Chairman’s address, Swiss Bankers Day, 5 September 2012

A Centenary between Challenges and Opportunities

Patrick Odier, Chairman of the Swiss Bankers Association

Dear ladies and gentlemen

In the centenary year of the Swiss Bankers Association, the challenges faced by the financial sector have rarely been so numerous. The situation reminds me of a motorway where lots of roadworks are taking place: no sooner is one set of works complete than another begins. Sometimes they are miles long and it is difficult to see the progress that is being made. At other times driving is difficult and dangerous, and the route can change overnight. And yet: things do get better. It is easier to drive on the new road, and journeys are completed quicker and safer. It is no different for us. Let us take a quick tour of the roadworks taking place in the Swiss financial centre with respect to the tax agreements, US business and regulation, and also look at how we need to position ourselves to open up new areas. I will then finish by addressing three other fundamental issues before saying a few words about our centenary.

Tax agreements – into extra time
The negotiations on the tax agreement between Switzerland and Germany were tough, and the process of political approval is proving just as difficult. While the agreements in the UK and Austria created little political controversy before being ratified in June, the political debate is still raging in Germany. It was necessary to sign an additional protocol to the tax agreement, but the adjustments have not affected the main provisions of the agreement, and we have always stressed that we are not willing to make further concessions. To recap, the conditions for our approval were that the tax rates for the past are set at appropriate levels, the future rates are comparable with the standard rates applicable in that particular country, privacy is protected at all times and an improved level of bilateral market access can be achieved. As such, the banks firmly support all three agreements. In
fact, they are already implementing the sense and spirit of the agreements, having put in place recommendations in March of last year not to provide active assistance to clients wishing to leave Switzerland. In June 2012, the Swiss Parliament also voted in favour of the agreements. Directly after that, a referendum was called by groups on the left and right of the political spectrum. The referendum deadline expires on 27 September. Those on the left would prefer to simply surrender the decades-old protection of the financial privacy to other countries on a plate, while those on the far right are finding it difficult to accept that the world is changing and that an open economy such as Switzerland is not in a position to act without compromise. As is often the case, however, Swiss voters will not be misled and will recognise that the tax agreements are not just in the interest of banking customers, the countries signing the agreements and the banks, but above all are a good thing for Switzerland, the Swiss economy and – over the long term – the Swiss workforce. But it is not just in our country that all the democratic stops are being pulled out, risking a debacle. In Germany, the majority of the Federal states that are currently governed by the opposition are trying to turn the tax agreement into an election issue, in some cases using harsh tones. It is absolutely unacceptable that authorities are continuing to buy actual or fictitious data CDs, neglecting completely the text and the spirit of the agreement. It is truly cynical that those, who accuse us of misconduct, are ready themselves to purchase data that they know to have been stolen. For a government, the end justifies the means even less so than for anyone else. I remain optimistic, however. By the end of November or early December, there will be a historic opportunity to complete these decade-old "roadworks" once and for all, and to drive on new, improved roads in future. I hope that all the parties involved realise this, as there are no other possible or tenable options. This is the only road that leads to the future, and it is now time to finish building it.

US cross-border: still a difficult area
Another example of lengthy "roadworks", which in this case have also become highly dangerous due to oncoming traffic, is the cross-border issue with the US. This unfortunately escalated again at the start of the year following the indictment of Wegelin bank. Huge efforts have been made in recent months to find a global solution for all banks. I'm referring here in particular to the additions to the double taxation agreement, which permits group enquiries based on behavioural criteria.

In any event, 11 banks that are currently still under investigation by the US authorities have been obliged to disclose information to the US Department of Justice relating to their cross-border business activities with American clients. Some have also been forced to
surrender the names of certain bank employees, after the Federal Council lifted the ban under Art. 271 of the Swiss Penal Code on the condition that the banks comply with their obligations under Swiss employment law and their data protection obligations. I want to make it very clear that in such a difficult situation these banks are fully responsible for providing their employees with all the support they eventually need. This is an extremely regrettable situation that we would all have liked to avoid, but it was clearly an emergency: the very existence of these banks was under threat.

Our Association also wants to help safeguard the interests of all involved parties, both on a judicial and moral level.

The US now needs to show that it is interested in finding a mutually satisfactory solution to the negotiations. For banks in Switzerland, the main concern is still to find a definitive solution that covers the entire financial centre.

One important element of these roadworks will hopefully soon be completed, however. The Bankers Association was one of the first organisations worldwide to highlight the major problems related to the implementation of FATCA. It is therefore a highly positive development that Switzerland (and Japan) were able to enter into negotiations with the US. This means that a more effective way of implementing FATCA is likely to be found. Unlike the agreements with five European countries, this solution also fits better with our legal system.

**Regulation – better coordination needed**

Effective, reasonable regulation is key for us and for the Swiss financial centre. For this reason, we have always taken a very constructive approach to new regulation proposals, most recently, for example, regarding the TBTF regulations and capital adequacy requirements. This also includes self-regulation, as we saw recently in the mortgage industry. But we have also had numerous discussions with our regulators in which we have emphasised Switzerland’s particularities, advocated a level playing field and in particular highlighted the harmful effects of (too much) regulation, above all when compared to other financial centres. It is these considerations, far removed from any dogma, that have shaped our position on the current revision of the Collective Investment Schemes Act. We have always said how important it is for the banking industry, public authorities and politicians to pull together in these difficult times. The same goes for roadworks: in order to make progress, everyone needs to work together, agree on a common approach and coordinate the project. We need to work harder to achieve this in the Swiss financial
Positioning ourselves for the future

The Bankers Association is well aware that we need not only to work towards a solution to past problems, but also to look to solutions for the future of the Swiss financial centre. Our financial centre has the means to maintain its position as a world leader and to safeguard jobs in Switzerland. Without wanting to go into the technical details, two conditions must be met to achieve this. I have already spoken about the first: we need to continue adapting our regulatory framework. Secondly, we must do everything we can to tap into additional areas of growth, both in our traditional areas of business as well as in those of the future. In this respect, the Bankers Association is working together with other financial market participants to develop a pro-active strategy aimed at realising the huge potential of the Swiss financial centre throughout the entire value chain.

In terms of future regulation, Switzerland will have to implement the latest revision of the FATF standard, primarily in the area of tax offences, which are now classed as a predicate offence to money laundering. Other measures are also being examined at present, but in terms of a “clean money strategy”, Switzerland must aim to avoid measures that are stricter than international standards, otherwise the financial centre could find itself at a competitive disadvantage as its banks would be the only ones to implement such measures. In particular, systematic self-declaration must be rejected, as it is not used in any other country, does not correspond to any standard and casts unjustified suspicion over all clients. In this context the Federal Council’s decision to take time to consider the situation and not jump the gun on this issue seems sensible.

I would now like to talk briefly about three areas we need to focus on in order to develop our business and activities. The Swiss private banking business is based on its globally unique expertise and it is in an ideal position to manage the increasing volumes of assets from emerging markets. To do so, we must have competitive conditions in place. In terms of asset management, the policy of developing Switzerland as a key player in this market will create additional jobs that add significant value. We are working actively to achieve this goal, currently for example, by revising the Collective Investment Schemes Act. In the same way, Switzerland has what it takes to become a major financial centre for trading the
renminbi, which will play an increasingly important role in international trading over the coming years. I recently travelled to China, where I received some positive signs in this respect from the Chinese authorities. Switzerland is lucky enough to be able to count on highly educated and talented staff, excellent universities and very solid micro and macroeconomic fundamentals. If we are to maintain this, however, then we must be unstinting in our drive for excellence. This applies in particular to education and training, which is a key factor for our future success and our capacity for innovation.

Let me now close by giving you my thoughts on three fundamental aspects of the situation facing banks in our country:

Ensuring that the banking sector remains the engine of the Swiss economy
The Swiss banking industry is facing a very challenging situation. The repositioning of the international asset management business that started over two years ago is not without risk. What we thought was safe business could quickly desert us. Generating new business takes time and, above all, favourable framework conditions and better market access. This means we cannot be sure whether the financial centre will be able to perform its important function for Switzerland going forward. By way of a reminder, throughout the entire financial crisis, we never experienced a credit crunch in Switzerland, unlike in neighbouring countries. The main reason for this is that we have a healthy financial system and banks that are among the best capitalised in the world. The financial centre contributes 10.5% to added value and 12-15% directly or indirectly to tax revenues, and provides around 200,000 jobs with high added-value. So far, so good. But none of this is guaranteed. For it to remain this way in the future, the banking sector has to do its homework. We have to be even better, more innovative, and more client-oriented. Business models must remain clearly focused on taxed assets. As I said to you earlier, we have a clear vision: we intend to remain a leading international financial centre.

Responsibility of financial intermediaries
Despite the tangible efforts made in recent years, our financial centre has to continue adopting the highest professional standards. Too many issues from the past continue to sully our reputation and sap our efforts. Certain changes have to be made to the way participants conduct themselves, and the Swiss Bankers Association will be unwavering in working towards a responsible and sustainable financial centre. It goes without saying that we have such a responsibility not only to our clients, but also to the Swiss economy and society as a whole, and also to our employees.
Dialogue and support from the political world

However - and here I want to be very clear - we cannot achieve this goal on our own. And I'm not referring here just to the need to clean up after the past. Our banking sector can only remain successful if, in addition to supervision, it also receives support from politicians, whether regarding the tax dispute with the US, TBTF or now the referendums on the tax agreements. We need to have a real debate on these issues, which addresses them in a rational way and does not turn them into an election issue. What is at stake here is too important to sacrifice to party-political wrangling – not only for the financial centre but for all of Switzerland, especially in terms of jobs! If we were to be left looking foolish, the only beneficiaries would be our competitors in Europe and Asia.

SBA centenary

We celebrate our 100th birthday this year. So despite all the problems we are currently facing, I would like to end my speech on a somewhat lighter note.

“The past must be a springboard, not a sofa,” the former British Prime Minister Harold Macmillan once said. This reflects our approach to this year’s centenary. Ready for change and looking to the future, but based on the traditional values that have brought the financial centre to where it is today: at the forefront.

We did not want the main focus of this centenary year to be on the past. In brief, then, our association was established on 16 November 1912 as the Vereinigung von Vertretern des schweizerischen Bankengewerbes (the Association for Representatives of the Swiss Banking Industry). 316 members and representatives of 159 financial institutions gathered for the foundation meeting just a few hundred metres from here in the City Hall. This is also the reason we have returned to Basel for this year’s Bankers Day.

One of the founding members, Friedrich Frey, the former director of Bank in Basel, was elected as the first chairman. I am his ninth successor, which says a lot about the long term of office of our association’s heads.

The foundation meeting also approved an initial budget of 25,600 Swiss francs, with annual expenditure of 9,600 Swiss francs, meaning that reserves were created even in the very first year. Times have changed in this respect too.

The Bankers Association has always played a key role in shaping Switzerland’s financial centre, particularly with regard to the implementation of our regulatory framework. The most notable examples are the Banking Act, the Stock Exchange Act, the Collective
Investment Schemes Act, the Agreement on Due Diligence, and before long the new law on financial services. It goes without saying that we too have not been immune to crises: the Chiasso scandal and the unanswered questions surrounding dormant assets are still fresh in the memory. And, surprise surprise, there have been tax disputes from the very beginning. If you look through the centenary book that has been published, you will see how the association has worked tenaciously on an increasing number of fronts since its foundation, and how the same problems and challenges keep presenting themselves, albeit in different forms. And I am certain that in the future, just as in the past, we will be able to face up to them and press ahead with our development.

Thanks and …

Over the course of this year we have run various campaigns under the motto “Thanks and values” to thank all the people in this country who, like the banks too of course, help make Switzerland such a prosperous nation. One campaign involves portraits of 100 people for a volume of photographs and an exhibition, which will then be auctioned off for charity at the end of the year. You will hear more about this. Others include the centenary website and the Dankomat, which is on tour throughout Switzerland and here with us today, where anyone can record a thank you video. And finally there is also a short film that intersperses this thank you message with images of day-to-day life in Switzerland.

But take a look for yourselves.

... values

The film also demonstrates what I said a year ago: we have to reclaim the values that have set Switzerland and our financial sector apart from the international competition for more than 100 years, in particular stability, universality, excellence and responsibility.

We are conveying these messages in our centenary year too.