

PRIVATE BANKING IN SWITZERLAND – BY FOREIGN BANKS

By Dr. Martin Maurer, Secretary General
and Raoul Wuergler Deputy Secretary General
Association of Foreign Banks in Switzerland

Switzerland has worldwide reputation for its watchmaking and chocolate but also for the services it provides in banking, especially in private wealth management. More than 350 banks, Swiss and foreign, offer their services to an ever more sophisticated clientele looking for high quality in asset management as well as in customer services. Banks in Switzerland are estimated to manage 30% of the cross-border assets which makes them one of the biggest players worldwide.

Banking is important for Swiss economy too – it generates a share of 14% to the gross domestic product exceeding by large other traditional Swiss industries such as watchmaking (1.2%), chemicals (3.9%) or insurances (2.1%).

PRIVATE WEALTH MANAGEMENT ...

A nearer glance at the Swiss financial centre reveals the importance of the foreign banks. With 150 out of 369 they make 40% of all banks and outnumber the Swiss establishments on all major financial centres. The foreign banks in Switzerland cover the whole range of banking extending from trade financing over merchant and retail banking to private banking, which constitutes the core activity for more than 85% of them. This is also reflected in the structure of the net operating revenues where the commission income clearly prevails with a share of 70%. The Swiss private banking is adapted to the particularly high expectations of an international clientele looking for tailor made services.

The private banker attributes great importance to the individual client and his particular wishes, which is enhanced by the fact that he rarely limits his services to the private wealth management business. He assists his customers in many other fields and thus becomes a privileged contact for questions related to real estate management, schooling, rental of a private jet and many more. The private banker is a private counsellor of the customer's family whom he assists in a great part of their everyday preoccupations.

The contribution of foreign banks to the Swiss economy can not be underestimated: in the business year 2001 they paid a total of CHF 6.4 bio to the three main stakeholder groups (employees, state, shareholders). Estimates based upon these figures attribute a share of about 2.5% of GDP to the

foreign banks. The latter's contribution to tax revenue makes 24% of the total originating from the banking sector; foreign banks thus rank second behind the big banks.

... AND BEYOND

The foreign banks also contribute to the Swiss economy in indirect ways. Their interest in a financial centre with a well running and established financial market infrastructure makes them active partners in all the collective enterprises providing the basis necessary to an efficient transaction management. The foreign banks therefore promoted the instalment of the "Swiss Value Chain" and they support the definition of strict anti money-laundering legislation in order to maintain the reputation of the Swiss financial centre.

Training and education is another important issue for the foreign banks as it contributes to keep up the high quality of Swiss banking. Not all foreign banks offer apprenticeships as most Swiss banks do; however, the expatriates delegated to Switzerland by the mother company and the Swiss employees working abroad ensure enriching contacts between cultures. The personal experiences and the exchange of know-how such situations offer can never be estimated at its right value.

The fact that almost half of the banks present are foreign owned – a figure matched only by some banking centres such as Luxemburg or Singapore where the banking's share in gross domestic product is much higher – makes the Swiss financial centre a truly international place. This evidently profits customers who can benefit from continuous innovation in products and services.

SWITZERLAND IS INTERESTING TO FOREIGN BANKS

Switzerland is in the centre of Europe, at the crossroads of several cultures, it offers a cultural and linguistic context rare if not unique worldwide. It was founded by representatives of four different cultures; today 21% (1.4 mio) of the residents have a nationality other than Swiss. People in Switzerland are used to dealing with those speaking different languages and having different origins; they are used to welcoming people from all over the world and satisfying even their most extravagant wishes. A 70 years old grandfather investing in derivative instruments will thus be counselled as competently as a 40 years old father wishing to plan his succession. The country's infrastructure with two intercontinental airports and a sophisticated railway system considerably facilitates access.

Swiss politics and legislation are reputed being stable and predictable. The key bodies of government are composed of coalitions representing all main

political currents. The gradual evolution which takes account of the interests of all parties concerned contributes to the stability and prosperity of the Swiss economic and monetary framework. The country's industry can fully concentrate on its core business – creation of wealth, i.e. of value added – which is particularly favourable to (private) enterprise. This is fundamental to the Swiss way of thinking which also attributes great importance to the respect of the individual and his private sphere. It is reflected in the system of direct democracy regularly inviting the citizens to actively participate in everyday politics.

The protection of the bank customers' private sphere is a clear consequence of this reasoning. The banks are given large freedom accompanied by high requirements to ensure their own control and supervision. The bank customer confidentiality, which may be compared to the confidentiality to be preserved by lawyers, doctors or priests, is paralleled by a strict regulation requiring the bank to identify its clientele.

Bank customer confidentiality is the result of a special and very personal relationship existing between the bank and each individual client whom it wishes to know best in order to serve best. To be able to provide the client with the tailor-made services in private asset management the bank requires information on his resources, interests and projects. Knowing its customers must allow the bank to identify those who best match with its culture and way of doing business. It further protects each individual client as it protects the bank of reputational risks.

Knowledge of the customer, respect of his private sphere and assistance in the realization of his individual wishes are key in providing high end private banking. Maintaining top level in these three areas will allow Swiss private banking to maintain its top position in the years to come.
