

Financial Market

Foreign Banks – the Number Three in Switzerland

If you take a walk through Zurich, Geneva or Lugano, you admire the lake, the nearby mountains, the old city – and on your walk you will be struck by the well-known and less well-known names of the international banking world. Foreign banks in Switzerland – they are what give color to the local financial market place.

Your forefathers were also impressed by the ringing names of foreign financial institutions in Switzerland. In the middle of the 15th century the Florentine banking family of the Medici settled in Switzerland. Later on, primarily in the second half of the 19th century, foreign banks had an important role in providing finance for national industry and for major infrastructure projects. The securities displayed in the recently opened securities museum in Olten bear eloquent witness to the importance of the financial institutes operating internationally in this “age of capital”.

The importance of foreign banks in Switzerland grew once again in the era of asset management for private clients. In the last forty years Switzerland has risen to become the leading financial market in private banking. Cross-border asset management forms a significant proportion of this business. Foreign institutions in Switzerland look after around 20% of the assets managed for foreign private clients. After the two major banks, they are today the number three in Switzerland in this market segment!

The foreign banks on the Swiss financial market

Without foreign banks, the Swiss financial market place would not only be smaller, but decidedly dull. Almost every other bank in Switzerland is a foreign bank; they come from over 20 countries (see table), vary in size – some banks employ several hundred people, others are small, specialized niche providers – and together offer the product range of a universal bank.

Their activities make an essential contribution to Switzerland’s econom-

ic prosperity. Around 15 percent of the people employed in the banking sector work for a foreign bank; some 15 percent of the profits and almost 25 percent of the taxes in the sector are earned by the foreign banks. The foreign banks’ share of Switzerland’s GDP is about 2% – roughly the same as the watch industry or the insurance sector.¹

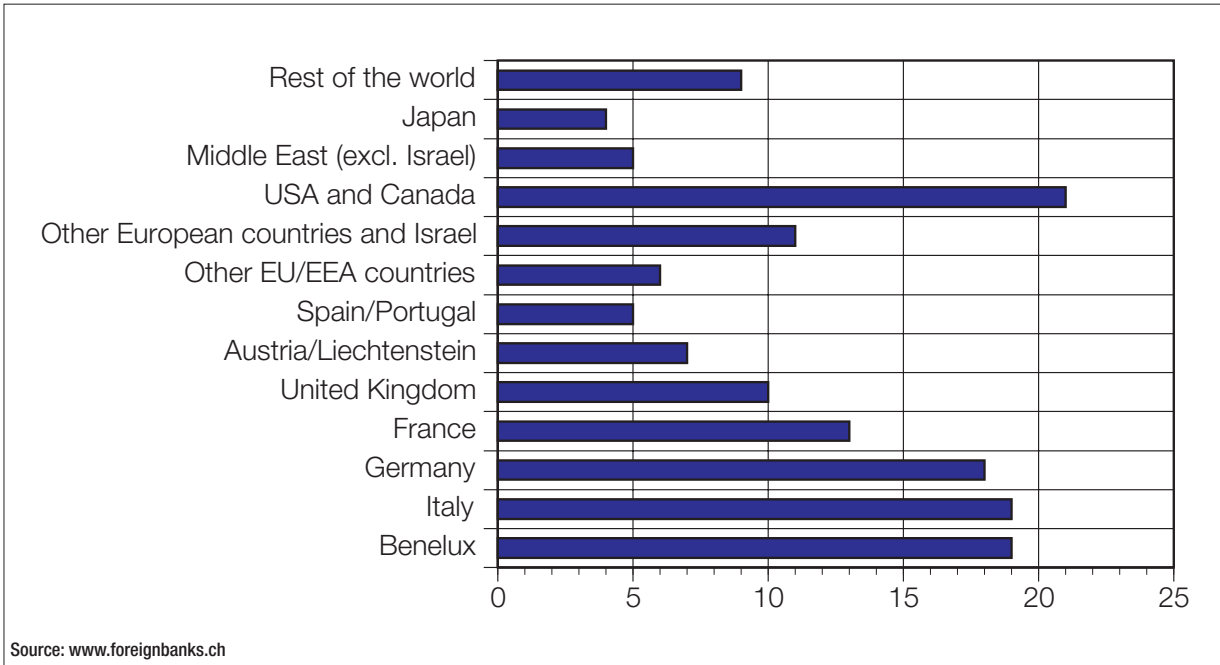
The economic fate of many companies in other branches is moreover closely linked to private banking. The banks require not only highly-qualified and specialized IT and consultancy services, but also products and services in the area of tourism, cultural activities and the up-market consumer-goods industry. It is estimated that for every job in the banking sector a second is created in another branch.

The best of both worlds

For foreign private clients Switzerland stands for stability, protection of privacy and efficiency. As banks operating in Switzerland and subject to Swiss law, foreign banks have all the advantages which the Swiss financial market offers: the legal environment, data protection for clients, the high level of education of the staff, and a back-office without equal anywhere in the world.

But for foreign private clients the name of their bank stands for solidity, competence and a good reputation. Because they form part of a bank or a banking group with a base abroad, the Swiss foreign banks are able to offer other products and services than the Swiss banks. They can fall back

¹ Further information about foreign banks in Switzerland can be found at www.foreignbanks.ch.



on specialist knowledge of foreign markets that is of interest to their clients. The Swiss address of a foreign bank thus combines the know-how of the foreign bank with the quality of the Swiss financial system. This makes foreign banks attractive business partners for a very varied, international clientele.

The significance of foreign banks for Switzerland as a financial market lies in the different know-how, the differentiated products and the international clientele. They thereby contribute to the variety of the financial market, but also make an essential contribution to its wealth creation, its competitive advantage and its growth.

It is probably the development of fund business which best shows how important the variety of providers of products is for a market. The Swiss market is the fifth largest sales market, with assets estimated at € 340 billion (in 2001) and several thousand individual funds. In 2002 the volume of fund assets grew by 4.1% – a good result compared with the markets in France, Italy or Great Britain, which are certainly bigger, but are stagnant or even shrinking. The fact that the fund market in Switzerland reached this size despite the restricted domestic demand can be attributed to the importance of private banking. Cross-

border asset management for private clients in particular makes a decisive contribution to the depth and growth of these markets, because almost half of the funds sold are marketed in this segment. With their own fund products and increasingly also with other, modern capital investment products, such as hedge funds, fund-of-funds and other modern forms of investment, the foreign banks are particularly attractive business partners.

Private banking: ... and it really is moving

Private banking is a business intent on security. But security and caution do not mean stagnation, and asset management has also changed greatly in recent decades. Client structure and therefore demand is subject to continual change. New demands are placed on banks, supervisory authorities and policy. Other financial markets – London, Luxembourg or Singapore, but also the small financial centers in the Caribbean – have made great efforts to compete with Switzerland and to establish themselves for their part in the private banking segment. So here too it is true that standing still means falling back.

For foreign banks in Switzerland

people-oriented private banking continues to take pride of place, an area in which private is being given greater emphasis than banking, as Prof. Beat Bernet from the University of St.Gallen recently pointed out. In addition to portfolio management, social interaction, social competence and “trust and care” are important pillars of this philosophy. With this orientation, today’s private banking is adhering to the tradition of asset management that grew up in Switzerland. What are today extolled as new products under “finance planning” and “family office” already have a long history in Swiss private banking.

The presence of many foreign banks on the financial market place and their contribution to the development of the banking sector is in the end an expression of their assessment of Switzerland’s quality as a financial market place. The more important the financial market, the more foreign institutions will wish to be represented in Switzerland. It is well known that success breeds success, and where many well-known institutions are active, the important institutions of the world do not want to be absent. So when you next take a walk through Zurich, Geneva or Lugano, you will once again be impressed by the large number of foreign banks. ○