructuring programmes, which has in some cases led to shifts within a group or even the sale of entire business units.

Annual profit and taxes

The increase in aggregate net income and a slight decrease in operating expenses caused gross operating profit to rise by 18.3% year-on-year in 2020. After value adjustments and taxes, the annual profits of banks in Switzerland totalled around CHF 13.7 bn.

Operating expenses, which are made up of personnel expenses and general and administrative expenses, were cut slightly (by 1.0%) year-on-year, while aggregate net income rose by 3.8%. This led to a gross operating profit CHF 4.2 bn higher than in 2019. After deduction of depreciation, amortisation, value adjustments and provisions, the Swiss banks' operating result was CHF 14.5 bn. The resulting annual profit was more or less in line with previous years at CHF 13.7 bn. The banks paid slightly less tax in 2020 (CHF 1.9 bn, compared with CHF 2.3 bn in 2019).

Fig. 8

Breakdown of result of the period for banks in Switzerland 2020

In CHF Mrd.

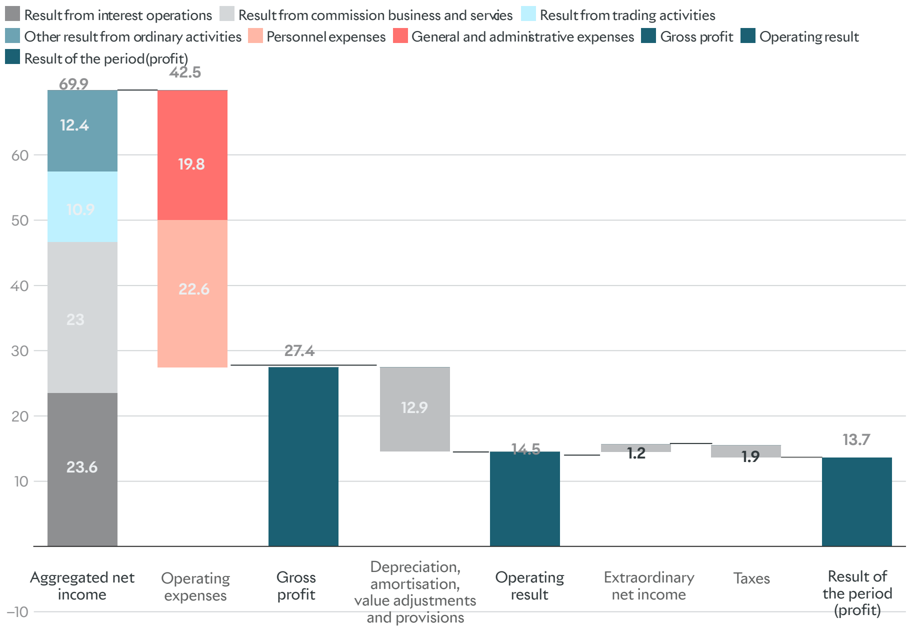


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

2.2 Economy stages recovery in first half of 2021

After the COVID-19 pandemic dominated 2020, the big story in the first half of 2021 was the economic recovery. The SNB is continuing its expansionary monetary policy. The SECO forecasts GDP growth of 3.6% for 2021.

After the measures to prevent the spread of COVID-19 were tightened again at the start of the year, they were eased again in several steps during the first six months, which had a positive impact on the economic trend. The International Monetary Fund expects the global economy to grow by 6.0% this year. The SECO reports that Swiss GDP fell by 0.5% overall in the first quarter but forecasts GDP growth of 3.6% for the year as a whole in view of the rebound. The pandemic situation has settled down to some extent in recent months, but the SNB is maintaining its expansionary monetary policy. Its headline interest rate and the rate on sight deposits remain at -0.75%. The SNB earned a total of CHF 664 mn from negative interest up to the end of June. This is placing a considerable strain on the banks. The relaxed financing terms introduced at the start of the pandemic have also stayed in place. On top of this, according to the SNB, both mortgage loans and residential property prices have risen sharply again in the first half of the year. The SNB is therefore reviewing on a regular basis whether it needs to reactivate the countercyclical capital buffer. The US Federal Reserve (Fed) also decided in June to leave the target range for its federal funds rate at 0-0.25% and continue intervening on the market via monthly asset purchases totalling USD 120 bn, thus confirming its highly expansionary monetary policy. The Fed interprets rising inflation as a temporary phenomenon and expects inflation to settle down around 2% over the longer term. It is not expecting to hike rates before 2023. The European Central Bank (ECB) is taking a more relaxed approach to inflation, keeping its 2% target for the medium term but tolerating a rate of more than 2% in the short term. With inflation expectations at just under 2% for 2021 and around 1.5% for subsequent years, the ECB is also keeping its headline interest rate unchanged at 0%. It is also increasing the scope of its pandemic emergency purchase programme from EUR 500 bn to EUR 1,850 bn and extending the duration of the programme.

There were a number of key political votes in Switzerland in the first half of 2021. The COVID Act, granting the federal government greater flexibility in the event of a pandemic, was adopted, whereas the CO2 Act was rejected.[28]

There was an important development with regard to the institutional framework agreement (InstA) between Switzerland and the EU. On 26 May, the Federal Council decided that it could not sign the InstA[29] and that negotiations were thus at an end. It nevertheless intends to continue the tried-and-tested bilateral cooperation with the EU. The framework agreement would have improved legal certainty and market access for the banks in Switzerland.

The positive trend on the stock market in 2020 continued in the first half of 2021, no doubt helped significantly by the central banks' expansionary monetary policies. The SMI gained around 12% between January and June and reached a record level of 12,000 points, up almost 2,000 points year-on-year. As long as the pandemic situation does not worsen dramatically again, the economic recovery can be expected to result in further share price gains this year, which should have a positive impact on the banks' trading and commission business.

The SECO believes that second-round effects of the crisis such as bankruptcies and large-scale redundancies are one of the biggest risks for economic growth in 2021. Bankruptcies are also a risk for banks' business performance due to the likelihood of defaults. According to the SBA's survey of its members, however, employment in the banking sector should remain stable.

In particular, a certain catch-up effect is to be expected once the COVID-19 support measures run out in view of the 6.6% year-on-year fall in the number of corporate and private bankruptcies in 2020[30]. The Swiss banks anticipated this by forming additional provisions for value adjustments in the first half of 2020.[31] The SBA also published recommendations on dealing with corporate insolvency risks.[32]

Given their strong capital underpinning and rigorous risk management, however, the banks are well prepared to prevent credit defaults and absorb the resulting losses if necessary. With the economic outlook for 2021 and 2022 appearing positive, net income is likely to show an increase year-on-year. That said, the big banks in particular are facing losses on individual deals as well as a threat of higher-than-usual credit defaults if the number of corporate bankruptcies rises.

[28] https://www.swissbanking.ch/en/news-and-positions/news/switzerland-s-rejection-of-the-c-o2-act-is-a-blow-to-climate-protection
[29] https://www.swissbanking.ch/de/medien/news/bilateraler-weg-schweiz-eu-sichern-und-weiterentwickeln
[30] https://www.bfs.admin.ch/bfs/en/home/news/press-releases.assetdetail.16564160.html
[31] Oliver Wyman (2020). Schweizer Banken Report 2020.
[32] https://www.swissbanking.ch/de/medien/news/neue-empfehlungen-fuer-banken-zum-umgang-mit-insolvenzrisiken-von-unternehmen

3. Balance sheet

The aggregate balance sheet total of all banks in Switzerland grew by 4.5% in 2020. The SNB's intervention on the currency market affected the composition of the commercial banks' assets. The banks' sight deposits with the SNB showed a marked increase compared with the previous year and thus remain at a very high level.

The balance sheet total of the banks in Switzerland grew further in 2020, increasing by 4.5% from CHF 3,317.6 bn to CHF 3,467.3 bn. The cantonal banks accounted for half of this increase. On the assets side, mortgage loans remain the largest item by far, while liquid assets posted strong growth of 26.1% in 2020. On the liabilities side, there was a sharp increase of 29.2% in sight deposits last year, whereas time deposits were down 16%.

The volume of domestic lending continued to rise, with secured loans increasing by almost 20% to a new high of CHF 84.3 bn. As in 2019, the cantonal banks had the largest share of the domestic mortgage market with 37.3%, followed by the big banks with 27.5%.

3.1 Trends in 2020

Balance sheet trends by bank category

The aggregate balance sheet total of all banks in Switzerland grew by 4.5% in 2020. As in 2019, the cantonal banks posted the strongest growth in absolute terms. They were responsible for almost half of the total increase. The big banks have the largest share of the aggregate balance sheet total with 45%.

Fig. 9

Balance sheet total by bank category

In CHF m

In CHF bn	2019	2020	Change in balance sheet total	Share of balance sheet total 2019
Cantonal banks	626.7	697.1	11.2%	20.1%
Big banks	1,540.7	1,566.6	1.7%	45.2%
Regional and savings banks	126.3	111.4	–11.8%	3.2%
Raiffeisen banks	248.3	259.7	4.6%	7.5%
Foreign banks	322.3	346.5	7.5%	10.0%
Private bankers	5.8	6.8	18.8%	0.2%
Stock exchange banks	223.7	256.9	14.8%	7.4%
Other banking institutions	223.7	222.3	–0.7%	6.4%
Total	3,317.6	3,467.3	4.5%	100.0%

Note: Neue Aargauer Bank (NAB) merged with Credit Suisse (Switzerland) Ltd in 2020. As a result, it is now included under “big banks” rather than “regional and savings banks”.

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

Assets

Mortgage loans remain the largest asset item, making up 31.7% of the total. Liquid assets contributed substantially to the growth in total assets in 2020, increasing by 26.1% year-on-year to CHF 141.7 bn. Banks’ sight deposits with the SNB grew almost as strongly (by 24.1%).

Domestic and foreign mortgage loans rose by CHF 33.3 bn from CHF 1,064.7 bn in 2019 to CHF 1,098.0 bn in 2020 and thus remained the largest asset item for banks in Switzerland last year with a share of around 31.7%.

Liquid assets rose sharply (by CHF 141.7 bn or 26.1%) in 2020 and constitute the second-largest asset item. This increase was linked to strong growth of 24.1% in banks’ sight deposits with the SNB. All categories apart from “other banking institutions” increased their sight deposits. The cantonal banks in particular played a key role in the trend, increasing theirs by almost 41%. One reason for this strong growth in the crisis year that was 2020 is the increase in the exemption threshold factor for sight deposits banks hold with the SNB.

Fig. 10

Breakdown of assets

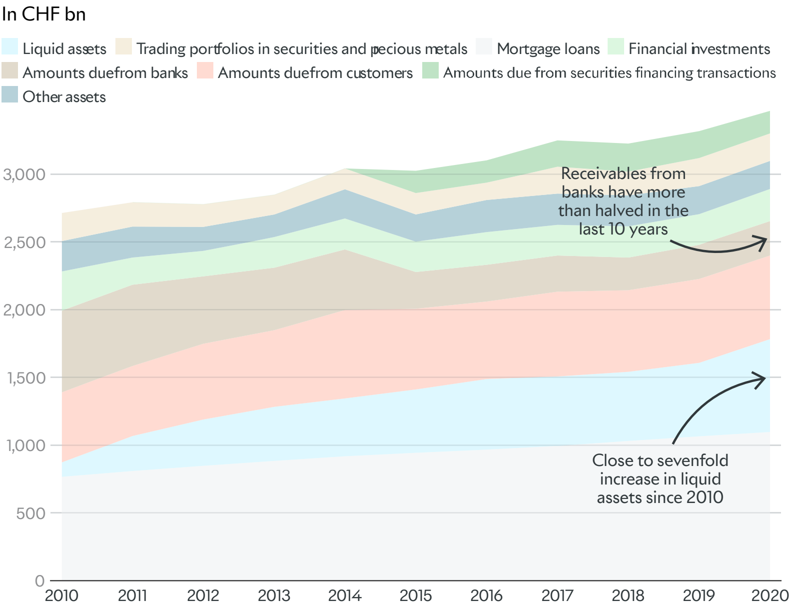


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Fig. 11

Development of assets

In CHF bn

	2019	2020	Percentage change	Share
Liquid assets	542.9	684.6	26.1%	19.7%
Trading portfolios in securities and precious metals	207.9	202.9	–2.4%	5.9%
Mortgage loans	1,064.7	1,098	3.1%	31.7%
Financial investments	225.1	238.2	5.8%	6.9%
Amounts due from banks	252.4	253.3	0.4%	7.3%
Amounts due from customers	619.1	617.6	–0.2%	17.8%
Amounts due from securities financing transactions	197.2	166.8	–15.4%	4.8%
Other assets	208.2	205.9	–1.1%	5.9%
Balance sheet total	**3,317.6**	**3,467.3**	**4.5%**	**100.0%**

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

Amounts due from customers fell slightly (by 0.2%) to CHF 1.5 bn in 2020. Making up 17.8% of total assets, they have dropped to third place in the order of asset items.

Amounts due from banks rose by a weak CHF 0.9 bn or 0.4% to CHF 253.3 bn. This was the net result of a 5.1% decline in amounts due from domestic banks and a CHF 5.6 bn (3.5%) increase in amounts due from foreign banks.

The CHF 13.1 bn increase in financial investments is almost entirely attributable to domestic financial investments, which rose by CHF 12.2 bn. As regards amounts due from securities financing transactions, the domestic and foreign trends diverged. Whereas the domestic total increased slightly, the foreign total fell by around CHF 32 bn.

Fundamental changes in asset breakdown since 2010

The breakdown of assets has changed markedly over the past decade. Liquid assets increased massively between 2010 and 2020 – from CHF 106.1 bn to CHF 684.6 bn. This was caused by a number of factors. The SNB's intervention to counteract the Swiss franc's strength played a significant role as the bank's purchases of foreign currencies caused counterparties' sight deposits denominated in Swiss francs to increase. In addition to this, low interest rates made the opportunity cost of holding cash minimal, so the banks placed large quantities of it in sight deposits with the SNB. Despite the fact that negative interest rates have been in place since January 2015, the banks stepped up their sight deposits with the SNB by a further 24.1% year-on-year to CHF 597.2 bn in 2020.

Domestic and foreign mortgage loans also rose steadily between 2010 and 2020 from CHF 767.1 bn to CHF 1,098.0 bn. Their share of total assets climbed from 28.3% at the end of 2010 to 31.7% at the end of 2020. This was also due to the persistently low level of interest rates, combined with the fact that demand for residential properties was bolstered in 2020 (and continues to be in 2021) by the pandemic and in particular by multiple lockdowns.

Amounts due from banks made up 22.2% of total assets in 2010 but just 7.3% in 2020. This reduction was caused by, among other things, the banks deliberately scaling back this asset item in order to reduce interdependencies with other banks. At the same time, it is also linked to stricter regulatory requirements in terms of capital adequacy.

Domestic lending volume

The volume of domestic lending increased by around 3.7% in 2020. Mortgage loans, most of which are granted to private households, make up the bulk of the Swiss lending business with a share of 85.4%.

The volume of outstanding domestic loans came to CHF 1,259.1 bn. This figure was made up of CHF 183.8 bn in secured and unsecured loans to customers (corporate, public-sector and consumer loans) and CHF 1,075.3 bn in mortgage loans. Overall domestic lending was up 3.7% relative to 2019, which is in line with the trend observed in recent years. Overall, mortgage loans have increased by CHF 338.4 bn since 2010, with their share of domestic lending rising from 82.3% to 85.4%, and thus remain the most important form of domestic lending by far. While secured loans grew by CHF 13.9 bn, mainly due to COVID-19 credits, unsecured loans showed a slight fall of CHF 1.2 bn in 2020.

Fig 12

Domestic lending volume

In CHF bn

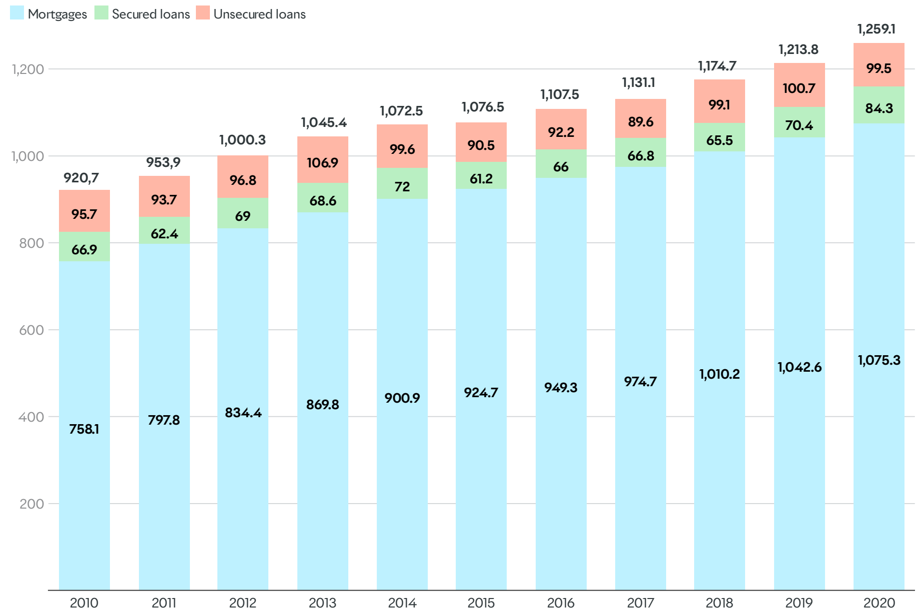


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Total outstanding mortgage loans were 3.1% higher at CHF 1,098.0 bn. The vast majority of this (CHF 1,075.3 bn) was attributable to domestic customers. Some 75% of all mortgages were granted to private households. The share of fixed-rate mortgages was 81.5% in 2020. The average interest rate on outstanding domestic mortgage loans fell from 1.37% to 1.27%. Mortgages with a term of more than five years have become more popular over time. Their share was just 15.5% in 2010, but it had risen to 27.6% in 2020.

Fig. 13

Shares of domestic bank mortgage market in 2020

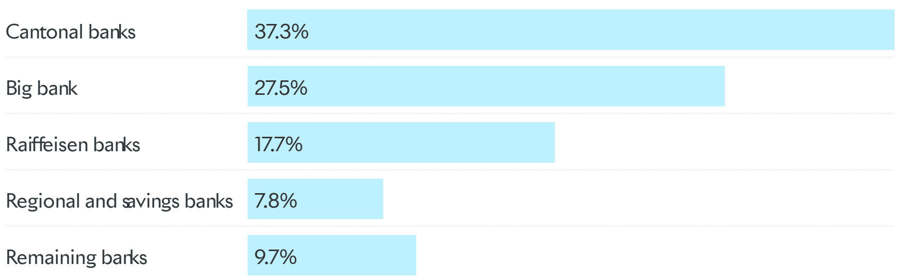


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

The cantonal banks' overall share of the domestic mortgage loan market was 37.3% at the end of 2020, roughly in line with the year-back figure. They were followed by the big banks with 27.5%. In recent years, the cantonal and Raiffeisen banks in particular have increased their shares of the domestic mortgage loan market, whereas the big banks and the regional and savings banks have lost market share.

Broken down by lending group, 92.9% of domestic mortgage loans were categorised as senior in 2020. This group comprises mortgages covering up to two thirds of the property's market value. No relevant differences between the various bank categories can be discerned. The high share of senior mortgages probably indicates that mortgage lenders are continuing to pursue cautious lending policies.

Fig. 14

New mortgage loan originations

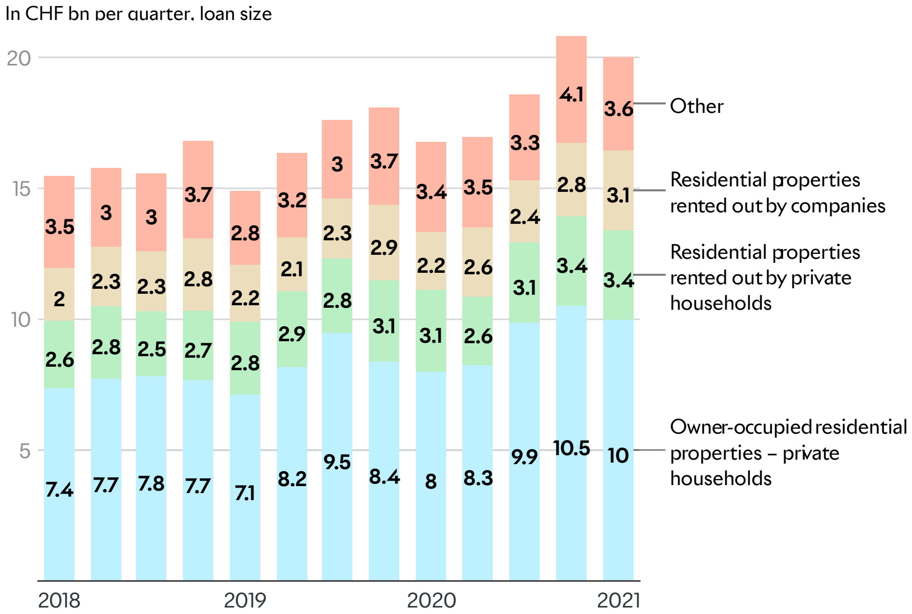


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Liabilities

In 2020, amounts due in respect of customer deposits accounted for more than half of all liabilities. There was a marked increase in sight deposits compared with the previous year, while time deposits and other customer deposit liabilities declined.

The balance sheet item "amounts due in respect of customer deposits" – comprising sight deposits, time deposits and other customer deposit liabilities – rose by CHF 158.8 bn or 8.7%. This item made up 56.9% of the balance sheet total at the end of last year. The strong growth was caused by a sharp rise of 29.2% in sight deposits, which offset the falls in the other two components.

Fig. 15

Breakdown of liabilities

In CHF Mrd.

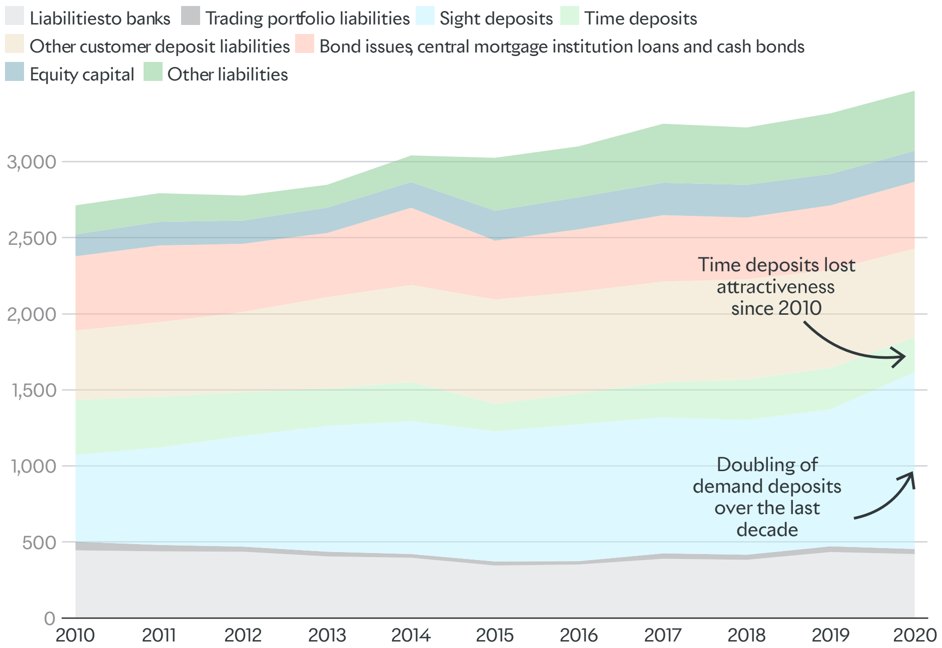


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Fig. 16

Development of liabilities

In CHF bn

	2019	2020	Percentage change	Share
Liabilities to banks	435.5	420.9	–3.4%	12.1%
Trading portfolio liabilities	37.2	34.3	–7.8%	1.0%
Sight deposits	898.9	1,161.6	29.2%	33.5%
Time deposits	274.3	230.4	–16.0%	6.6%
Other customer deposit liabilities	642.1	582.1	–9.3%	16.8%
Bond issues, central mortgage institution loans and cash bonds	426.5	439.2	3.0%	12.7%
Equity capital	205.1	203.3	–0.9%	5.9%
Other liabilities	398.1	395.4	–0.7%	11.4%
Total liabilities	**3,317.6**	**3,467.3**	**4.5%**	**100.0%**

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

Amounts due to banks fell by CHF 14.6 bn in 2020. This was almost exclusively due to a CHF 13.4 bn fall in amounts due to banks in Switzerland.

Trading portfolio liabilities decreased by CHF 2.9 bn to CHF 34.3 bn, mainly as a result of a CHF 2.6 bn fall in the big banks' foreign liabilities.

The balance sheet item "bond issues, central mortgage institution loans and cash bonds" showed an increase of CHF 12.7 bn, thanks primarily to growth of CHF 25.2 bn in bond issues and central mortgage institution loans in Switzerland. Foreign bond issues and central mortgage institution loans were down CHF 11.7 bn. Most of the increase came from the cantonal banks and the big banks, the only categories that report foreign bond issues and central mortgage institution loans.

Breakdown of liabilities over time

The share of liabilities made up by amounts due to banks fell from 16.4% in 2010 to 12.1% in 2020. As already explained above on the asset side, this shows that interbank business, particularly with banks in Switzerland, has declined over time. During the same period, sight deposits rose from CHF 571.2 bn to CHF 1,161.6 bn. They constitute the largest liability item as at the end of 2020 with a 33.5% share. Meanwhile, the share made up by time deposits fell from 13.3% in 2010 to 6.6% in 2020. Low interest rates make time deposits less attractive compared with sight deposits, leading to a rotation out of the former and into the latter. A key driver of the strong increase in demand deposits in 2020 is the record high savings rate as a result of the Corona measures.

3.2 Balance sheet total grows in first half of 2021

The aggregate balance sheet total grew by 3.0% in the first five months of 2021. Amounts due from securities financing transactions and amounts due from banks showed the strongest growth on the assets side, sight deposits and amounts due to banks on the liabilities side.

The aggregate balance sheet total of the banks in Switzerland increased by 3.0% in the first five months of 2021. This reflects the recovery in the real economy and the positive trend on the stock markets during the first half-year.

After the assets side was bolstered in 2020 primarily by a marked increase in liquid assets, amounts due from securities financing transactions (up 25.2%) and amounts due from banks (up 10.9%) showed the biggest rises in the first part of 2021. These effects are probably linked to market volatility and increased trading activity on the part of customers, which is prompting the banks to take up counterpositions. These two items showed only a weak rise and a fall respectively in 2020. Liquid assets also increased slightly between January and May, albeit by rather less than in 2020 at 1.4%. Mortgage loans appear to be matching last year's growth in 2021. Demand for real estate remains high. The pandemic has in fact prompted even stronger growth in the number of people wishing to own their own home and needing to finance it.

The increase in liabilities on the balance sheet was driven mainly by a 2.7% rise in amounts due in respect of customer deposits and a 7.3% rise in amounts due to banks. Trading portfolio liabilities also showed relatively strong growth, rising by 16.2% to CHF 40.0 bn. The economic recovery is also evident in sight deposits, which were up 5.6% in the first five months of 2021, and time deposits, which were up 3.6%. Time deposits have thus regained some appeal.

4. Assets under management

The banks in Switzerland had assets under management totalling CHF 7,878.7 bn at the end of 2020. Switzerland is still the global market leader in cross-border private banking, accounting for a quarter of all cross-border assets under management worldwide.

Assets under management for customers resident in Switzerland grew by CHF 93.2 bn. The assets under management of foreign-domiciled clients decreased by CHF 108.0 bn. Overall, the Swiss banks' volume of managed assets remains at the previous year's level (-0.2%). . The increase in securities holdings was not enough to compensate for the decline in fiduciary liabilities and amounts due to customers excluding sight deposits.

The breakdown of custody account holdings by currency was unchanged compared with 2019. The Swiss franc remained the dominant investment currency with a share of more than 50%. Assets under management have grown steadily since 2011.

4.1 Trends in 2020

Assets under management for domestic and foreign customers

In 2020, assets managed by banks in Switzerland remain at the previous year's level (-0.2%). Foreign client assets have declined. The growth in domestic client assets almost compensated for this downward trend.

Fig. 17

Assets under management in Switzerland by customer origin

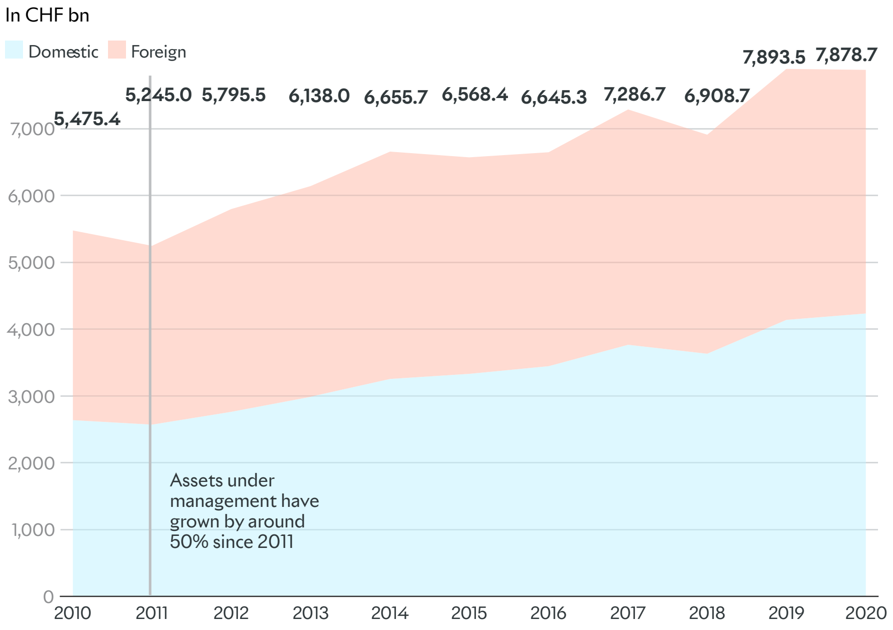


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Assets under management comprise securities holdings in bank custody accounts (CHF 6,944.0 bn), amounts due to customers excluding sight deposits (CHF 812.6 bn) and fiduciary liabilities (CHF 122.1 bn). Securities holdings were around CHF 163 bn higher year-on-year.

Fiduciary liabilities were down 38.0%, and amounts due to customers excluding sight deposits were down 11.3%. Securities holdings account for the largest share of assets under management by far, but their growth was not strong enough to compensate for the negative trend in the other components.

When the financial and economic crisis broke out in 2008, it caused a slump in assets under management. Securities holdings in bank custody accounts suffered particularly heavy losses as share prices plummeted. Assets under management have gradually recovered since 2011, rising by CHF 2,633.6 bn to CHF 7,878.7 bn in 2020.

The proportion of assets under management attributable to foreign customers fell from 51.9% in 2010 to 46.3% in 2020. There are a number of reasons for this, the first being currency effects. Foreign customers hold a much higher proportion of their assets in euros and US dollars than domestic customers, but the percentages shown here are calculated in Swiss francs. An appreciating franc means that assets held by foreign customers automatically lose value compared with those of their domestic counterparts. Another reason could be the introduction of more stringent requirements for bank customers in terms of tax compliance. Foreign customers have repatriated at least some of their assets in order to normalise their tax situation. Despite their declining share compared with domestic customers, foreign customers' assets under management rose by CHF 807.1 bn over the same ten-year period.

Fig. 18

Composition of assets under management, 2020

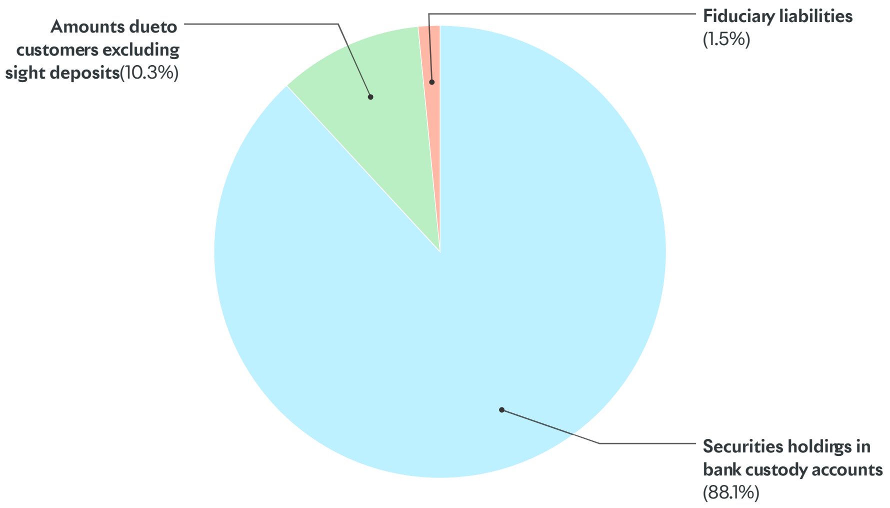


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Securities holdings

Securities holdings account for the largest share of assets under management. The COVID-19 pandemic caused the stock markets to collapse in early 2020, but they stabilised by the end of the year, resulting in an increase of 2.4% in securities holdings despite the crisis.

Securities holdings in customers' custody accounts rose slightly (by 2.4%) in 2020. This moderate figure compared with 2019 was due to the impact of the COVID-19 pandemic on stock exchange prices and the persistently strong Swiss franc. The SMI initially slumped from more than 11,000 points to around 8,160 in March 2020. This was followed by a rapid recovery that lifted the index back above the 10,000-point mark in June, although it was unable to return to pre-pandemic levels by the end of the year. As the year progressed, the franc gained 0.2% against the euro and approximately 8.9% against the US dollar.

Securities holdings are broken down into the categories "equities", "units in collective investment schemes", "bonds" and "other". Following strong growth in all of these in 2019, there were only minor changes in 2020. Units in collective investment schemes recorded the largest increase (5.8%), whereas bonds showed a fall of 4.4%.

Overall, securities holdings have posted strong growth in excess of 50% over the past decade. Since bond holdings remained constant during this time, the growth can be attributed to increased holdings of equities and units in collective investment schemes.

Fig. 19

Securities holdings in bank custody accounts by category

In CHF bn

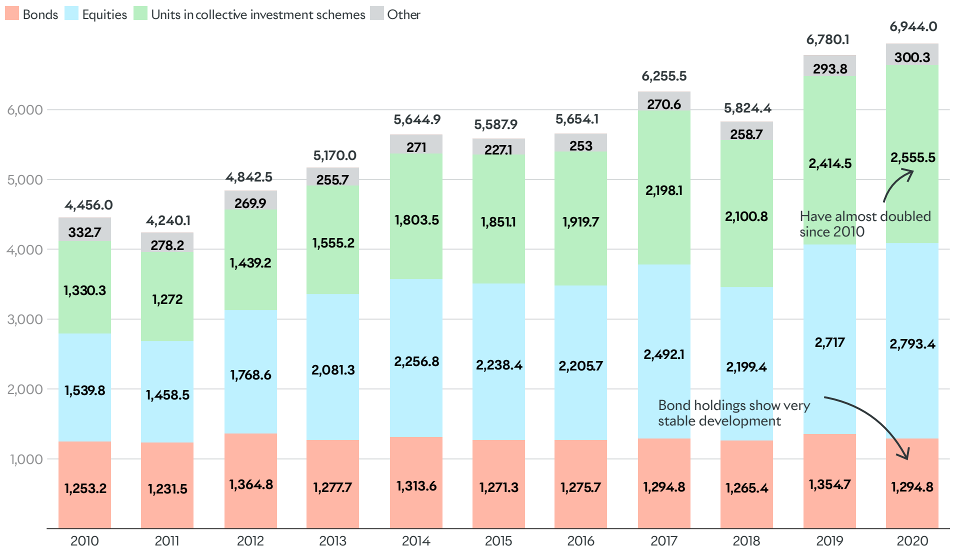


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Custody account holdings by currency

The breakdown of custody account holdings by currency was unchanged compared with 2019, with more than half denominated in Swiss francs. A quarter were in US dollars, the remaining quarter in euros and other currencies.

The proportion of holdings denominated in Swiss francs fell slightly from 52.5% to 52.4% in 2020, but the franc remains the leading investment currency in Switzerland. Only minimal changes were observed in the other currencies. The proportions held in US dollars and euros, for example, both increased by 0.1 of a percentage point.

Domestic custody account holders are responsible for around two thirds of holdings in Swiss francs but just one third of holdings in US dollars and euros, with foreign customers making up the remaining two thirds.

Fig. 20

Custody account holdings by currency, end of 2020

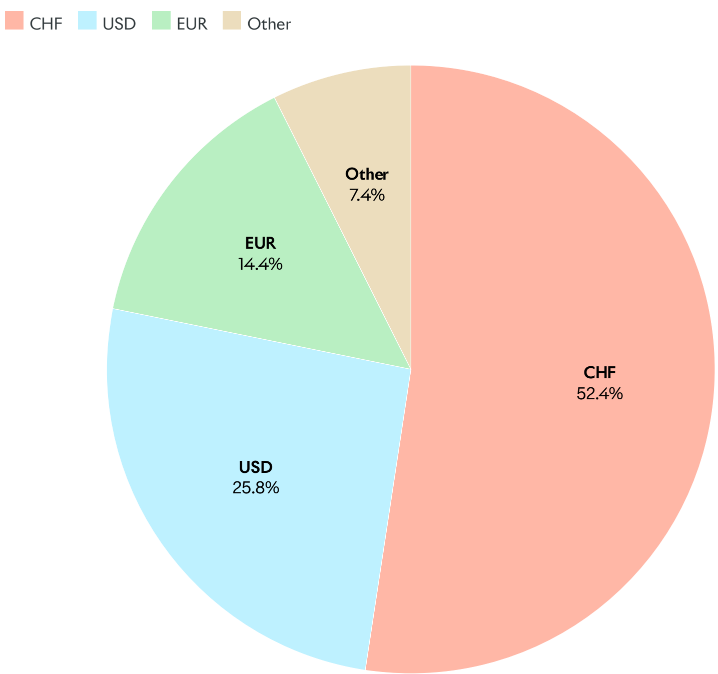


Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

4.2 Assets under management up after first half year

Following a slight fall in 2020, assets under management rebounded by 6.9% in the first five months of 2021 due to strong growth of 8.2% in securities holdings, which was driven by the positive trend on the stock markets.

The economic recovery from the pandemic in the first part of the year was also mirrored in assets under management. At the end of May, the banks in Switzerland had assets under management totalling CHF 8,386.9 bn, up 6.9% compared with the end of 2020. Both Swiss-domiciled and foreign-domiciled customers showed an increase in the volume of their assets thanks to the upbeat stock market trend and the resulting growth in securities holdings. The latter rose by 8.2%, while amounts due to customers and fiduciary liabilities continued their downward trend from last year. The positive trend on the stock markets was reflected in the SMI, which reached a new high of around 12,000 points in June.

5. Number of staff at banks in Switzerland

At the end of 2020, the banks in Switzerland employed 89,942 people (full-time equivalents), 414 more than in 2019. The unemployment rate in the financial sector was slightly lower than that of the overall economy at 3.3%. The COVID-19 pandemic led to a slight increase in unemployment compared with the previous year, but banking was less affected by this than other sectors.

5.1 Trends in 2020

The number of people employed in the banking sector showed a small rise of 0.5% in 2020 following a gradual decline since 2010. The unemployment rate in the financial sector was slightly lower than that of the overall economy at 3.3%.

The banks employed 89,942 full-time equivalents in Switzerland last year, up 414 or 0.5% year-on-year. Staff numbers in the sector thus rose for the first time since a gradual downtrend took hold in 2010. It remains to be seen whether this downtrend is truly over or set to continue going forward. Persistently low interest rates, stricter lending rules and new capital adequacy requirements are maintaining the pressure on margins and creating a challenging environment for banks.

According to the SECO, the Swiss financial sector's average unemployment rate in December 2020 was 3.3%. This is slightly lower than the figure of 3.5% for the overall economy. In total, 4,337 financial sector workers were registered unemployed at the end of the year, up 1,141 year-on-year. This was probably caused mainly by the economic impact of the COVID-19 pandemic.

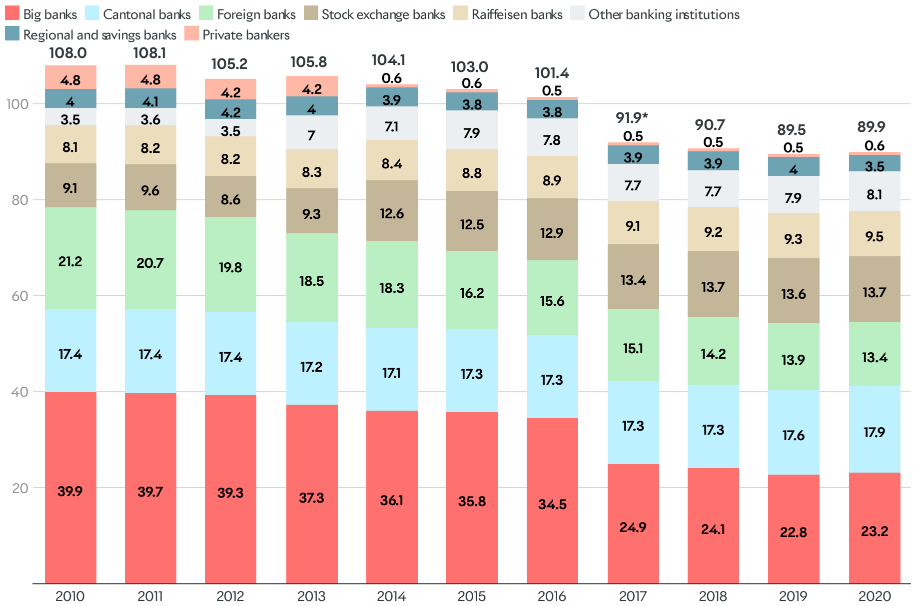
The regional banks and foreign banks shed around 1,000 jobs in 2020, while banks in the remaining categories added 1,414. The main reason for the fall among the regional banks and the increase among the big banks was the merger of Neue Aargauer Bank with Credit Suisse (Switzerland) Ltd. Personnel costs fell slightly year-on-year (by CHF 94 mn).

The proportion of female staff rose further to 38.5% (34,602 full-time equivalents). As in prior years, the highest proportions of female staff were recorded at the Raiffeisen banks with 45.1% and the regional and savings banks with 44.6%.

Fig. 21

Number of staff at banks in Switzerland (domestic)

In thousands of full-time equivalents



*Includes a one-off effect caused by the reassignment of staff within a big bank to a group company without a banking licence.

Chart: Swiss Bankers Association Source: Swiss National Bank (SNB)

Fig. 22

Development of staff by banking group

In full-time equivalents

	2019	2020	Absolute change
Cantonal banks	17,577	17,900	323
Big banks	22,784	23,228	444
Regional and savings banks	3,978	3,529	−449
Raiffeisen banks	9,295	9,492	197
Private bankers	534	554	21
Foreign banks	13,930	13,379	−551
Other banks	7,866	8,111	246
Stock exchange banks	13,564	13,748	184
Total	**89,528**	**89,942**	**414**

Note: Neue Aargauer Bank (NAB) merged with Credit Suisse (Switzerland) Ltd in 2020. As a result, it is now included under “big banks” rather than “regional and savings banks”.

Table: Swiss Bankers Association Source: Swiss National Bank (SNB)

5.2 Positive outlook for headcount

Both the current employment situation and the outlook for the remainder of the year are positive. The total number of staff rose by around 1% in the first half of the year, but foreign headcount showed a much higher increase (1.8%) than domestic headcount (0.2%). A quarter of the banks surveyed expect this trend to continue in the second half of the year.

According to the SBA survey, headcount at the banks in Switzerland showed a small rise of 146 full-time equivalents or 0.2% between the end of 2020 and June 2021. Foreign headcount grew strongly over the same period, rising by 1,655 full-time equivalents or 1.8%. The detailed results show almost 4,000 full-time equivalents joining banks in Switzerland in the first six months of 2021 and 3,848 leaving. The level of fluctuation (staff joining and leaving) outside Switzerland is much more pronounced.

Fig. 23

Number of staff: domestic and foreign

In full-time equivalents	As at 30. June 2021	Trend in the first half of 2021			
		Total change	Change in %	Joined	Left
Domestic	91,207	146	0.2 %	3,994	3,848
Foreign	94,329	1,655	1.8%	9,744	8,090

Note: number of responses: 154; Number of banks surveyed: 207

Source: SBA survey (2021)

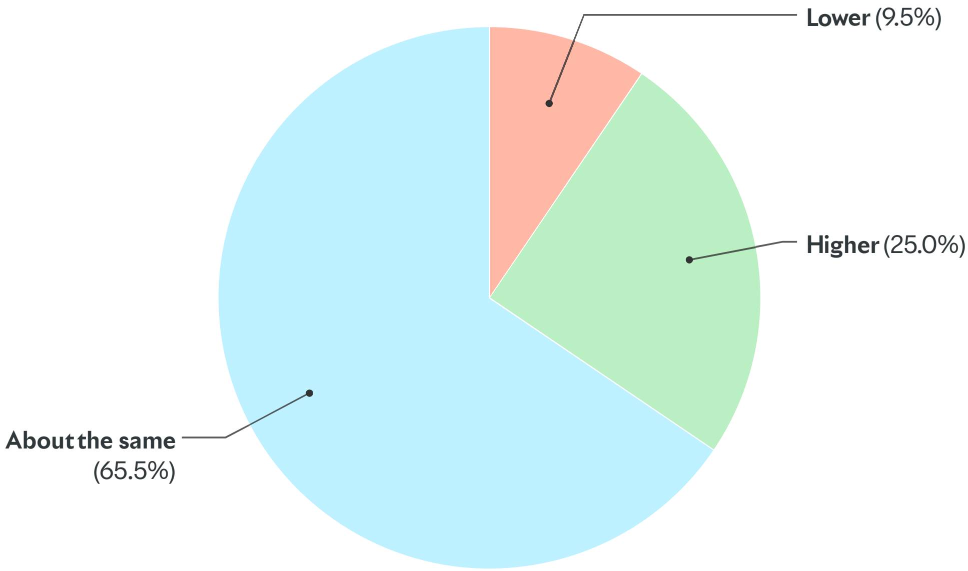
Much more optimistic outlook for rest of 2021

The banks surveyed are more optimistic as regards the trend in their own headcount for the second half of the year than they were 12 months ago. A quarter of them expect their headcount to increase further up to the end of 2021, whereas only just under 10% expect it to decline. The proportion of banks expecting an increase has thus doubled year-on-year. With over 90% of the banks surveyed expecting stable or higher employment, it can be assumed that the total number of staff will at least remain unchanged in the final six months of 2021.

Fig. 24

Expected employment trend in second half of 2021

Percentages refer to all responses



Note: number of responses: 148; Number of banks surveyed: 207

Source: SBA survey (2021)

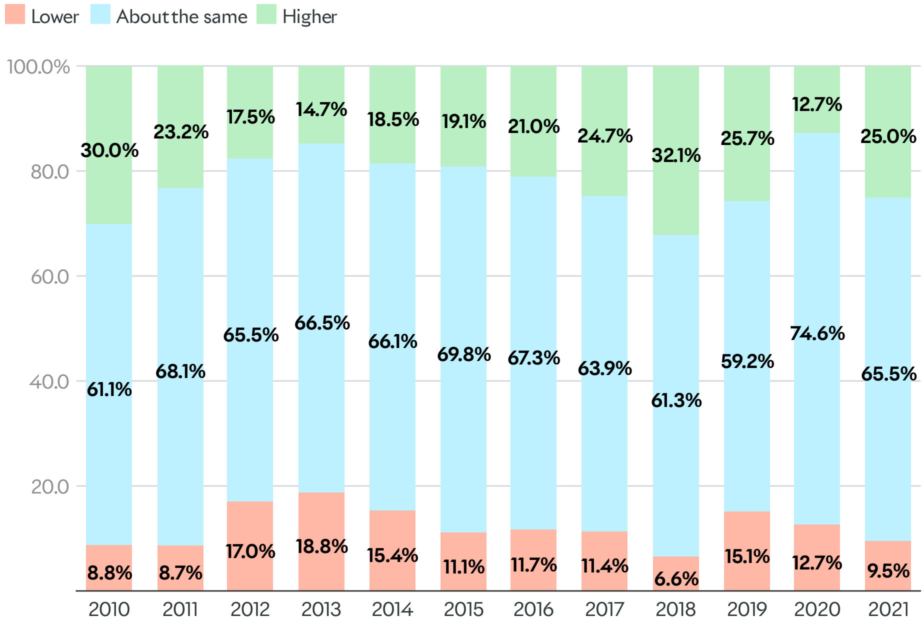
Minority of banks expecting employment to fall

In past SBA employment surveys, the banks predicting that their own headcount would stay more or less the same had been in the majority. Since 2013, however, the proportion of banks expecting employment to fall has steadily declined (with the exception of 2019). This trend has continued in 2021. Only 9.5% of the banks surveyed now expect a reduction in their headcount in the second half of the year.

Fig. 25

Survey results on employment expectations for second half of 2021

Percentages refer to all responses



Source: SBA survey (2021)

Employment expected to increase in almost all areas of business

Weighting the banks' responses concerning employment trends in individual areas of business by headcount shows that the outlook is generally positive in almost all areas. It is most upbeat for logistics and operations (back office), with almost 30% expecting headcount to rise here. A fifth also anticipate an increase in wealth management staff, and the average across all areas of business is 18%. Institutional asset management and securities trading are the only areas in which the vast majority of respondents (over 90% in both cases) expect employment to remain stable.

Fig. 26

Employment trend in second half of 2021

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

Note: number of responses: 154.

Source: SBA survey (2021)

Increase in banking sector unemployment rate

The pandemic caused the unemployment rates for Switzerland as a whole (3.5%) and the financial sector (3.3%) to be far above the levels seen in recent years at the end of 2020. Thankfully, the situation has calmed down over the course of 2021. At the end of June, the financial sector unemployment rate was down half a percentage point at 2.8%, the same as the figure for Switzerland as a whole.

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