SwissBanking

September 2016

2016 Banking Barometer

Economic trends in the Swiss banking industry

2016 Banking Barometer

Content

Executive Summary

Rising regulatory costs, shrinking margins, price-sensitive customers, a period of low interest rates, job cuts and competition from the fintech sector. Add to this the fact that the consequences of the Brexit must be addressed and that the economic outlook for the EU and Asia is bleak, and it becomes clear that the challenges currently faced by the banks in Switzerland are in fact manifold.

But the Swiss banking sector is nevertheless in good shape. The banks are rising to the challenges and are doing a good job of asserting themselves in an uncertain environment. The banks remain a steadfast and important sector of the economy. The banking sector makes an important contribution to the Swiss economy, accounting for approximately 6 percent of the country's total economic performance.

The challenges mentioned above are reflected in the number of banks operating in Switzerland. This number decreased from 275 to 266 in 2015. The reduction affected primarily the foreign-controlled banks followed by the stock exchange banks and the branches of foreign banks. This shows that structural change continued in the banking sector in 2015. A further decline in interest rate margins and the advancement of digitalisation in the financial industry will drive structural realignment in the banking sector in the years to come. The high density of regulation and the ensuing compliance costs are weighing heavily on the banks and are compromising Switzerland's position in the international competition between locations.

As an international financial hub, the Swiss financial centre depends on sound and stable national and international framework conditions. Switzerland is implementing international standards, for example the automatic exchange of information in tax matters (AEOI). Switzerland and the EU signed the OECD's global standard for AEOI last year. The National Council and the Council of States approved the federal act for the AEOI. At the beginning of 2018, Switzerland will therefore begin the reciprocal exchange of data from 2017.

Further to this, the banks in Switzerland are rectifying their past. In the US tax dispute, all banks in Category 2 were able to reach a settlement. The proceedings against Category 1 banks, on the other hand, are still ongoing. The banks in Switzerland hope that the US Department of Justice will conclude these cases in a timely manner as they did for Category 2.

As an international financial centre, Switzerland depends on market access to foreign customers. Switzerland is conducting bilateral discussions with important partner countries to this end. In July 2015, final clarifications were made with the German financial market supervisory authority BaFin with regards to the memorandum agreed by the Swiss and German finance ministries in 2013 relating to the cross-border provision of financial services. Swiss banks can thus now offer financial services to Germany out of Switzerland. Discussions with other EU countries are still underway. In addition to the bilateral discussions with individual member states, Switzerland is working to achieve improved market access with the EU as a whole.

An important prerequisite for improved market access is in particular the equivalence of legislation. As an EU-third country, Switzerland must therefore adopt selected EU laws, but can nonetheless retain its national specificities. One example thereof is the revision of the Swiss financial market legislation. The Financial Market Infrastructure Act (FMIA), which governs the organisation and operation of financial market infrastructures as well as procedural duties for securities and derivatives trading, came into effect in January 2016. The Federal Council already approved the dispatch on the Federal Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) to Parliament in 2015. These laws aim to ensure customer protection and the competitiveness of the financial centre, and bring Swiss financial market legislation in line with EU legislation where necessary and appropriate. They are not expected to come into force before 2018.

The international nature of the Swiss financial centre is reflected among other things in the recent opening of a subsidiary of a Chinese bank in Switzerland. In the autumn of 2015, China Construction Bank (CCB) became the first Chinese bank to receive a Swiss bank license. It opened its first branch in January 2016 in Zurich. Since 2012, the Swiss Bankers Association (SBA) has been working together with other stakeholders to establish a renminbi hub. And since 2015, Swiss financial institutions have been able to make direct investments in China and trade directly between the Swiss franc and the Chinese renminbi.

In 2015, the banks in Switzerland were significantly impacted by the negative interest rate environment. On 15 January 2015, the Swiss National Bank (SNB) lifted the CHF minimum 1.20 per euro exchange rate. At the same time, it set a negative interest rate of -0.75 percent, which banks must pay on sight deposits at the SNB that exceed a fixed exemption threshold. To date, the banks have not passed these negative interest rates on to their private customers, with the exception of one bank.

The decision of UK voters in favour of leaving the EU ("Brexit") caused substantial uncertainty in 2016. The outcome of the referendum had short-term effects, such as the stock market slump that immediately followed, the depreciation of the pound, as well as uncertainty in financial markets. The consequences for the Swiss banking centre as a whole remain unclear, however, significant positive momentum should not be expected.

Despite the challenging domestic and international environment, the banks in Switzerland are in solid shape. The operating net income of the banks in Switzerland rose by five percent in 2015 to CHF 64.6 bn. Aggregate operating net income is calculated on the basis of net income from the interest-earning business, the commission and services business, the trading business, and other ordinary net income. Despite continued low interest rates, net income from the interest-earning business rose again in 2015 and for the first time over the last ten years, was the largest contributor to net income. The banks' gross profits decreased by 5.7 percent compared to the previous year. Income taxes and taxes on earnings fell from CHF 2.6 bn to CHF 2.2 bn.

Movements on customer securities accounts on the Swiss stock exchange decreased by 8.7 percent in the first half of 2016 compared to the previous year. The reason for this was increased trading activity following the lifting of the minimum exchange rate at the beginning of 2015, and higher risk aversion coupled with a decrease in trading activity in 2016 due to increased uncertainty. This decline negatively impacted net income from the commission and services business. An exit from the negative interest rate environment is not expected in the short-term, which means that the banks' interest margin business will remain under pressure. The lower cost of refinancing will continue to have a positive effect, as will, at least in part, the possibility for higher margins in the mortgage lending business. The effects of increasingly strict regulation will be felt on the cost side.

The aggregate balance sheet total of all the banks in Switzerland fell in 2015 by 0.5 percent to CHF 3,026.1 bn. The decrease in the balance sheet totals of the big banks and the foreign-controlled banks were key contributors to this result. The balance sheet totals of these banks fell by CHF 36.0 bn and CHF 33.2 bn respectively. This development was significantly influenced by the reduction in foreign lending and liabilities in euros due to their lower value following the depreciation of the euro after the lifting of the minimum exchange rate in January 2015.

The cantonal banks, regional and savings banks as well as Raiffeisen banks, which generally have a stronger domestic focus, reported a rise in their balance sheet totals in 2015. The aggregate balance sheet total of the Raiffeisen banks increased by 9.0 percent compared to the previous year. The cantonal banks reported an increase of 2.8 percent, and the regional and savings banks experienced a 3.7 percent rise compared to the previous year. These increases can be attributed primarily to the rise in mortgage lending. However, the growth rate in this segment was lower than in previous years.

In the first five months of 2016, the aggregate balance sheet total of all the banks in Switzerland rose by 2.0 percent to CHF 3,180.8 bn. Mortgage loans, which were the biggest asset item, and liquid assets both rose, thus continuing their trend of last year in the first five months of the current year. Mortgage loans rose by 1.2 percent and liquid assets increased by 3.8 percent. Bank loans also rose. This is likely related to the fact that commercial banks with liquid holdings exceeding the exemption threshold effective as of January 2015, are transferring their excess liquidity for a fee to banks that are below the exemption threshold.

The banks' lending business is an important pillar for the economic development of Switzerland. Lending to companies and private individuals in Switzerland remains intact. The total outstanding domestic credit volume rose moderately in 2015 to CHF 1,076.4 bn. Secured and unsecured loans accounted for CHF 151.8 bn of this total, while CHF 924.7 bn is attributable to domestic mortgage lending. Mortgage loans in Switzerland rose by 2.6 percent in 2015 and therefore to a lesser degree than in the previous year (+3.6 %). One reason for the slowdown in growth is likely the stricter regulation for the mortgage lending segment.

With a 25 percent market share, the Swiss financial centre remains the undisputed leader in global cross-border asset management. The banks in Switzerland managed a total of CHF 6,567.6 bn in assets in 2015, which corresponds to a reduction of CHF 88.2 bn compared to the previous year. This reduction is due to a decrease in foreign customer assets and can be attributed primarily to currency effects. Foreign customers hold a significantly higher portion of their assets in euros and dollars than domestic private customers. In contrast, domestic customer assets increased in 2015.

The employment trend in 2015 was impacted by ongoing consolidation as well as cost savings and efficiency measures. Staff levels in Switzerland (full-time equivalents) saw a decrease of 1,012 jobs to 103,041 (-1.0 %). If examined over a longer period, however, the employment figures for the banking sector can be considered as stable.

The annual survey conducted by the SBA on employment trends shows a significant decline in the number of employees in Switzerland (-3,454 jobs or -4.1 %) in the first half of 2016. The opposite development was reported for employment at the Swiss banks abroad. In the first half of 2016, there was a net rise in the number of employees thanks to the addition of over 6,700 jobs. With regards to the expectations for the second half of 2016, over two-thirds of the 162 respondent banks expect the employment situation to remain unchanged. The share of banks that expect to see a reduction in employment levels increased slightly compared to the previous year from 11.0 percent to 11.7 percent. This continues to remain significantly below the figures from 2012 to 2014. Fundamentally, this general trend also applies to the various business areas. Institutional asset management and the trading business are the only areas where practically none of the respondent banks expect to see staff reductions. Overall, the labour market situation in the banking sector continues to be very encouraging when compared to Switzerland as a whole. The unemployment rate in June 2016 was 2.7 percent, and thus below the Swiss average of 3.1 percent.

1 The Swiss banking sector

A competitive banking sector …

The Swiss banking sector makes a significant contribution to the success of the Swiss financial centre. Switzerland is one of the leading global financial centres and in 2015, was again one of the most competitive financial centres in the world. Two Swiss cities, Zurich and Geneva, ranked sixth and fifteenth in the Global Financial Centres Index 2016.[1] The Swiss banking sector is characterised by its large variety of banking institutions with differing business models, and offers a broad spectrum of services.

… with great economic importance

Accounting for around 6 percent of value creation in Switzerland in 2015, the Swiss banking centre is the source of an important share of value creation in an economic environment that has remained challenging for many years.[2] It is therefore an important contributor to the prosperity of the entire Swiss population.

The banking sector is in a period of change

However, the Swiss banking sector is going through a period of change and is currently experiencing considerable upheaval. On the one hand, the continued low interest rate environment and strong competition are resulting in significant margin pressure. At the same time, regulations addressing capital requirements or tax transparency are driving up costs and thus intensifying the pressure on margins. In addition, digitalisation is having a strong influence on the general banking climate. Digitalisation is accelerating structural change in the sector – which brings both opportunities and risks with it.

Eight bank groups in Switzerland

At the end of 2015 there were 266 banks operating in Switzerland, while in the previous year, there were still 275. The Swiss National Bank (SNB) now divides the banks into eight bank groups, according to their characteristics and activities: cantonal banks, big banks, regional banks and savings banks, Raiffeisen banks, foreign banks, private bankers, stock exchange banks and "Other banking institutions". Until the 2014 reporting year, the "Other banks" category comprised the "Other banking institutions" and stock exchange banks groups. Since then, "Other banking institutions" and stock exchange banks have been reported separately by the SNB, and are no longer part of the "Other banks".

Cantonal banks

At the end of 2015, there were 24 cantonal banks in Switzerland, 21 of which enjoy an unlimited state guarantee. The cantons are responsible for all the liabilities of their respective banks. The cantonal banks generally conduct their business activities in their respective cantons, although in a few cases, they have branches outside their home cantons, or are active out-of-canton through digital channels. The largest Swiss cantonal bank, Zürcher Kantonalbank (ZKB), was classified as a systemically relevant financial institution as per 1st November 2013. As such, ZKB is subject to stricter equity and liquidity requirements as set out in the too-big-to-fail (TBTF) package of measures in the Swiss Federal Act on Banks and Savings Banks (BA). The requirements for the other cantonal banks are less stringent.

Big banks

The Swiss big banks are universal banks that operate globally in all segments of the banking business. Together, they had a 47.1 percent share of the aggregate balance sheet total of all of banks in Switzerland in 2015. As a consequence of the TBTF regulation, the big banks began in 2015 to reorganise their legal structures and reduce their degree of systemic relevance by introducing new corporate structures.

1 Z/Yen Group Limited (2016).
2 BAKBASEL (2015).

In June 2015, UBS announced the founding of UBS Switzerland AG, a wholly-owned subsidiary of UBS AG with a separate bank license. Credit Suisse initiated steps to this end in the fall of 2015 (see Chapter 1.1). UBS Switzerland AG and UBS AG are classified by the SNB as separate banks, which is why the big banks group now comprises three institutions (UBS AG, UBS Switzerland AG und Credit Suisse AG).

Regional banks and savings banks

The regional and savings banks focus predominantly on the traditional savings and mortgage business. In contrast to cantonal banks, their geographic area of activity is usually regional in scope. There were 62 regional and savings banks in Switzerland at the end of 2015, which is one less than in the previous year.

Raiffeisen banks

The Raiffeisen group is a collective of Raiffeisen banks organised in the form of a cooperative, with locations across Switzerland. Their business activities comprise traditional interest-earning business in the form of mortgage lending and credit business, as well as business with customer assets in the form of savings and investments. Their network of branches at the end of 2015 comprised a total of 299 independent Raiffeisen banks with 982 branches. The Raiffeisen Group is the third-largest banking group in Switzerland. Raiffeisen was designated as a systemically relevant bank in June 2014, thus joining the ranks of the big banks, PostFinance AG and ZKB. The Raiffeisen Switzerland cooperative acquired Notenstein Private Bank in 2012 as a one-hundred percent subsidiary. However, the SNB continues to categorise Notenstein Private Bank separately in the stock exchange bank group.

Foreign banks

The foreign banks group comprises the branches of foreign banks as well as foreign-controlled banks. Foreign bank branches are not legal entities in their own right. Instead, they are legally controlled by their foreign parent company. They generally serve customers abroad and are predominantly active in investment banking. A number of these banks also focus on the asset management business for foreign customers. At the end of 2015, there were 26 foreign bank branches in Switzerland (2014: 27).

Foreign-controlled banks are organised in accordance with Swiss law, but have a foreign controlling interest of over half of voting shares. Foreign-controlled banks often conduct all types of business activities – some also focus on wealth management or investment banking. At the end of 2015, Switzerland had 85 foreign-controlled banks (2014: 91).

Private bankers

Banks in the private bankers group conduct business both in Switzerland and abroad, and their primary area of business is wealth management. The partners in these banks are subject to several liability. Four private bankers changed their legal structures in 2014 and have since been categorised as stock exchange banks. This has resulted in structural breaks in the statistics for the "private bankers" and "stock exchange banks" groups. At the end of 2015, there were a total of seven private bankers (2000: 17, 2005: 14, 2010: 13).

Stock exchange banks

Stock exchange banks focus primarily on the stock exchange, securities and wealth management business. Their customers include individuals from both Switzerland and abroad. At the end of 2015, there were a total of 44 stock exchange banks (2014: 47).

The institutions that come under "Other banking institutions" are banks that cannot be classified under any of the other categories. They do not have any common characteristics of note. At the end of 2015, there were 14 "Other banking institutions", and therefore one less than in the previous year. By far the biggest institution in this bank group measured according to balance sheet size is PostFinance AG. In September 2015, it was the first institution in this category to be designated by the SNB as systemically relevant, and thus the fifth Swiss financial institution with such status.

"Other banking institutions"

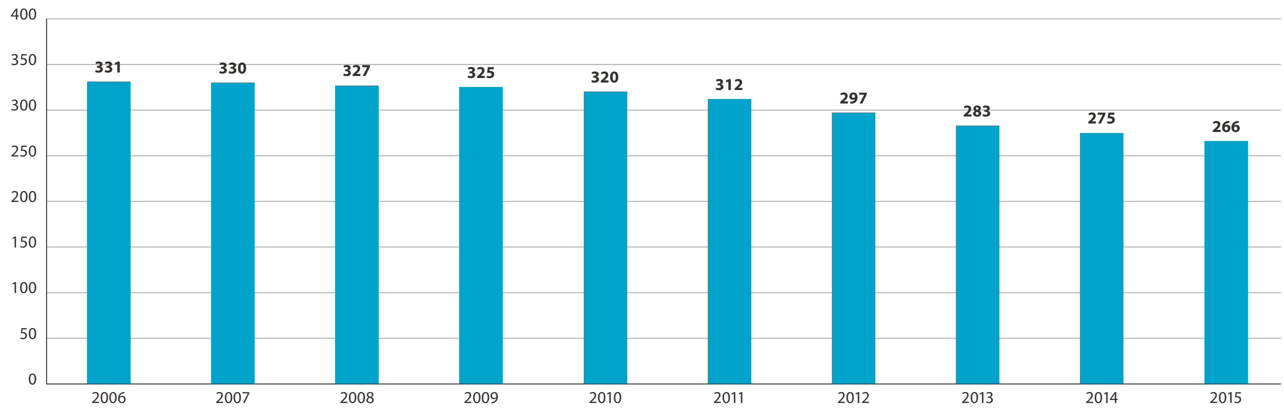
1.1 Trends in 2015

The number of banks decreased from 275 to 266 in 2015. This is the result of five institutions losing their bank status, one closure, five liquidations, five takeovers by other banks and seven new additions. The reduction in the number of banks primarily affects the foreign-controlled banks (-8), followed by the stock exchange banks (-4) and the branches of foreign banks (-4).

266 banks in Switzerland

Fig. 1

Number of banks in Switzerland



Source: SNB

In February 2015, Notenstein Private Bank, a subsidiary of Raiffeisen Group, acquired private bank La Roche. According to La Roche, the sale was primarily due to the rising pressure on margins arising from growing compliance outlays and the necessary development of e-banking capacities. Notenstein aims to use the takeover to strengthen its core business, wealth management for private customers, and thus further build out its position in the market. After the merger, the combined institutions employed around 550 people at the end of 2015.

Notenstein acquires La Roche

Vontobel acquired Finter Bank from the Italian company Italmobiliare in September 2015. Finter Bank managed CHF 1.6 bn in assets and employed 65 people. Vontobel aims to use the acquisition to expand its wealth management business and strengthen its business with Italian customers.

Vontobel acquires Finter Bank

Hottinger private bank goes bankrupt

The Swiss Financial Market Supervisory Authority (FINMA) initiated bankruptcy proceedings against private bank Hottinger in the fall of 2015. As a result of increased costs due to IT-related issues and rising outlays for compliance, unresolved legal disputes necessitating provisions, as well as insufficient revenues, the bank was no longer able to meet the statutory minimum capital requirement. The bank employed 50 people.

SNB lifts minimum euro-franc exchange rate …

On 15 January 2015, the SNB lifted the minimum euro-franc exchange rate. According to the SNB, it lifted the exchange rate due to the fundamental changes in foreign exchange markets. By the second half of 2014, the euro – and by pegging the exchange rate to the euro, also the Swiss franc – had already started to depreciate progressively against important currencies such as the US dollar. When it emerged that the European Central Bank (ECB) was going to once again significantly loosen its monetary policy by means of a bond buyback programme, it became impossible from a Swiss perspective to further uphold the minimum exchange rate. Reflecting a strong currency, trust in the Swiss economy and a solid financial centre, the franc appreciated dramatically following the lifting of the minimum exchange rate.

Although the stronger franc puts a strain on the economy, above all on the export industry, Swiss financial institutions have to date been spared for the most part from loan defaults. Although the default risk situation still appeared to be under control in 2015, experience shows that credit losses tend to emerge with a certain amount of delay. Although some companies reported negative EBIT (earnings before interest and tax) at the end of 2015, many companies had high levels of cash reserves. Banks require their corporate customers to provide detailed information about how they intend to return to profitability.

Not only industry, but private and wealth management banks in particular are being noticeably impacted by the strong Swiss franc. Because around 85 percent of their assets under management were in foreign currencies, Swiss franc holdings decreased significantly in 2015, which resulted in a fall in wealth management revenues of 5.6 percent.

… and simultaneously pushes negative interest rates on sight deposits even further into negative territory

When the SNB lifted the minimum euro exchange rate, it simultaneously lowered the interest rate for sight deposits by 0.5 percentage points to -0.75 percent for banks exceeding a certain exemption threshold. The exemption threshold, up to which no negative interest rates must be paid, amounts to twenty times the minimum statutory reserve requirement that a bank must hold at the SNB. A market for liquidity developed between the banks as a result of this development: institutions with liquid holdings exceeding the exemption threshold, for example cantonal banks, transferred their excess liquidity for a fee to banks that were below the exemption threshold. A number of these institutions were therefore able to generate a positive interest balance from the fees for the liquidity they took on, as well as from the interest generated on mortgages and loans. Negative interest rates placed a heavy burden on the private bankers. This is primarily due to the fact that they are less active in the lending business and therefore have lower minimum statutory reserve requirements.

Effects of negative interest rates on the mortgage lending business

After the minimum euro exchange rate was lifted, interest rates in the mortgage lending business initially rose in the first half of 2015, against expectations. The reason for this lies in how the banks hedge their mortgage lending business. Banks refinance mortgage lending using savings deposits. If the short-term interest rates rise significantly, a bank could potentially have to pay depositors more than they receive for their long-term mortgage loans. A bank hedges against this risk using swap transactions, whereby they pay a fixed interest rate in line with the respective capital market rate for a defined period of time and receive a floating rate based on LIBOR.

Due to the negative interest rates, the result for this floating rate was negative. For these swap transactions to have paid off under these conditions, the bank would have had to charge depositors the same interest rates. To prevent customers from withdrawing or hoarding cash, the banks only passed negative interest rates on to institutional and not private customers (with the exception of one institution). Instead, the banks transferred the higher hedging costs to mortgage rates. In July 2015, long-term mortgage rates reached their peak for the year. However, in comparison to previous years, rates remained at a low level. Due to the increased activity of insurance companies in the mortgage lending business and the continued low short-term mortgage rates, the banks were forced to once again lower the long-term mortgage rates in order to remain competitive. In the second half of the year 2015, long-term mortgage rates decreased and by year-end, had returned to the same level as at the beginning of the year.

In order to mitigate the substantial adverse effects of negative interest rates, the banks optimised their liquidity management. They also wanted to compensate for lower profit margins by trying to secure higher margins on new mortgages and on follow-up financing for expiring tranches. Mortgage lending volumes consequently continue to rise slightly.

Parliamentary approval of the legal basis for AEOI

Switzerland and the EU signed the agreement on the OECD's global standard for the AEOI in May 2015. In the winter of 2015, the National Council and the Council of States approved the federal act for the AEOI, thereby establishing the legal basis for the international agreement. The agreement marks the end of Swiss bank-client confidentiality vis-à-vis foreign tax authorities for EU bank customers and replaces the taxation of savings income agreement, which came into force in 2005, and which was based on the concept of a withholding tax. The fundamental principles of AEOI are that information may only be used for the purposes foreseen by the agreement, that sufficient data protection measures must be in place, that all countries collect and exchange the same information, and that the same rules apply for the identification of beneficial owners (also for trusts and domicile companies) for all participants. In December, the EU finance ministers decided to approve the AEOI agreement with Switzerland. Switzerland is therefore expected, as foreseen, to be able to begin exchanging data for 2017 at the beginning of 2018. This data includes names, dividend and interest income, sales proceeds from financial assets and account balances. Concrete agreements are required for the automatic exchange with non-EU countries. One such agreement has been signed with Australia, for example. At the beginning of 2016, Switzerland signed joint statements on the introduction of AEOI with countries including South Korea, Canada and Japan.

New financial market infrastructure: FMIA in force, FinSA and FinIA before Parliament

The Financial Market Infrastructure Act (FMIA) came into force on 1 January 2016. FMIA governs the organisation and operation of financial market infrastructures as well as conduct for securities and derivatives trading. In November 2015, the Federal Council approved the dispatch on the Federal Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) to Parliament. These laws aim to improve customer protection and the competitiveness of the financial centre. FinSA sets basic and further training requirements for client advisers and expands the prospectus requirements from equities, bonds and other listed financial instruments to all equity securities and debt instruments. Higher costs will ensue for financial services providers. FinIA governs the supervision of financial services providers. The most important change here is that independent asset managers will be subject to prudential supervision by an independent supervisory organisation – not FINMA. FinSA and FinIA are not expected to come into force before 2018.

As a small, open economy, Switzerland depends on its domestic financial institutions also being able to offer their products and services abroad, and the new financial market infrastructure constitutes an important prerequisite for cross-border selling.

EU market access

Cross-border market access for financial services, in particular to European countries, continues to be one of Switzerland's key areas of focus. The new blocks of laws in the Swiss financial market legislation align it with EU law and constitute one of the supporting pillars for potential negotiations on EU market access. Further to this, in July 2015, final clarifications were made with the German financial market supervisory authority BaFin with regards to the memorandum agreed by the Swiss and German finance ministries in 2013 for the cross-border provision of financial services. Swiss banks can thus now apply to BaFin for a simplified authorisation regime and provide financial services to Germany out of Switzerland. Discussions with other EU countries are still underway.

In addition to bilateral discussions with individual member states, Switzerland is working to improve market access with the EU as a whole. Although exploratory discussions with the EU regarding a potential financial services agreement were initiated after Switzerland accepted AEOI, they were interrupted because the EU is awaiting solutions to the institutional issues and to the free movement of persons following Switzerland's acceptance of the mass immigration initiative. Achieving equivalence for specific EU regulations is another avenue through which Switzerland is trying, by means of legislation, to achieve improved EU market access. To date, there is one successful example thereof: in November 2015, the European Commission recognised the Swiss supervision of central counterparties as equivalent to the relevant provisions in the EU. Further to this, the European Securities and Markets Authority (ESMA) recommended to the EU Commission in July 2016 that asset managers from twelve non-EU countries including Switzerland should in future be allowed to market their funds in the EU through the extension of a so-called EU passport. Providers of alternative funds thus have the prospect of facilitated EU market access, as they would no longer have to request individual access to each EU member state as was the case to date.

TBTF entails legal and organisational changes and stricter capital requirements for the banks

The TBTF regulation aims to increase the resilience of systemically relevant banks. The Federal Council wanted to tighten the leverage ratio requirements within the TBTF regulatory framework. This is the ratio of equity capital to total assets, and therefore the most important control value within the TBTF regulatory framework. In October 2015, the Federal Council approved the benchmark figures for the corresponding ordinance, which has been in force since the beginning of July 2016. As a result, the leverage ratio has increased from 3.1 to 5.0 percent for big banks. As at October 2015, UBS and Credit Suisse reported a leverage ratio of 3.6 and 3.7 percent respectively. The new requirements must be met by the end of 2019. In response to this, UBS announced in the summer of 2015 that it would be reorganising and founding UBS Switzerland AG. Credit Suisse began to adjust its structures in the fall of 2015, which it will complete in 2016. As part of these adjustments, equity capital will be increased to CHF 6 bn and the bank will be divided into three wealth management regions (Asia, Switzerland and remaining countries) and into two investment banking segments. The Swiss unit is to be developed into a universal bank and parts thereof taken public by 2017, with a view to further strengthening the bank's capital base.

Swiss banks publish list of dormant accounts

In December 2015, Swiss banks published a list of around 3,500 accounts and safe deposit boxes on the website www.dormantaccounts.ch. The banks had been unable to re-establish contact with the account holders of these accounts for at least 60 years. The total value of these accounts at year-end 2015 was estimated at CHF 60 m. By publishing this information, the banks are making a last attempt at re-establishing contact with the customer before they are required by law to transfer the affected assets to the federal government within one year of publication. The owner's rights to the assets expire upon transfer. The new rules give the banks legal certainty in their dealings with dormant assets. The publication provides customers and legitimate claimants with a simple, secure and easily accessible opportunity to search for dormant assets. The option of searching for dormant assets with the assistance of the Swiss Banking Ombudsman, which has been possible for many years, remains in place.

1.2 Trends in 2016

EFG International acquires BSI

Ticino-based BSI, whose majority shareholder was Brazilian BTG Pactual, was acquired in February 2016 by Zurich-based private bank EFG International at a price of CHF 1.3 bn. The acquisition resulted in the creation of one of the biggest banks specialised in Private Banking, with 4,000 employees, of which 860 are client advisers, and CHF 170 bn in assets under management.

The acquisition was overshadowed by BSI's involvement in a money laundering scandal. Enforcement proceedings launched by FINMA in 2015 and ended in May 2016 concluded that the bank violated money laundering regulations as a result of business and transactions linked to the Malaysian sovereign wealth fund 1MDB. FINMA ordered the disgorgement of a profit of CHF 95 m and BSI lost its bank licence. FINMA approved the complete takeover of BSI only on the condition that BSI must be fully integrated into EFG International and dissolved within one year.

The fight against money laundering in Switzerland

Switzerland has closely intertwined and tried-and-tested money laundering mechanisms that have a tradition dating back many years. In response to the "Chiasso affair" in 1977, the SBA issued the first "Agreement on the banks' code of conduct with regard to the exercise of due diligence" (CDB). The CDB was last amended in 2016 and the current "CDB 16" is its seventh version. Over time, the CDB has served as the basis for the rules set out in the criminal code, in the Anti-Money Laundering Act (AMLA), and for FINMA's related ordinances.

At the international level, the Financial Action Task Force (FATF), founded in 1989, also strongly aligned itself with the AMLA when it issued its recommendations. Switzerland is a member of the FATF, and its money laundering mechanisms meet the FATF's international recommendations. The FATF confirmed this after the last FATF country evaluation in 2005. In 2012, the FATF revised its 40 recommendations, after which Switzerland also amended its anti-money laundering guidelines. These came into force on 1 January 2016 together with the amended CDB 16. Key points relating to implementation included amendments concerning the duty to report the holders of bearer shares of non-listed "Aktiengesellschaften" (known under Swiss law as corporate partnerships), and concerning cases of qualified tax fraud, which are now considered a predicate offence to money laundering.

According to FINMA, there are financial institutions that violate the current laws and guidelines despite all of these measures. Having identified increased risks of money laundering, FINMA has initiated proceedings against a number of banks.

These are, however, clearly isolated cases, and FINMA is not demanding any tightening of Switzerland's effective network for combating money laundering and terrorist financing. On the one hand, misconduct is proactively prevented by the money-laundering provisions that are in place. On the other hand, misconduct is punished by the strict criminal sanctions foreseen by the law.

In March 2016, the Basel Committee on Banking Supervision presented new rules according to which the banks will be permitted to use their own methods of calculation to determine their regulatory capital requirements. Fundamentally, the use of internal methods is to be strongly limited in favour of standard models. The primary aim is not to increase capital ratios, but to improve comparability and transparency.

The Basel Committee limits internal calculation methods for capital requirements

In the US tax dispute, all of the approximately 80 banks in Category 2, that is, those institutions that voluntarily declared they had advised tax evaders with a relationship to the US, were able to reach an agreement. The 80 banks in Category 2 paid a total of USD 1.3 bn to the US authorities. After paying the fines, the institutions received a Non-Prosecution Agreement, which is a declaration from the US that it will grant the banks legal amnesty for the violations they admitted to committing.

Category 2 segment of the US Tax Program complete

The proceedings against the Category 1 banks are still underway. Criminal investigations into these banks had already been launched before Switzerland signed an agreement with the US to settle the tax dispute.

In the fall of 2015, China Construction Bank (CCB) became the first Chinese bank to receive a Swiss bank license. It opened its first branch in January 2016 in Zurich. The Chinese central bank (PBC) authorised the Zurich branch to act as a clearing bank for the renminbi (RMB) in Switzerland, making Zurich one of the European hubs for offshore trading in the Chinese currency after London, Frankfurt and Luxembourg. These steps underline Switzerland's role as a privileged partner for China. Trade with the world's biggest export country will become easier and more secure for companies in Switzerland in that liquidity shortages can be avoided and currency transactions in RMB become cheaper. Switzerland therefore now meets all the requirements for a renminbi hub, which holds significant potential for the financial centre and the Swiss economy. The SBA, together with other stakeholders, has been working towards establishing a hub since 2012.

First Chinese bank in Switzerland

The Swiss banks have largely concluded their settlement of the past. However, an end to shrinking margins in not yet in sight, particularly in the cross-border wealth management segment. Since the financial crisis, banking regulation in Switzerland as well as in other countries has undergone comprehensive changes. Considerable resources continue to be required for the implementation of these changes. For example, many banks have to expand their compliance departments, thus driving up running costs.

Continued pressure on margins

Another block of costs is the US Program. Due to the four-year duty to cooperate for the banks in Category 2, the US can request these banks to provide administrative assistance in the form of explicit help in formulating group enquiries, which would have negative cost implications for the banks.

This is generally aggravated by the fact that customers – influenced by new possibilities arising from digital developments – are quicker to change banks, more price conscious, and increasingly prioritise costs when making decisions. All of these factors are placing considerable demands on the business models of the banks, which must stop the deterioration of margins and serve customers with innovative products and services in a way that meets their needs.

On 23 June 2016, the UK decided to exit the European Union. Further to the short-term effects such as the stock market slump that immediately followed (with financial stocks bearing the brunt of the pain), as well as the depreciation of the pound, the Brexit has led to additional uncertainties in financial markets. If the Swiss franc once again performs its role as a safe currency haven, the possibility of a further tightening of the negative interest rate policy cannot be ruled out. The Brexit decision can have long-term consequences for the international banking landscape. The Swiss

Consequences of Brexit unclear for the Swiss banking centre big banks UBS AG and Credit Suisse, which employed a combined total of around 12,000 people in London, announced shortly after the vote that they are assessing the possibility of relocating parts of their business to other European countries. The consequences for the Swiss banking centre are still unclear. Some positive momentum in certain areas could arise due to the loss of influence and reputation of the London financial hub, but cannot really be expected.

Growing ecosystem for everything relating to financial technology

After San Francisco, London and Singapore, a new digital banking ecosystem is now emerging in Switzerland. On the one hand, this is presenting significant challenges for the banks and other financial services providers, while on the other hand, it holds potential for new business opportunities. The combination of technology and the banks' traditionally strong advisory expertise makes it possible, for example, to access new customer segments and increase reach.

While fintech companies with disruptive business models tend to be located outside of Switzerland, the domestic fintech scene focuses primarily on partnerships with banks. In addition to customer trust, fintechs are hoping for a faster breakthrough for their innovations, for example in the areas of payment transactions and investing. For their part, the banks benefit from the agility of young companies and their proximity to younger customers. A number of banks, in particular big banks, have started to build up centres of innovation internally, while at the same time collaborating with specialised startups. UBS, for example, has opened a centre for innovation in Singapore and works together with Level39 in London, one of the biggest technology accelerators in Europe. A number of financial technology incubators also opened their doors in Switzerland in the last year.

Digital transformation in the finance segment promises customers value through innovative, personalised services. The banks, similar to other companies in an increasingly digitalised world, must re-think their corporate strategies in order to take advantage of the potential efficiency gains. This includes transforming business models, reconfiguring IT and data management, and further developing corporate cultures towards increased agility and a focus on networks. Fintechs produce simple, efficient and low-cost services, tailored for use by a new younger generation of customers equipped with mobile phones and tablets, and that only cover one small part of the value chain.

Compared to the momentum in digital advancements, the regulatory framework is still lagging behind. FINMA has recognised that current regulation poses significant challenges for fintech startups and that their competitors in other countries are afforded more room to develop. In March 2016, FINMA had already paved the way for the video and online identification of bank customers. It is also working on the introduction of a banking licence "light" with less extensive requirements. This license would be granted to companies that do not conduct typical banking business, but that require certain banking elements to operate. The creation of a "sandbox", which would provide a fully licence-exempt environment for the development of startup companies, with a deposit threshold of CHF 200,000, is also being discussed. FINMA is responding to the needs of the fintech sector with these ideas. The Federal Department of Finance (FDF) was mandated by the Federal Council in April 2016 to assess the need for regulatory action in the area of innovative financial technologies. In April, the Federal Council also adopted the strategy for a digital Switzerland. This umbrella strategy aims to ensure strong coordination between the various projects and activities conducted in the departments.

2 Bank net income

In 2015, 228 of the total 266 banks in Switzerland reported an annual profit amounting to CHF 19.6 bn. This marks an increase of CHF 5.7 bn (+41.0 %) compared to the previous year. Losses generated by the unprofitable institutions decreased by CHF 3.0 bn to CHF 3.8 bn (-44.1 %). The aggregate annual profit for the sector totalled CHF 15.8 bn. The significant extraordinary income generated by one big bank as a result of a group-internal divestiture amounting to CHF 10.7 bn significantly impacted this result. The banks paid CHF 2.2 bn in taxes (down 12.3 % compared to 2014). Aggregate net income[3] was CHF 64.6 bn (+5.0 %) in 2015. In the balance sheets, net income from the interest-earning business[4] made the largest contribution to total net income, accounting for 38.4 percent thereof, or CHF 24.8 bn. Despite the continued low interest rate environment, net income from the income-earning business once again rose compared to the previous year (+4.7 %). The commission and services business declined again, accounting for 34.7 percent of net income in 2015 (-6.0 %). Both net income from trading (+12.0 %) and other ordinary net income (+41.8 %) rose compared to the previous year.

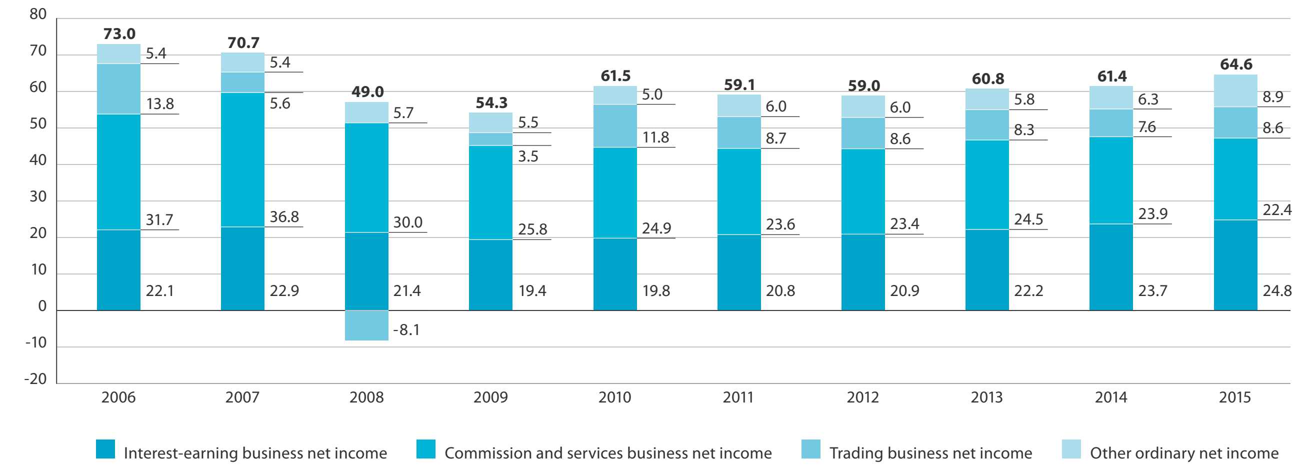
2.1 Trends in 2015

| Stronger net income growth

Aggregate operating net income is calculated on the basis of net income from the interest-earning business, the commission and services business, the trading business, and other ordinary net income, and rose 5.0 percent in 2015 to CHF 64.6 bn. In 2014, it increased 1.2 percent compared to the previous year. Overall, it can thus be concluded that net income development was stable.

Fig. 2

Net income by banking activity



Source: SNB

3 Based on SNB data relating to the statutory unconsolidated financial statements of the banks (parent company). The statutory unconsolidated financial statements comprise the operations of the head offices in Switzerland and the legally dependent subsidiaries in Switzerland and abroad. They may deviate from published annual reports because they include the legally independent subsidiaries (big banks in particular).
4 Gross income from the interest-earning business serves as the basis for ensuring comparability from 2006 to 2014.

The low interest rate environment continued to put pressure on the banks' interest margin business in 2015. Despite low interest rates, net income from the interest-earning business has been on the rise since 2010. In 2015, it accounted for 38.4 percent of net income and was the biggest contributor to this item, for the first time outperforming net income from commission and services business. Net income from the interest-earning business increased from CHF 23.7 bn in 2014 to CHF 24.8 bn in 2015 (+4.6 %). This positive net balance is the result of lower interest income and an even sharper decline in interest expenses: while interest and discount income (-CHF 366 m) and interest and dividend income from financial assets (-CHF 18 m), as well as interest and dividend income from trading portfolios (-CHF 253 m) fell, interest expenses decreased by CHF 1.7 bn.

Interest-earning business biggest contributor to total net income

Accounting for 34.7 percent, net income from the commission and services business was the second-biggest contributor to total net income. This decreased once again in 2015 (-6.0 %), and totalled only CHF 22.4 bn. This decline is in line with the trend that has continued since 2007, with the exception of 2013. The drop is attributable to the fall in commission income from the securities and investment business, which decreased from CHF 22.2 bn to CHF 20.9 bn. Commission income from the lending business also fell (-CHF 0.1 bn to CHF 1.9 bn), as did commissions from other service business (-CHF 0.2 bn to CHF 4.2 bn). Commission and services expenses also decreased, by CHF 0.1 bn to CHF 4.7 bn.

Further decline in net income from the commission and services business

Trading net income rose by CHF 1 bn in 2015, or 12.0 percent compared to the previous year. Totalling CHF 8.6 bn, it accounted for 13.2 percent of total net income. High market volatility and the ensuing rise in customer activity contributed to this development. Volatility and customer activity increased in particular in reaction to the lifting of the minimum franc/euro exchange rate and the tightening of the negative interest rate policy for sight deposits (see Chapter 1.1) by the SNB on 15 January 2015. Trading net income is composed of the total income from trading activities with money market investments, currencies, precious metals, securities and derivative instruments. The business comprises both the customer business as well as business with the banks' own holdings.

Rise in income from trading

The share of total net income from other ordinary net income rose from 10.2 percent to 13.7 percent in 2015. Other ordinary net income (which among others includes income from investments, income from real estate and from the sale of financial investments) increased by CHF 2.6 bn to CHF 8.9 bn (+41.8 %) compared to the previous year.

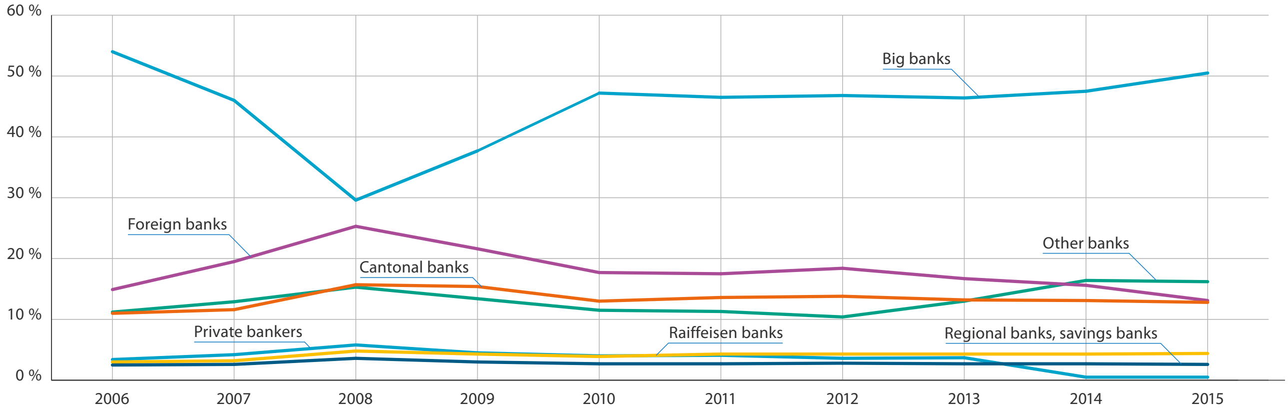
Rise in other ordinary net income

The share of net income according to bank group remained almost unchanged in 2015. While the big banks increased their share of net income to 50.5 percent, the share attributable to the foreign banks decreased from 15.6 percent to 13.1 percent. The shares attributable to the remaining bank groups were essentially unchanged; cantonal banks: 12.8 percent, Raiffeisen banks: 4.4 percent, regional and savings banks: 2.6 percent and private bankers 0.5 percent. The remaining banks, consisting of the "Other banking institutions" and stock exchange banks groups, accounted for a 16.2 percent share of net income, the same as the previous year.

Share of net income according to bank group

Fig. 3

Net income by bank group



Source: SNB

Gross profit from the business operations of the banks in Switzerland decreased by 5.7 percent and amounted to CHF 19.9 bn in 2015. This decline was significantly influenced by the strong rise in the operating expenses of the big banks (+CHF 4.3 bn to CHF 23.5 bn). Income taxes and taxes on earnings were lower in 2015, falling to CHF 2.2 bn, which corresponds to a decrease of 12.3 percent compared to the previous year.

| Lower taxes on earnings

In 2015, 228 of the 266 banks in Switzerland reported an annual profit[5], and 38 banks posted an annual loss. In the previous year, 246 of the 275 banks surveyed achieved a profit. The share of profit-generating banks therefore decreased from 89.5 to 85.7 percent in 2015. Total annual profits rose by CHF 5.7 bn to CHF 19.6 bn. Total annual losses decreased by CHF 3.0 bn to CHF 3.8 bn. Total aggregate net profit was therefore positive at CHF 15.8 bn (2014: CHF 7.4 bn), thus more than doubling. Annual profits were significantly impacted by one big bank. This bank reported high extraordinary income resulting from a group-internal divestiture totalling CHF 10.7 billion. Compared to previous years, the foreign-controlled banks reported substantially lower-than-average profit. This indicates that the annual losses were driven in particular by the foreign-controlled banks.

| Rise in aggregate annual profits

2.2 Trends in 2016

Overall, trading volume decreased in the first half of 2016 by 8.7 percent to CHF 687.1 bn compared to the previous year. This decline was the result of differing developments in the early months of 2015 and 2016. In 2015, the lifting of the minimum exchange rate during the first quarter resulted in an above-average rise in trading activity, not least due to portfolio reallocations. In 2016, in contrast, economic and geopolitical uncertainties as well as the volatility in global markets impacted investor sentiment, which resulted in increased risk aversion from customers and therefore a curbing of trading activities. Compared to the previous year, movements on customer securities accounts declined by 10.4 percent by the end of May 2016.

| Lower trading activity in securities markets for first half of year

5 Annual profit 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".

The annual stress tests conducted by the EU banking supervisory authority in June 2016 for 51 financial institutions resulted to a certain extent in lower levels of concern. According to the analysis, Europe's banks are generally prepared for new crises should these arise. The only countries with banks whose capital ratios give cause for concern are Italy and Ireland. It should be noted that in contrast to 2014, no thresholds were set for CET1 capital ratios and it was thus not possible for any bank to fail the test. This is because the primary objective of the test was to provide an overall impression of the resilience of the banks.

European banks generally resilient

As a result of the weak economic development in Europe, it can be expected that the Swiss franc will for the time being maintain its strength against the euro. The difficult economic environment is being aggravated by the weakening of economic growth in China and the emerging markets. The UK's decision to exit the EU puts the Swiss franc under further (upwards) pressure, therefore limiting the SNB's room for manoeuvre in terms of its interest rate policy. All signs point to the SNB further pursuing its negative interest rate policy. For the banks, this means that pressure on margins will continue in 2016 as a result of the low interest rate environment.

Economic uncertainties result in difficult framework conditions

3 Balance sheet business

The aggregate balance sheet total of all the banks in Switzerland decreased in 2015 from CHF 3,041.7 bn to CHF 3,026.1 bn (-0.5 %). The fall in the balance sheet total of the big banks (-CHF 36.0 bn) as well as the foreign-controlled banks (-CHF 33.2 bn) had a significant impact on this result. With a share of 31.2 percent, mortgage loans were once again the most important asset item in 2015. Liquid assets amounted to CHF 468.9 bn at the end of 2015. In 2006, they totalled only CHF 18.2 bn. The SNB currency interventions have an impact on the breakdown of assets. The banks' sight deposits at the SNB have been rising continuously since the introduction of the minimum exchange rate in the autumn of 2011. This trend weakened only in 2014. The further lowering of interest rates by 0.5 percentage points to -0.75 percent in 2015 didn't impact this trend of several years: sight deposits rose by 24.0 percent in 2015.

While banks abroad curbed their lending during the years of the financial and economic crisis, the banks in Switzerland continued to support the domestic economy uninterruptedly with credit. The total outstanding credit volume in Switzerland was CHF 1,076.4 bn in 2015, which corresponds to a rise of 0.4 percent compared to the previous year. Domestic mortgage loans rose 1.2 percent in the first five months of 2016.

3.1 Trends in 2015

3.1.1 Balance sheet trends

Slight fall in balance sheet total

The aggregate balance sheet total of all the banks in Switzerland fell from CHF 3,041.7 bn to CHF 3,026.1 bn, or 0.5 percent in 2015. The contractions at the big banks as well as the foreign-controlled banks made a significant contribution to this development. One reason for this is the reduction in foreign lending and liabilities in euros due to their lower value following the depreciation of the euro after the lifting of the minimum exchange rate in January 2015.The balance sheet totals of the Raiffeisen banks, the cantonal banks as well as the branches of foreign banks reported a rise.

Decrease in balance sheets of the big banks

From 2008 until 2013, the aggregate balance sheet total of the big banks – with one exception in 2010 – decreased annually (total: -29.9 %). In 2014, their balance sheet total increased again for the first time (+10.4 %). However, in 2015, the negative trend of the previous years could once again be observed and the balance sheet total fell by CHF 36.0 bn (-2.5 %). In addition to the currency effect, the structural adjustments at the two big banks also likely supported this development in the balance sheets.

Rise in balance sheet total for cantonal, Raiffeisen, as well as the regional and savings banks

The Raiffeisen banks, cantonal banks, regional and savings banks which generally have a stronger domestic focus, reported a rise in their balance sheet totals in 2015. The aggregate balance sheet total of the Raiffeisen banks increased by 9.0 percent compared to the previous year. The cantonal banks reported a rise of 2.8 percent, and the regional and savings banks an increase of 3.7 percent compared to the previous year. The balance sheet growth of these bank groups is in particular attributable to a rise in mortgage loans.

Fig. 4

Balance sheet total by bank group	Number of institutions		Balance sheet (bn CHF)		Development of balance sheet	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Cantonal Banks	24	24	522.6	537.4	5.5 %	2.8 %
Big banks	2	3	1’460.2	1’424.2	10.4 %	-2.5 %
Regional banks, savings banks	63	62	109.0	113.1	2.4 %	3.7 %
Raiffeisen banks	1	1	185.7	202.4	7.0 %	9.0 %
Foreign banks	118	111	353.5	333.7	-1.1 %	-5.6 %
Private bankers	7	7	7.4	6.7	-88.7 %	-9.5 %
Stock exchange banks	47	44	206.7	210.1	47.7 %	1.6 %
Other banking institutions	13	14	196.6	198.6	4.4 %	1.0 %
Total	**275**	**266**	**3,041.7**	**3,026.2**	**6.8 %**	**-0.5 %**

Source: SNB

Reduction in balance sheet total of foreign banks and private bankers

In 2015, the foreign banks reported a reduction in the balance sheet total of CHF 353.5 bn to CHF 333.7 bn, which corresponds to a contraction of 5.6 percent. While the balance sheet total of the foreign-controlled banks, which now total only 85, decreased by CHF 33.2 bn, the branches of foreign banks reported an increase in the balance sheet total of CHF 13.5 bn. The second bank group to report a balance sheet contraction in 2015 was the private bankers. For this group, the balance sheet total decreased by CHF 0.7 bn to CHF 6.7 bn (-9.5 %).

Mortgage loans biggest asset item

In 2015, domestic and foreign mortgage loans rose by 2.7 percent to CHF 943.2 bn compared to the previous year. As such, mortgage loans remained the most significant asset item for the banks in Switzerland in 2015, accounting for a share of around 31.2 percent of total assets. However, the growth rate was lower than in previous years. This is likely due in part to the measures introduced in the mortgage lending segment, including the amendments to the self-regulation of the banks in 2014.

Decrease in customer loans

With a share of 19.6 percent of total assets, customer loans accounted for the second biggest item. These fell by CHF 58.5 bn (-9.0 %) to CHF 594.4 bn in 2015. Loans to domestic customers decreased by CHF 19.8 bn (-11.6 %) and to foreign customers, they decreased by CHF 38.6 bn (-8.0 %). This reduction is primarily attributable to the introduction of the new balance sheet item “Amounts due from securities financing transactions”. Prior to 2015, this item came under customer loans. If the 2015 figures are adjusted for securities financing transactions, the reduction in the customer loans balance sheet item is 2.6 percent compared to the previous year.[6] This is primarily attributable to the decrease in loans to domestic customers at the big banks. In contrast, the big banks saw a rise in their loans to foreign customers (+2.0 %), while the foreign-controlled banks reported a decrease of 13.9 percent.

Rise in liquid assets

Liquid assets rose by CHF 43.0 bn to CHF 468.9 bn (+10.1 %). This change is primarily due to an increase in Swiss franc-denominated holdings (+24.3 %) and a reduction in US dollar-denominated holdings (-40.2 %). The strong rise in liquid assets in Switzerland is largely attributable to bond purchases made by the SNB.

6 Cf. SNB, 2016, Banks in Switzerland 2015.

Striking changes could be observed in the breakdown of assets between 2006 and 2015. Liquid assets rose enormously between 2006 and 2015. While in 2006, holdings in liquid assets were at CHF 18.2 bn, by the end of 2015 they amounted to CHF 468.9 bn. A number of factors contributed to this significant rise: on the one hand, the SNB's interventions to counteract the strong franc were a determining factor, because when selling foreign securities, the SNB credits the sight deposit accounts of the counterparty for the equivalent value in Swiss francs. On the other hand, the high level of liquidity served as a necessary buffer during the financial crisis and in the complicated interbank market. 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 at the SNB. The banks first increased their sight deposits at the SNB from around CHF 40 bn in 2010 to CHF 309 bn in 2014. Sight deposits rose further in 2015 to CHF 386 bn (+24.9 %). The SNB also no longer renewed repos[7] or SNB Bills[8] that were falling due, and bought back outstanding SNB Bills. Due to the uncertain economic situation during the financial and economic crisis, the banks increasingly parked their excess liquidity at the SNB, despite the very low interest rate. Domestic and foreign mortgage loans also rose continuously between 2006 and 2015 (+41.3 %, from CHF 667.4 bn to CHF 943.2 bn). Their share of total assets increased from 20.9 percent to 31.2 percent as at year-end 2015. This can be explained by the persistently low interest rates and the strong demand for real estate. In 2006, bank loans accounted for a 27.6 percent share as a proportion of total assets. In 2015, this share was down to 9.0 percent (2006: CHF 881.2 bn, 2015: CHF 271.9 bn). The sharp decline in 2015 (-39.0 %) compared to the previous year is also attributable to the changes in accounting standards. If the 2014 values are adjusted for this change, the decrease between 2014 and 2015 amounts to only 20.0 percent. Among other factors, this decrease is a result of the banks' conscious efforts to shorten their balance sheets (deleveraging) by reducing their linkages with other banks. In the past, this reduction was driven predominantly by the complicated interbank market. During the same period, from 2006 to 2015, holdings in securities and precious metals for trading purposes recorded a drop of 67.7 percent (2006: CHF 488.2 bn, 2015: CHF 157.6 bn). Their share of total assets fell from 15.3 percent to 5.2 percent. This steady decrease reflects the ongoing strategic efforts of the banks to shorten their balance sheets and reduce their risk-weighted assets.

Fundamental changes in breakdown of assets since 2006

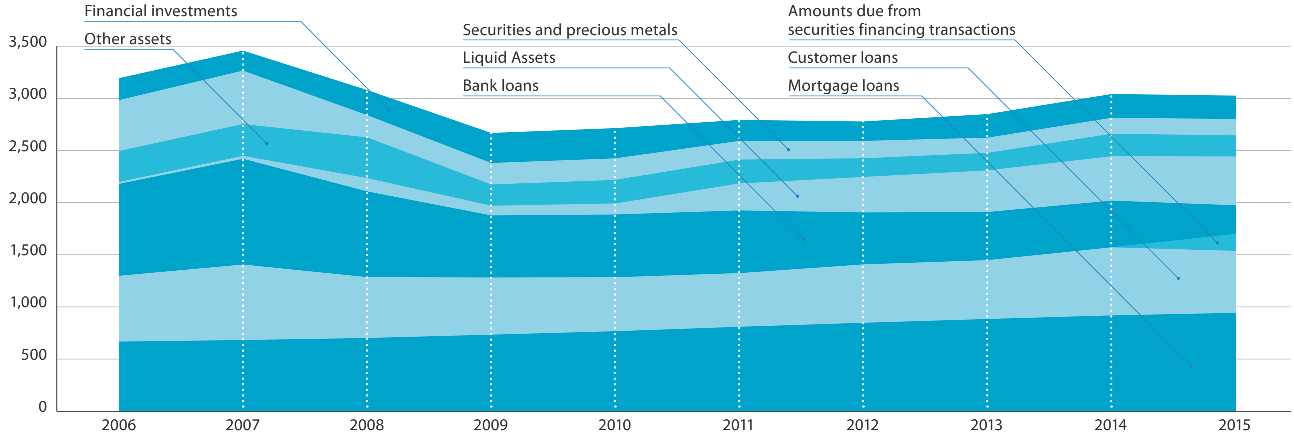
7 In the repo business, the seller sells securities to the buyer while committing to buy back the same type and amount of securities at a later date. This important instrument of monetary policy is used by the SNB to control liquidity in the money market.

8 The SNB's interest-bearing debt instruments with a maximum term of one year, which since 2007 have been one of the instruments used in monetary policy and which are used to control sight deposits for the absorption of liquidity.

Fig. 5

Breakdown of assets

In CHF bn



Source: SNB

Decrease in customer assets on the liabilities side in 2015

Aggregate customer assets, which comprise liabilities in the form of sight deposits, time deposits and other amounts due in respect of customer deposits, fell by CHF 46.3 bn (-2.6 %) to CHF 1,723.3 bn in 2015. Sight deposits and the other liabilities to customers had a share of 28.0 and 23.0 percent respectively, and were the two biggest liabilities items. Amounts due in respect of customer deposits include liabilities to customers in savings and investment form. Due to the new accounting standards, the SNB no longer reports liabilities to customers in savings and investment form separately, but instead as part of liabilities from customer deposits. The "amounts due in respect of customer deposits" item is calculated by subtracting sight and time deposits from the total customer deposits. Bonds, loans by central mortgage bond institutions and medium-term notes decreased 23.7 percent in 2015 to CHF 386.6 bn. Part of this decrease is due to the fact that the fair value option was applied for certain types of liabilities under the new accounting standard. These liabilities now come under "Liabilities from other financial instruments at fair value". In Figure 6, however, they are classified under "other liabilities" to allow for comparison to the previous years. Liabilities to banks continued their longstanding trend and fell by 13.0 percent to CHF 346.2 bn. Part of this reduction compared to the previous year is also attributable to changes in accounting standards. The reduction, adjusted for these effects, amounts to 4.0 percent.

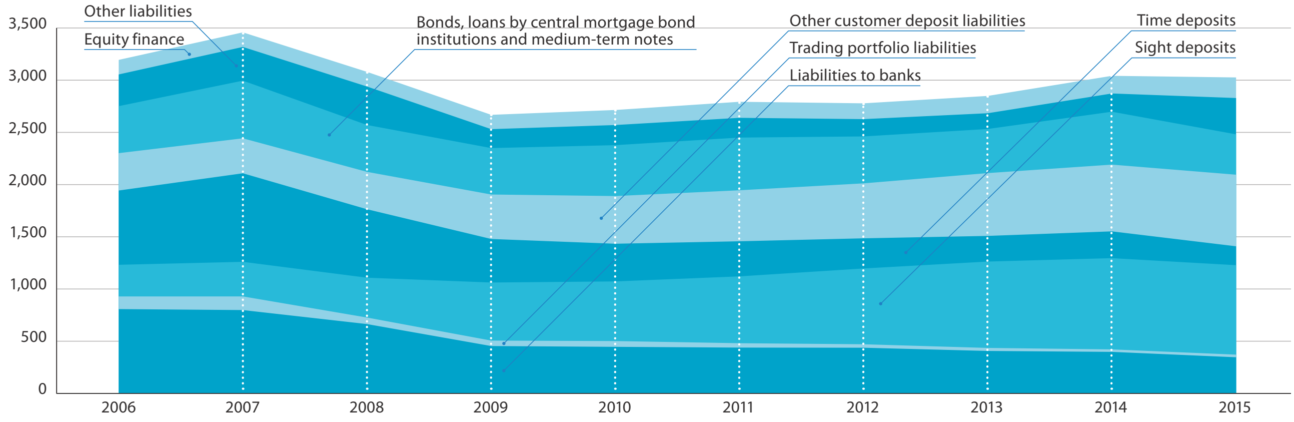
Breakdown of liabilities over time: trend towards interest-related shifts weakening

Liabilities to banks were the largest liability item in 2006 and accounted for a 25.3 percent share of total liabilities, but have since fallen by 57.1 percent to CHF 346.2 bn. This demonstrates that the linkages between banks – in particular in Switzerland – have decreased. Figure 6 illustrates the shift to sight deposits due to low interest rates. Sight deposits rose from CHF 303.3 bn to CHF 856.8 bn between 2006 and 2015. Their share of total liabilities rose from 9.5 percent in 2006 to 28.3 percent in 2015, and were therefore the biggest liabilities item at the end of 2015. At the same time, the share of time deposits fell from 22.3 percent in 2006 to 6.0 percent in 2015.

Fig. 6

Breakdown of liabilities

in CHF bn



Source: SNB

3.1.2 Trends in the credit business in Switzerland

Lending remains intact even during the financial crisis

The credit business of domestic banks is an important factor for the economic development of a country. While lending was significantly curbed during the last financial and economic crisis in European countries such as France or the United Kingdom, the banks in Switzerland continued to provide the domestic economy with sufficient credit during this period.

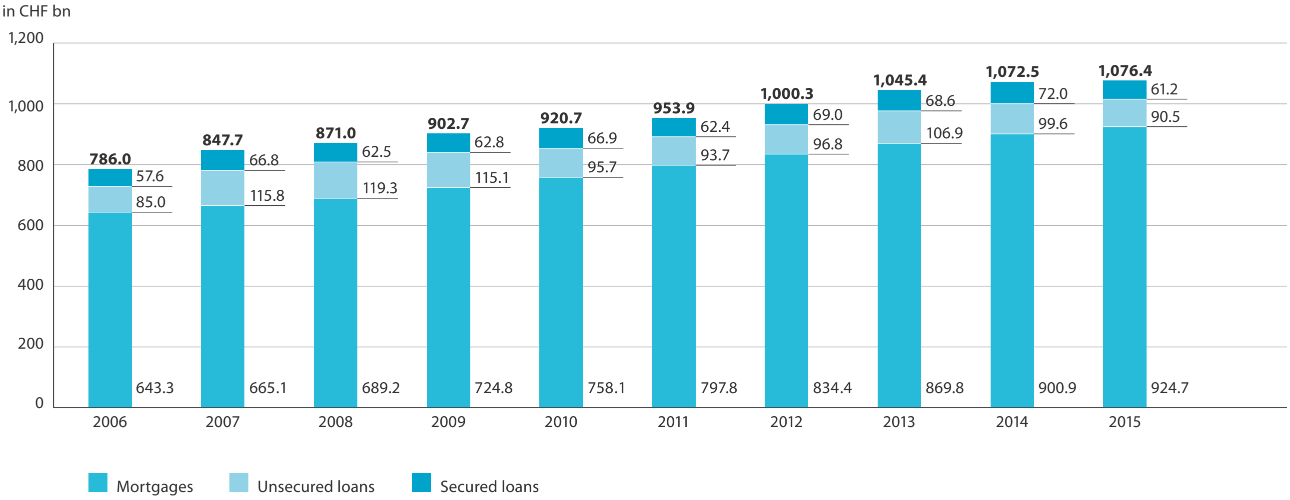
Slight rise in domestic credit volume

The total outstanding credit volume in Switzerland was CHF 1,076.4 bn in 2015. Of that total, CHF 151.8 bn was attributable to secured and unsecured customer loans (companies, public corporations and consumer credit) and CHF 924.7 bn was attributable to mortgage lending. As illustrated in Figure 7, mortgage lending in particular has contributed to the steady rise of domestic credit volumes in recent years. Outstanding unsecured loans, which have high volatility levels, decreased by 9.2 percent in 2015. Compared with the previous year, the total volume of credit in Switzerland rose by 0.4 percent in 2015. At 2.6 percent, domestic mortgage lending growth in 2015 was lower than in the two previous years (2013: +4.2 %, 2014: +3.6 %). This is likely due in part to the measures adopted by the banks in the mortgage lending segment, including the amendments to the self-regulation.

The significant decrease in secured and unsecured loans is striking. These fell by 11.5 percent from CHF 171.6 bn to CHF 151.8 bn, marking the lowest level for this item since 2006. One possible explanation for this is that the general economic environment could lead to a lower propensity to invest.

Fig. 7

Credit volume in Switzerland



Source: SNB

Total outstanding mortgage loans rose by 2.7 percent to CHF 943.2 bn in 2015. A large majority thereof (CHF 924.7 bn) is attributable to customers in Switzerland. 75.5 percent of these are mortgages that were granted to private households. The persistently low interest rates contributed to a continued growth trend in domestic mortgage lending (+2.6 %), although the rise in 2015 was less pronounced than in the previous year. Fixed-rate mortgages accounted for a 79.2 percent share of outstanding mortgages in 2015. The average interest rate for outstanding domestic mortgage loans decreased once again in 2015 from 1.89 percent to 1.77 percent.

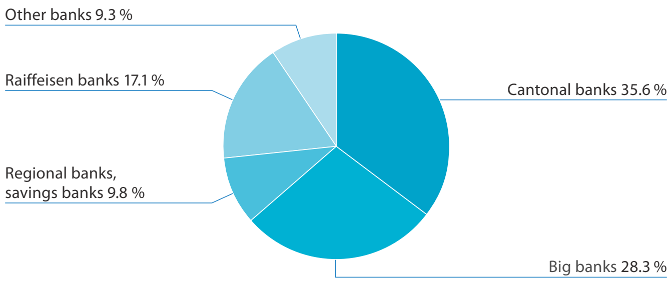
Three-quarters of total mortgage loans attributable to private households in 2015

The cantonal banks' market share for domestic mortgage lending volumes was slightly more than one-third at the end of 2015. They are followed by the big banks, with a share of 28.3 percent (see Figure 8). Over the last few years, the Raiffeisen banks and the other banks in particular have gained the greatest market share in the domestic mortgage lending market. In contrast, the big banks as well as the regional and savings banks in particular reported less growth in market share.

Cantonal banks – largest share of domestic mortgage market

Fig. 8

Market share of domestic mortgage lending



Source: SNB

Broken down by lending groups, the share of domestic first mortgages in 2015 was 91.7 percent. This mortgage group comprises mortgage loans of up to two-thirds of the market value of the respective property, and accounted for a 91.6 percent share in the previous year. There are no relevant identifiable differences between the various bank groups in this segment. The large share of first mortgages underlines the fact that loans are being granted with caution in the mortgage lending segment.

First mortgages clearly strongest lending group

Consumer credit continues to be of relatively small importance in Switzerland. In total, there were 541,201 loans with a volume of CHF 7.4 bn outstanding at the end of 2015. Compared to the previous year, this corresponds to a rise in volume of 1.9 percent. However, the share prices of banks specialised in this segment fell after the decision of the Federal Council to lower the interest rate ceiling to 10 percent as per 1st July 2016.

Rising demand for consumer credit

3.2 Trends in 2016

Contrary to the development in 2015, the aggregate balance sheet total of all banks in Switzerland rose by 2.0 percent in the first five months of 2016 (December 2015: CHF 3,117.6 bn to May 2016: CHF 3,180.8 bn).[9] All bank groups were affected by this development. The biggest asset item, mortgage loans, rose by 1.2 percent in the first five months of the year. The biggest liability item, sight deposits, increased by 3.8 percent during the same period.

Rise in balance sheet total

On the liabilities side, liabilities to banks decreased by 2.4 percent to CHF 368.3 bn. Sight deposits rose by CHF 33.9 bn from CHF 885.0 bn to CHF 918.9 bn (+3.8 %) in the first five months of 2016. During the same period, time deposits rose by CHF 11.0 bn from CHF 182.9 bn to CHF 193.9 bn (+6.0 %). This is likely attributable to the generally higher level of risk aversion, which was also reflected in lower trading activity. The remaining liabilities in the form of customer deposits, however, fell by 2.2 percent to CHF 678.5 bn. The rise in sight deposits in particular suggests that bank customers are further increasing their holdings in liquid assets. Equity capital rose by CHF 8.52 bn from CHF 188.6 bn to CHF 197.1 bn (+4.5 %). Bonds and loans by central mortgage bond institutions increased by 7.8 percent. Medium-term notes, in contrast, recorded a decrease of 6.1 percent.

Liabilities to banks decreasing, sight deposits continue to rise

On the assets side, mortgage lending continued its trend of last year in the first five months of the current year. Mortgage lending rose to CHF 966.8 bn; despite the assessment of the SNB that the disparities in the mortgage and residential property markets have increased slightly. Secured loans remained almost unchanged, while unsecured loans rose by 3.3 percent to CHF 93.9 bn. The period of low interest rates is expected to continue due to the ongoing economic and geopolitical uncertainties. In addition to this, stakeholders from sectors other than banking, such as insurance companies, are pushing into the market and offering loans at competitive interest rates. Immediately following the Brexit decision, interest rates for fixed-rate mortgages fell to new lows. For shorter maturities, they are in some cases being granted at less than one percent. Due to the attractive conditions for borrowers, a reversal of the lending trend is not expected during the course of the rest of the year.

Further rise in the provision of mortgage loans

9 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.

Other customer loans decreased in the first quarter by 2.5 percent. Liquid assets rose by 3.8 percent, and loans to banks rose by 6.8 percent. This is likely related to the fact that commercial banks with liquid holdings exceeding the exemption threshold effective as of January 2015 are transferring their excess liquidity for a fee to banks that are below the exemption threshold.

4 Wealth management

CHF 6,567.6 bn in assets under management

At the end of 2015, the banks in Switzerland managed total assets of CHF 6,567.6 bn. Compared to the previous year, domestic customer assets rose by CHF 74.3 bn (+2.3 %), while foreign customer assets fell by CHF 162.5 bn (-4.8 %). This corresponds to a reduction in the assets managed in Switzerland of CHF 88.2 bn (-1.3 %), which is primarily attributable to currency effects. Assets under management consist of securities holdings in customer custody accounts, liabilities to customers excluding sight deposits, as well as fiduciary liabilities. Accounting for a 49.3 percent share of assets under management in Switzerland, foreign customer assets were at a lower level than the previous year (51.1 %). Switzerland remains the global market leader for cross-border private banking: 25.0 percent of cross-border assets managed around the world are managed in Switzerland.

Definition of "assets under management"

According to FINMA, assets under management comprise all assets for which investment advice and/or wealth management services are provided, and are not limited to securities holdings only. Consequently, the following positions are considered assets under management: securities holdings in customer custody accounts, fiduciary investments, customer liabilities deposits minus sight deposits.[10]

Definition "fiduciary deposits"

Fiduciary deposits are made or granted by the bank in its own name, however by order and for the account of the customer, as well as at the customer's risk. Fiduciary deposits include transactions involving for example loans, investments or shareholdings.

Securities holdings in customer custody accounts decreased in 2015 compared to 2014. They fell by 1.0 percent to CHF 5,587.9 bn. A reduction in holdings was reported for the following categories of securities: equities (-0.8 %), bonds (-3.1 %) and structured products (-18.1 %). Structured products in customer custody accounts accounted for a share of around 3.5 percent. In contrast, collective capital investments reported an rise of 2.6 percent. Holdings in euros decreased by 6.4 percent, while the remaining investment currencies rose moderately. Liabilities to customers not including sight deposits also experienced a decline, namely from CHF 895.8 bn to CHF 866.5 bn (-3.3 %). Fiduciary liabilities, which are primarily invested on the money market, continued their downward trend of the last few years, and amounted to only CHF 185.6 bn (-4.3 %) at the end of 2015. This was due to the ongoing low interest rate environment.

10 The relevant SNB statistics sampling level for securities portfolios and fiduciary deposits includes the subsidiaries of the banks in Switzerland, but not the foreign branches. To that extent, the consolidated figures are representative of the Swiss banking centre in the narrower sense of the term. This does not apply, however, to the customer deposits on the balance sheet that also include deposits at foreign branches. However, this distinction has not been taken into account in the calculation.

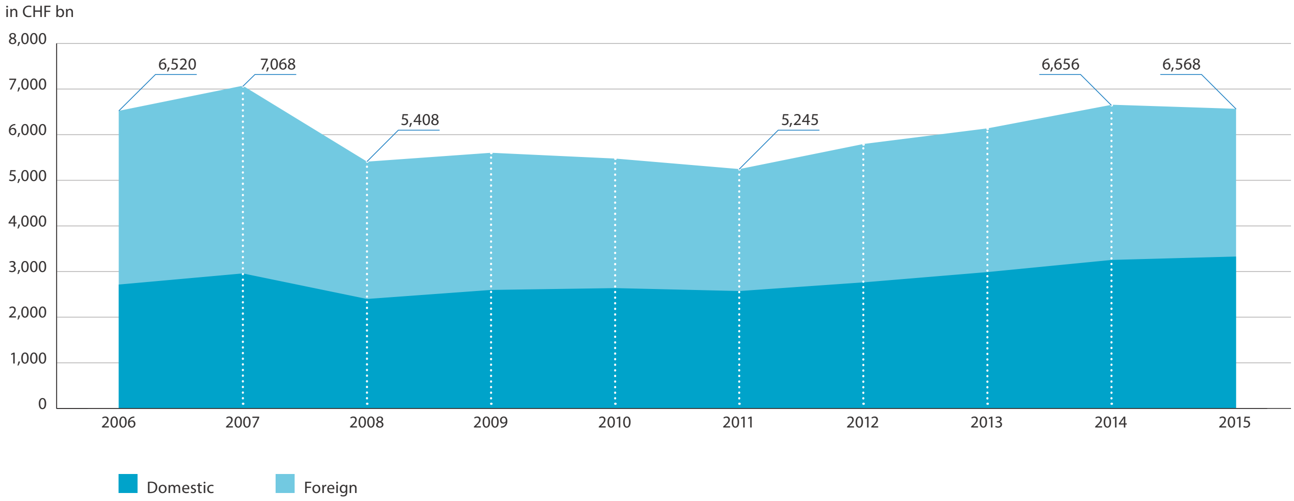
4.1 Trends in 2015

Slight decrease in assets under management in 2015

Total assets under management at the banks in Switzerland remained almost unchanged between 2006 and 2015 (+CHF 47.2 bn, +0.7 %). Assets under management increased sharply until shortly before the onset of the financial and economic crisis, and reached their peak of CHF 7,068 bn during the bull market in 2007. Due to the drastic decline of the stock market indices with the outbreak of the crisis in 2008, securities holdings in customer custody accounts at the banks in particular suffered substantial losses. This resulted in a drastic decline in assets under management of 23.5 percent to CHF 5,408 bn by the end of the year 2008. Between 2008 and 2011, assets under management remained constant, and since 2011, they are once again on the rise. In 2015, however, assets under management decreased slightly by 1.3 percent compared to the previous year. The share of assets from foreign private customers fell from 58.1 percent to 49.3 percent between 2006 and 2015. The decrease in the share of assets belonging to foreign private customers is primarily attributable to a currency effect. Foreign private customers hold a significantly higher portion of their assets in euros and dollars than domestic private customers. The shares of assets are calculated in Swiss francs. If the franc appreciates against other currencies, the assets of foreign private customers automatically fall in relation to those of domestic private customers.

Fig. 9

Assets under management in Switzerland by customer origin[11]



Source: SNB

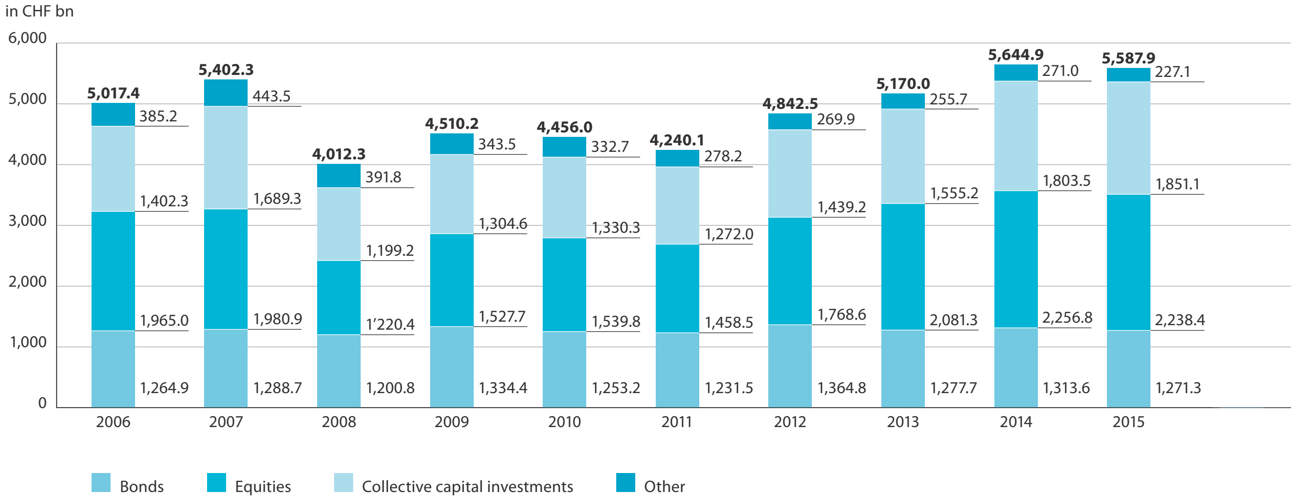
Slight reduction in securities holdings

Securities holdings in customer custody accounts decreased by CHF 57.0 bn to CHF 5,587.9 bn (-1.0 %) in 2015. Despite the slight fall, custody account holdings are still above the peak reached in 2007 before the onset of the financial crisis (CHF 5,402.3 bn). The reduction is explained by the lifting of the minimum exchange rate for the euro and the current strength of the franc. Euro-denominated securities holdings decreased from CHF 904 bn in 2014 to CHF 846 bn in 2015. Swiss franc-denominated holdings increased slightly during the same period.

11 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 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 (see infobox in Chapter 4 for definition of "Assets under management"). The amended reporting of the items from 2006 until 2014 can result in discrepancies in the amounts reported to date.

Fig. 10

Securities holdings in customer custody accounts by type



Source: SNB

In 2015, stock market volatility was above average and overall, stock market performance fell slightly. Equities holdings in customer custody accounts at the banks declined slightly by 0.8 percent compared to the previous year. Amounting to CHF 2,238.4 bn and accounting for a share of around 40.1 percent at the end of 2015, equities held the most important position of all securities holdings.

Slight reduction in equities holdings

With a 33.1 percent share, collective capital investments, consisting primarily of investment funds, were the second-largest category of securities. They rose 2.6 percent to CHF 1,851.1 bn in 2015. Collective capital investments in custody accounts rose by +8.9 percent for domestic customers and decreased by -3.7 percent for foreign customers, thus reflecting contrasting developments in growth.

Rising demand from domestic customers for collective capital investments

Bond holdings fell in 2015 after having risen in 2014. Overall, bonds decreased from CHF 1,313.6 bn to CHF 1,271.3 bn (-3.2 %). The bond holdings of domestic customers fell to a lesser degree than those of foreign customers (-2.8 % and -3.7 % respectively). With a share of 22.8 percent, bonds were the third-largest investment class in customer custody accounts.

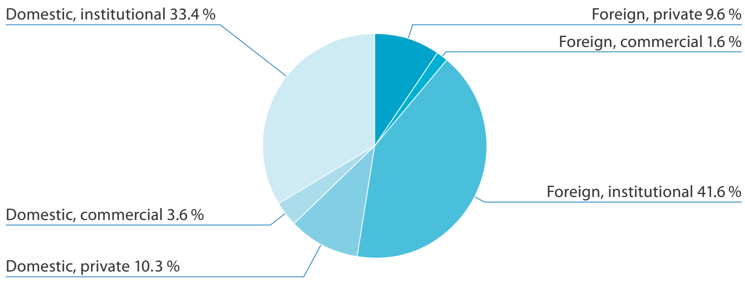
Decrease in bond holdings

Institutional investors, both from Switzerland and abroad, had the largest deposits in 2015 (33.4 % and 41.6 % percent respectively as share of total deposits). Both foreign and domestic institutional investors have increased their deposits since 2011 (+54.0 % and +41.6 % respectively). Next in line were domestic and foreign private investors, who accounted for almost identical shares (10.3 % and 9.6 % respectively). While deposits held by foreign private customers decreased by CHF 62.5 bn (-10.5 %), domestic private customer deposits rose from CHF 480 bn to CHF 573.2 bn (+19.5 %).

Institutional investors hold largest deposits

Fig. 11

Asset deposits by customer type, end 2015



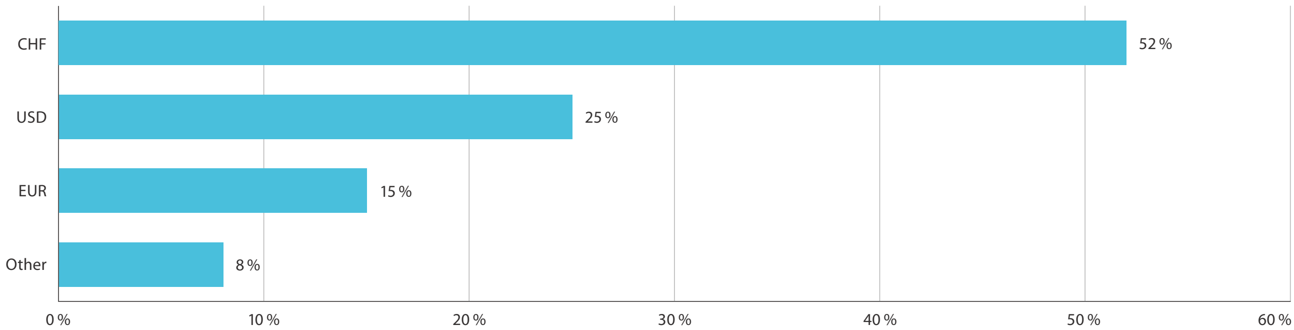
Source: SNB

The importance of the euro as an investment currency further declined in 2015. Compared to the previous year, the share of euro-denominated investments decreased by one percentage point to 15.0 percent of total securities holdings. In 2009 they still accounted for 25.0 percent thereof. Custody account holdings in US dollars accounted for a 25.0 share, and thus remained unchanged compared to the previous year. At 52.0 percent, the Swiss franc was by far the most important investment currency. The Chinese currency, the renminbi, was included in the International Monetary Fund's basket of currencies for the first time in October 2015. It can therefore be assumed that the importance of the renminbi will increase.

Lower share of euro-denominated investments in deposits

Fig. 12

Asset deposits by currency, end 2015



Source: SNB

Savings and investment liabilities to customers amounted to CHF 685.7 bn at the end of 2015, which corresponds with a rise of 7.3 percent compared to the previous year. A total of 89.1 percent of customer savings and investment deposits were attributable to domestic customers in 2015. These assets include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar).

Rise in savings and investment liabilities

The fiduciary deposits managed by the banks in Switzerland decreased by CHF 1.9 bn to CHF 113.2 bn (-1.6 %) in 2015. In 2007, fiduciary deposits still amounted to CHF 482.9 bn and have gradually decreased since that time. Because fiduciary deposits are primarily invested on the money market, they have become much less attractive as a result of continued low interest rates.

Continued decline in fiduciary deposits since 2007

The Swiss banking sector benefited from inflows of fiduciary deposits from emerging economies in 2015 (+4.1 %). These inflows helped to compensate for the outflows of managed private assets from developed economies (-3.3 %, primarily Western Europe) and offshore financial centres[12] (-1.6 %). Fiduciary deposits account for under two percent of total assets under management. The decrease in fiduciary deposits does not have a significant impact on private banking in Switzerland. According to The Boston Consulting Group, the Swiss banking sector remains the global market leader in global cross-border private banking with a 25.0 percent share.[13]

Inflows from emerging economies

4.2 Trends in 2016

At the end of May 2016, the banks in Switzerland managed a total of CHF 6,424.1 bn in assets, which represents a slight decrease of 1.3 percent compared to December 2015 (December 2015: CHF 6,508.3 bn).[14] Securities holdings decreased by CHF 79.2 bn from CHF 5,517.0 bn to CHF 5,437.8 bn (-1.4 %). Liabilities to customers not including sight deposits declined by 0.5 percent to CHF 872.4 bn. Fiduciary liabilities fell from CHF 114,7 bn to CHF 113.9 bn (-0.7 %). The decrease in assets under management can to a great extent be attributed to a currency effect. Because the franc appreciated slightly against the dollar as well as the euro in the first half of 2016, the value of assets under management decreased. As already outlined in Chapter 4.1, a substantial portion of assets under management are held in foreign currencies such as the euro or the dollar, but are reported in Swiss francs.

Slight decrease in assets under management

With a 25.0 percent market share, and despite stricter regulatory framework conditions and the ongoing efforts relating to tax matters, Switzerland will remain the market leader in global cross-border private banking for the medium-term.[15] At present, the emerging Asian financial centres in Hong Kong and Singapore remain behind Switzerland, with a combined market share of 18.0 percent of assets managed cross-border. If Switzerland wishes to continue to hold its ground against the rapidly growing financial centres in Asia in future, Swiss private banking should, in addition to its attractive locational factors, promote innovation, for example in the digital banking segment.

Switzerland remains the leader in cross-border private banking

The importance of the market for sustainable investments has increased in recent years. According to Swiss Sustainable Finance[16], the volume of sustainable financial investments amounted to CHF 191.9 bn in 2015. This positive development suggests that the issue has increasingly come into the spotlight for a number of stakeholders, ranging from the federal government and institutional investors through to banks and asset managers. Sustainable investments still account for a small market share, however, they hold significant potential for development. At the international level, the Swiss financial centre is already well-positioned to successfully become a leader in this area of business.

Outlook and challenges

In the autumn of 2015, China Construction Bank (CCB) became the first Chinese bank to receive a Swiss bank license. It opened its first branch in January 2016 in Zurich. This underscores Switzerland's role as a privileged partner for China, and holds considerable potential for the Swiss financial centre.

12 According to the SNB (Monthly Bulletin of Banking Statistics, March 2014), offshore financial centres include the following countries: Aruba, Bahamas, Bahrain, Barbados, Bermuda, Gibraltar, Guernsey, Hong Kong, Isle of Man, Jersey, Cayman Islands, Lebanon, Macau, Mauritius, Netherlands Antilles, Panama, Samoa, Singapore, Vanuatu, West Indies (GB).
13 The Boston Consulting Group (2016).
14 The monthly figures are based on sample survey conducted by the SNB and can therefore deviate from the year-end statistics, which are based on a full survey.
15 The Boston Consulting Group (2016).
16 Swiss Sustainable Finance «Nachhaltige Geldanlagen in der Schweiz – Auszug aus dem Marktbericht Nachhaltige Geldanlagen 2016», May 2016.

Securing EU market access remains imperative; but is not easy to achieve, either politically or materially. It remains to be seen whether the decision by the UK to leave the EU will impact these conditions. One thing is clear, however: there will be an additional European country that will have to negotiate EU market access as a future third-country. The UK will do so from a different position and with a different understanding of its role than Switzerland. Nevertheless, new options can arise as a result, and the Swiss financial centre could also benefit from this.

5 Employment in Switzerland's banks

In full-time equivalents, the number of employees at the banks in Switzerland amounted to 103,041 in 2015. This corresponds to a total decrease across all banks of 1,012 jobs compared to the previous year, and paints a mixed picture: the cantonal banks, Raiffeisen banks, private bankers and the other banks ("Other banking institutions" and stock exchange banks) created a total of 1,432 new jobs in 2015. The foreign banks, big banks as well as the regional and savings banks, on the other hand, reported a reduction of 2,444 jobs. In terms of unemployment, the rate for the banking sector stood at 2.5 percent in 2015, and therefore, similar to previous years, reported a significantly lower unemployment rate than that of the overall economy, which was 3.3 percent. Despite the decrease in staff levels in the first half of 2016, a good two-thirds of banks that responded to the SBA's annual survey expect the employment situation to remain unchanged for the second half of 2016. The share of companies that expect to see staff reductions rose slightly from 11.0 percent to 11.7 percent, which is still, however, significantly below the figures reported between 2012 and 2014.

Ongoing structural change

The consolidation trend in the banking sector has been ongoing for many years. This trend can be explained in part by the fact that the continued low interest rate environment and strong competition are leading to significant pressure on margins. This pressure is further compounded by increasing costs due to regulation relating to capital requirements and tax transparency. The decrease in the number of jobs due to the implementation of cost-savings and efficiency measures is therefore an ongoing issue.

Further to this, the qualifications required of bank employees are continuously being adjusted to the developments arising from regulatory requirements and digitalisation.

5.1 Trends in 2015

Moderate fall in employment

In 2015, the banks employed 103,041 people in Switzerland (in full-time equivalents). The employment figures were impacted by the difficult economic framework conditions and structural adjustments in the banking landscape which resulted in a reduction of eight institutions and one merger. These figures decreased moderately compared to the previous year (-1.0 %). The findings of the Swiss Labour Force Survey (SLFS) indicate that employment tended to fall more for younger employees (25 to 39 years old). In addition to the costs incurred for restructuring, this is likely another reason that wages and salaries rose in Switzerland (by +CHF 1.2 bn to CHF 17.1 bn). If examined over a longer period, the employment figures for the banking sector can be viewed as stable.

Increase in staff levels at "Other banking institutions", stock exchange banks and Raiffeisen banks

The strongest growth was reported by the "Other banking institutions" and stock exchange banks with a total of 807 jobs (+4.1 %). PostFinance AG comes under the "Other banking institutions" category, and indicated a rise in the number of employees of 3.4 percent (117 jobs) in its Annual Report. The Raiffeisen banks created 401 jobs in 2015 (+4.8 %) and the cantonal banks 210 jobs (+1.2 %). The private bankers reported an increase of 14 jobs (+2.3 %).

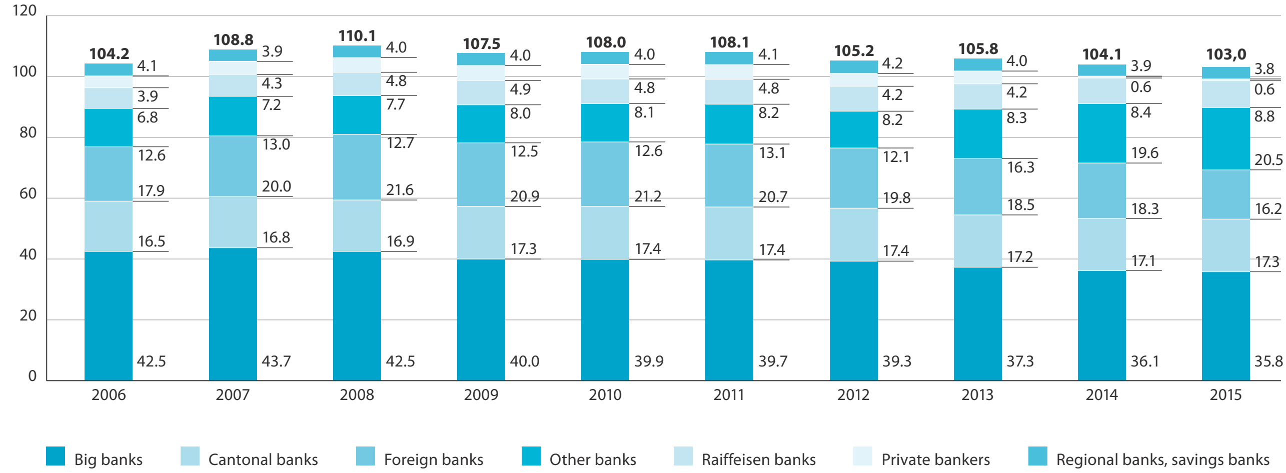
The greatest share of the decline in staff levels is attributable to the foreign banks, which reported job reductions of 2,036 or 11.2 percent of their workforce. The number of jobs at the big banks decreased by 305 (-0.8 %) and the regional and savings banks reported 102 fewer jobs (-2.6 %). The downwards trend that has been reported for numerous years now at the foreign banks in particular is attributable to a number of factors: notably, for example, a new strategic direction taken by the parent company abroad, financial difficulties experienced by the parent company, or the lack of critical mass in Switzerland.

Biggest staff reductions reported by foreign banks

Fig. 13

Staff levels at the banks in Switzerland (domestic)

In thousands full-time equivalents



Source: SNB

Swiss banks employed 38,345 women in Switzerland at the end of 2015 (full-time equivalents). The percentage of female employees remained constant compared to 2014, and accounted for 37.2 percent of staff in 2015. As in previous years, the regional and savings banks and the Raiffeisen banks reported the highest share of female employees at 45.9 percent and 45.6 percent respectively.

Share of female employees remains unchanged

According to the State Secretariat for Economic Affairs (SECO), the average unemployment rate in the Swiss banking sector was 2.5 percent in 2015. It was thus more than half a percentage point below the figure for the overall economy, which was 3.3 percent. In total for 2015, there was an average of 3,666 registered unemployed people in the banking sector, which corresponds to a reduction of 229 unemployed people compared to 2014.[17] The unemployment rate in the banking sector thus decreased by 5.9 percent, while according to SECO, the number of registered unemployed persons for the overall Swiss economy rose by 4.4 percent.

Comparatively low unemployment rate in the banking sector

17 SECO (2016).

5.2 Trends in 2016

The annual SBA survey on employment trends at the banks shows a substantial reduction in employment in Switzerland for the first half of 2016. Employment decreased by 3,454 jobs (-4.1 %) between the end of 2015 and June 2016. The respondent banks reported 3,558 incoming and 7,012 outgoing staff.

Substantial decrease in staff levels in the first half of 2016

Fig. 14

Staff levels in Switzerland[18]

Full-time equivalents	Position at 31 Dec. 2015	Position at 30 June 2016	Staff trend during 1st half of 2016			
			Incomming	Outgoing	Net	In %
Switzerland	87,083	83,629	3,558	7,012	-3,454	-4.1 %

NB:
Number of responses: 162

Source: SBA employment survey 2016

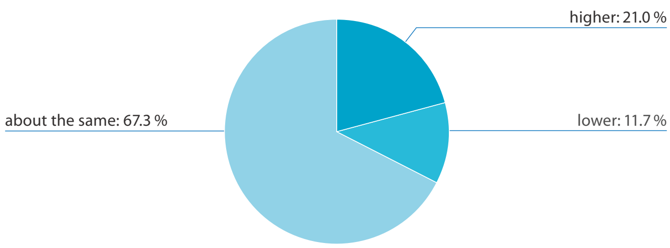
The development was exactly the opposite, however, for the number of employees abroad. The banks reported more than 9,900 incoming employees and more than 3,200 outgoing employees in this segment. This translates into a net increase in the number of employees abroad at the respondent banks of over 6,700 people.

67.3 percent of respondent banks expect employment levels to remain unchanged in the second half of 2016, which corresponds to a decrease of 2.5 percentage points compared to the 2015 survey. 21.0 percent of survey participants expect domestic staff levels to rise in Switzerland and 11.7 percent expect levels to fall. Because those survey participants that expect no change or a rise in staff levels account for a 74.9 percent share of total employment, the trend for overall employment is expected to be at least flat for the second half of 2016.

Employment trend remains constant

Fig. 15

Expected employment trend in the second half of the year 2016



NB:
Number of responses: 162
Shares as percentage of all responses.

Source: SBA employment survey 2016

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 slightly. This trend towards expectations of higher employment continued last year. Conversely, the share of banks that are more pessimistic in their expectations for this development is slightly bigger than for the

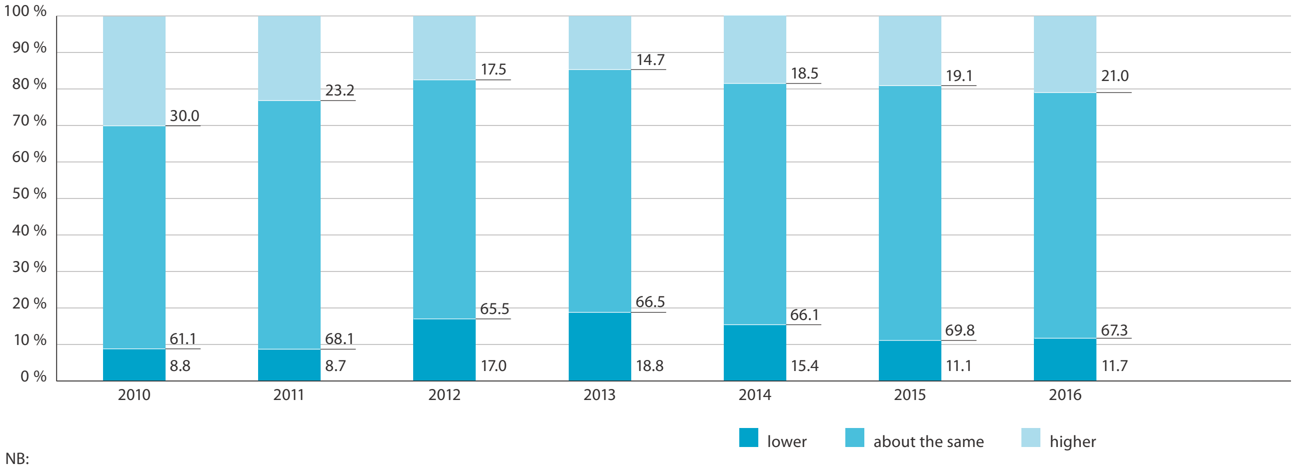
Share of respondents expecting lower employment levels remains small

18 Staff levels at the end of 2015 were lower in the SBA survey than in the SNB statistics. The reason for this disparity is the response rate to the SBA survey. 230 banks in Switzerland were surveyed. The response rate was 70.4 percent, which accounts for 84.5 percent of the staff levels at the banks in Switzerland.

previous year. However, with a share of 11.7 percent, this figure still remains significantly below the corresponding shares reported between 2012 and 2014. In general, expectations have tended to remain constant over the last few years.

Fig. 16

Survey results for employment expectations for second half of the year



NB:
Number of responses: 162.
Shares as a percentage of all responses.

Source: SBA employment survey 2016

There is almost no difference between the expectations for the employment trend in the various business areas. The expectation that the trend will remain unchanged for all business segments dominated. A number of survey respondents tend to expect a slight rise in staff levels, particularly in institutional asset management and the trading business, and do not anticipate any fall in employment. On the other hand, the expectations for staff reductions or increases in retail banking are more or less balanced. For private banking, and in particular for logistics, only a few survey respondents expect to see a decrease in the number of employees. The majority of responses indicated a tendency towards the expectation that employment will remain stable.

Employment expectations unchanged for almost all areas of business

Fig. 17

Employment trend in the second half of the year 2016

Total	Retail Banking	Private Banking	Institutional Asset Management	Trading Business	Logistics and Operations (back office)
→	→	→	→ ↗	→ ↗	→ ↗

NB:
Number of responses: between 79 and 101 depending on business activity. For "total", the number of responses is 162. 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 2016.

Source: SBA employment survey 2016

The unemployment rate in the banking sector rose slightly in the first half of 2016 from 2.5 percent in December 2015 to 2.7 percent in June 2016. The unemployment rate was therefore still below the national Swiss average of 3.1 percent in June, even though the latter has decreased since December 2015.

Slightly higher unemployment rate in the banking sector

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