SwissBanking

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Banking Barometer 2017

Economic trends in the Swiss banking industry

Content

Executive Summary

The banking sector makes a significant contribution to the success of the Swiss financial centre. Switzerland is one of the leading global financial hubs and in 2016, was again among the most competitive financial centres in the world. At the end of 2016, there were 261 banks operating in Switzerland, five fewer than in the previous year.

Two Swiss cities, Zurich and Geneva, ranked 11th and 20th in the Global Financial Centres Index 2017. This represents a considerable decline in their appeal compared to previous years.

The banks in Switzerland are facing major challenges: rising regulatory costs, negative interest rates, shrinking margins, increasing customer demands, digitalisation, political and legal uncertainties during the Brexit negotiations as well as uncertainty regarding the future policies of the US. The ongoing decline in margins and the digitalisation of the financial sector will continue to drive structural realignment in the banking sector in the coming years.

The banks are addressing these challenges and are succeeding in their efforts to develop robustly in this uncertain environment.

The Swiss National Bank (SNB) introduced negative interest rates over two years ago. At the end of 2016, bank deposits totalling CHF 234 bn were subject to negative interest rates in Switzerland. In 2016, negative interest rates once again had a dampening effect on interest rate margins industry-wide. As a result, the deposit business has little room for manoeuvre. The high demand for credit arising from the interest rate environment enabled the banks to compensate for the pressure on margins by increasing lending volumes.

Brexit and the political situation in the US will continue to create uncertainty for the Swiss banks in the near-term.

The digital transformation offers major opportunities for the financial centre and the Swiss economy. A report by the Federal Council about the key framework conditions for the digital economy concludes that Switzerland is well-positioned to assert itself in the structural change arising from digitalisation. Digitalisation facilitates the relocation of individual departments and business processes, however, it also results in changing job profiles for bank employees.

Recently, there has been a strong trend towards collaboration between fintech companies and banks. As part of this collaboration, the established banks are expected to contribute their strengths in areas such as regulation or safeguarding assets and data, and the high level of trust of customers associated with this, while startups provide an ideal framework for the development of new business ideas.

In order to overcome the challenges presented by the structural change arising from digitalisation, all affected parties must be involved early on and any need for action must be identified quickly. The Swiss Bankers Association (SBA) established a fintech group of experts to this end in the summer of 2016.

Although various indicators continue to identify Switzerland as being very competitive, the costs arising from the density of regulation are weighing heavily on the banks. It is therefore necessary to reduce their administrative burden and improve existing and future regulation.

In order to remain a leading global financial centre, Switzerland requires market access to foreign customers. To ensure regulatory equivalence, Switzerland is committed to international standards. Examples thereof are the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA).

Switzerland is implementing international standards such as the Automatic Exchange of Information (AEOI), which came into force on 1 January 2017. In addition to Switzerland, over one hundred countries, including all key financial centres and the financial centres against which Switzerland competes, have committed to adopting this standard.

Switzerland requires the best possible, internationally recognised framework conditions in order to improve in international comparison and continue to have a strong, competitive international financial market in future. In its October 2016 financial market report, the Federal Council recognises the important role of the financial centre for the Swiss economy and is promoting Switzerland as a competitive, leading global financial centre. In order to credibly represent the interests of the financial centre and clearly position the Swiss financial centre at home and abroad, close and intensive collaboration between all financial centre stakeholders, business, the authorities and politicians is needed. The trip taken by the Federal Councillor with industry representatives to Asia in April 2017 is a first example of this kind of successful collaboration.

In 2016, aggregate operating net income for the banks in Switzerland fell by 3.2 percent to CHF 62.5 bn. Compared to the previous year, net income from the interest-earning business declined by 2.7 percent. One reason for this were the negative interest rates. However, as in the previous year, net income from the interest-earning business made the largest contribution to aggregate operating net income despite this decline. Due to customers' high sensitivity to prices, the banks' room for manoeuvre was limited in terms of passing negative interest rates on to customers through higher commissions. As a result, net income from the commission and services business fell by 6.7 percent in 2016. Another reason for this decline was the trading volume, which was generally low. Net income from the trading business was also impacted by this factor, and fell by CHF 2.4 bn in 2016. In contrast, other ordinary net income rose by 27.9 percent to CHF 11.4 bn, accounting for 18.2 percent of total net income at the end of 2016. These increases are likely due to the improved economic environment in Switzerland in 2016 compared to the previous year as well as the successful handling of the 2015 "Frankenschock".

Gross profit declined by 16.8 percent in 2016. The banks paid CHF 2.3 bn in income taxes and taxes on earnings.

The aggregate balance sheet total of all the banks in Switzerland rose by 2.5 percent to CHF 3,100.8 bn in 2016. Mortgage loans increased again in 2016 compared to the previous year, by 2.6 percent. Accounting for 31.2 percent of the balance sheet total, they were the biggest asset item. Liquid assets also rose, by 10.9 percent. This rise is primarily attributable to the SNB's foreign exchange purchases and the increase in the banks' sight deposits held at the SNB. The item trading portfolios of securities and precious metals decreased once again compared to the previous year, by 19.4 percent. One reason for this is the overall decline in the trading business.

On the liabilities side, liabilities in the form of customer deposits recorded a rise of 2.7 percent. Sight deposits accounted for the largest share of liabilities at the end of 2016 at 28.9 percent. In contrast, time deposits have become less attractive in the low interest rate environment and accounted for a share of only 6.5 percent. Equity capital recorded a rise of 7.1 percent.

In the first five months of 2017, the aggregate balance sheet total of the banks in Switzerland increased once again, by 0.8 percent, thus continuing the trend seen in 2016. The largest increases are attributable to trading portfolio assets and amounts due from securities financing transactions. This is due to the fact that the trading volume rose significantly in the first half of 2017 compared to the previous year. On the liabilities side, a further increase was recorded for the items liabilities from securities financing transactions, amounts due in respect of customer deposits and equity capital.

The banks' lending business is an important pillar for economic development in Switzerland. Lending to companies and private individuals in Switzerland is intact. Compared to the previous year, the total domestic credit volume rose 2.9 percent to CHF 1,107.5 bn in 2016. Of that total, CHF 158.2 bn originated from secured and unsecured customer loans and CHF 949.3 bn was attributable to mortgage loans. At 2.7 percent in 2016, domestic mortgage lending growth was slightly higher than in the previous year (+2.6 %). Unsecured loans (+1.8 %) and secured loans (+7.7 %) increased compared to the previous year.

Despite stricter regulatory framework conditions and the low interest rate environment, Switzerland remains the international leader in global cross-border private banking with a 24.0 percent share of the market. Assets under management in Switzerland rose 1.3 percent to CHF 6,650.8 bn in 2016. The share of foreign customer assets fell from 49.3 percent to 48.2 percent.

In 2016, the banks employed 101,382 people (in full-time equivalents) in Switzerland. The employment figures were impacted by the difficult economic framework conditions and structural adjustments in the banking landscape, and fell by 1,660 jobs (-1.6 %) compared to the previous year. Consolidation in terms of the number of jobs also continued in the first half of 2017. However, the decrease in the number of staff was around one percent, and therefore lower than in the past. The results of a survey conducted by the SBA of around 160 banks indicate that expectations for the trend in the number of jobs for the remainder of the year are cautiously optimistic.

1 The Swiss banking sector

The banking sector makes a significant contribution to the success of the Swiss financial centre. Switzerland is one of the leading global financial hubs and in 2016 and was again among the most competitive financial centres in the world. Two Swiss cities, Zurich and Geneva, ranked 11th and 20th in the Global Financial Centres Index 2017.[1]

The sector comprises a wide variety of banking institutions with differing business models. The range of services offered is comprehensive and is developing rapidly in the digital banking segment. In an economic environment that has been challenging for many years, the Swiss banking sector makes an important contribution to value creation in Switzerland, accounting for five percent thereof in 2016.[2]

At the end of 2016 there were 261 banks operating in Switzerland, five less than the previous year. The main reason for this change is the reduction in the number of foreign banks. With the founding of Credit Suisse (Schweiz) AG as a wholly owned subsidiary of Credit Suisse AG, a new institution was added to the group of big banks. One bank in the private bankers group was reallocated and is now in the group of stock exchange banks.

The SNB divides the banks in Switzerland into eight groups: cantonal banks, big banks, regional banks and savings banks, Raiffeisen banks, foreign banks, private bankers, stock exchange banks and "other banking institutions".

1 Z/Yen Group Limited (2017).
2 Federal Statistical Office (FSO).

Fig. 1

Structure of the Swiss banking sector as at year-end 2016

	No. of institutions 2015	No. of institutions 2016	New additions	Reallocations	Reductions
Cantonal banks	24	24			
Big banks	3	4	1		
Regional banks, savings banks	62	62			
Raiffeisen banks	1	1			
Foreign banks	111	107	1		5
Private bankers	7	6		-1	
Stock exchange banks	44	43		+1	2
Other banks	14	14			
Total	**266**	**261**	**2**		**7**

Source: SNB

1.1 Economic environment of the banks in Switzerland

1.1.1 Economic policy

Negative interest rates

The period of international, ultra-expansive monetary policy has been persisting for an extended period of time and continues to be a central issue for the SNB. The risks associated with this policy are increasing at the same rate as the effectiveness of further extraordinary monetary policy interventions is decreasing. The SNB is faced with a so-called monetary policy trilemma, in which only two of the following three objectives can be achieved at the same time: "stable exchange rates", "free movement of capital" and "autonomous monetary policy".

Further to its foreign exchange market interventions, the SNB introduced negative interest rates over two years ago to relieve the pressure on the Swiss franc. At the end of 2016, bank deposits of CHF 234 bn were subject to negative interest rates in Switzerland. In 2016, negative interest rates once again had a dampening effect on interest rate margins industry-wide. As a result, the retail business has little room for manoeuvre. The high demand for credit arising from the interest rate environment enabled the banks to compensate for the pressure on margins by increasing lending volumes. The Swiss Financial Market Supervisory Authority (FINMA) and the SNB have identified an imbalance between mortgage lending and economic growth, with the former experiencing disproportionately strong growth in recent years compared to the latter. They are therefore monitoring this trend very closely.

In the deposit business with retail clients, most banks have to date refrained from passing negative interest rates on to their private customers, with only a few exceptions. They are compensating for the resulting losses in part through the lending business and by increasing fees. In general, the banks are passing negative interest rates on to institutional and high net worth customers.

Brexit and the US

Brexit and the political situation in the US will continue to create uncertainty for the Swiss banks in the near-term.

The Brexit decision is causing legal uncertainty for the United Kingdom during the negotiation period and will continue to do so during the transition period. This is a particularly serious matter for finance-related activities, especially for the distribution of financial services to private customers. Banks are considering alternative scenarios such as expanding another location within the EU to the detriment of London. Certain institutions are already serving their EU customers out of Luxembourg and Frankfurt. This distribution channel is likely to be ramped up if the British government aims for a hard Brexit and the British banks were to lose their access to the EU single market.

There are fewer uncertainties in asset management and wealth management for institutional customers because in these segments, the applicable legislation (AIFMD and MiFIR, among others) contains equivalence provisions that the UK is able to meet.

Under the new US administration, uncertainty prevails about the country's future policies. Issues such as deregulation and tax cuts, as well as renegotiations and unilateral measures for trade could result in shifts in the international competition between locations. Concrete examples include the intention to abolish parts of the Dodd-Frank Act and the questioning of the legitimacy of the Basel Committee on Banking Supervision and the Financial Stability Board (FSB). Switzerland must closely follow the developments in the elaboration of international framework conditions and if necessary, undertake to make its own adjustments to reinforce competitiveness in a timely manner.

Digital economy

The digital transformation offers major opportunities not only for the financial sector, but for the Swiss economy as a whole. As a result, the Federal Council approved a report[3] in January 2017 regarding the key framework conditions for the digital economy, according to which an assessment of the current situation will be conducted as part of the "Digital Switzerland" strategy that was adopted in April 2016.

The report concludes that Switzerland is well-positioned to assert itself in the structural change arising from digitalisation: in general, the foundation provided by existing legislation is suitable, and select adjustments to existing standards are sufficient. For the development, production and distribution of new digital products, there should be a maximum possible amount of room for manoeuvre. The Federal Council also mandated the State Secretariat for Economic Affairs (SECO) to conduct a "digitalisation test" survey of the private sector. The objective is to present an analysis of the digital suitability of the existing economic legal framework and identify any potential need for revision.

3 "Bericht über die zentralen Rahmenbedingungen für die digitale Wirtschaft", Federal Council (2016).

1.1.2 Structural change

Relocation of jobs

The low interest rate environment, stricter rules for lending and new capital requirements continue to put downward pressure on the banks' margins, and call for measures that will help to improve the situation in terms of costs and revenues. Digitalisation offers significant opportunities in this area. These are developing rapidly and allow for new offerings to be created and business processes to be optimised, which also make it possible to reduce labour costs. On the other hand, digitalisation facilitates the relocation of individual departments and business processes through outsourcing to suppliers or countries with lower labour costs. As a direct consequence of digitalisation, job profiles for bank employees are also changing. It is not surprising that the excess of job vacancies compared to the number of unemployed is highest for IT professionals, while for sales, the balance is clearly negative.[4]

Digitalisation

Digitalisation is very quickly changing the world of banking and the speed at which this is happening continues to increase. Only a few years ago, there was a general perception that due to their disruptive potential, fintech startups could eventually challenge the banks' raison d'être. Recently, however, there has been a strong, visible trend towards collaboration between fintech companies and banks. Because their share of the value chain is shrinking, the established banks are increasingly faced with having to re-examine their business models and how they produce services in this context. However, when it comes to acquiring customers, their regulatory expertise, experience in safeguarding assets and data, and the high level of trust that comes as a result give the banks a significant advantage over startups. Startups provide an ideal framework for the development of new business ideas and can implement these at a faster pace than established banks. By collaborating with startups, the banks can therefore expand their service offering and realise efficiency gains.

4 Arbeitgeber Banken Monitor (3/2017).

FINMA and FDF react to digitalisation in the financial sector

The emerging digital ecosystem and business models are increasingly leading to diverging interests in terms of the existing regulatory framework conditions. In November 2016, the Federal Department of Finance (FDF) was therefore mandated by the Federal Council to quickly draft a bill that eases the regulatory framework conditions for providers of innovative financial technologies. Under the new rules, for example, funds of up to 1 million Swiss francs can be accepted without authorisation. Less stringent rules have been in place for digital financial services providers since 1 August 2017. At the beginning of July 2017, the Federal Council adopted the revised Banking Ordinance.

FINMA has also reacted to the advancement of digital business models, for example by establishing a fintech desk for startups at the beginning of 2016. As a result, it is now possible to respond to inquiries expediently and create legal certainty.

Favourable locational conditions for fintech

In order to overcome the challenges presented by the structural change arising from digitalisation, all affected parties must be involved early on and any need for action must be identified quickly. The SBA has therefore been addressing the matter of fintech for some time and maintains a close dialogue on the subject with the authorities, regulators and banks. During the summer of 2016, the SBA founded a fintech group of experts, which is composed of high-ranking representatives from all the bank groups. Among other things, the fintech group of experts monitors seminal fintech developments and analyses the suitability of the framework conditions with a view to strengthening the finance industry and ensuring a level playing field for banks.

Favourable locational conditions for fintech are essential for the preservation and greater competitiveness of the entire financial centre. However, it is important that in the interests of a level playing field, innovative services are supported and not individual supplier segments. This means that existing financial services companies should be able to participate in the innovative fintech market by meeting the same regulatory requirements as new providers. Particularly in the area of money laundering, it would be extremely risky for the Swiss financial centre if the duties to be met by fintech companies were relaxed.

1.1.3 Regulation

Although various indicators, such as the IMD ranking[5], continue to identify Switzerland as competitive, analyses that focus primarily on the density of regulation, paint a different picture. For example, between 2005 and 2017, Switzerland lost ground in the World Bank's Doing Business Index. One reason for the decline in Switzerland's international competitiveness as a business location is the continuous rise in the density of regulation. It is therefore necessary to reduce the administrative burden and improve existing and future regulation. These findings are reflected in the Federal Council's new growth policy for 2016 to 2019.[6] The SBA is also advocating the concept of a good regulatory policy centred around an independent regulatory inspection authority.[7]

Framework conditions established on the basis of good regulatory policy create a positive business climate for both providers and customers: cost-effective, expedient and proportionate rules attract providers and customers and thus result in the creation of value added and jobs in Switzerland.

In its first annual report, the advisory board for the future of the financial centre takes a similar view.[8] This group of experts consisting of 19 members was appointed by the Federal Council. Isolated from the daily business, it is charged with addressing issues surrounding the long-term financial market strategy until the end of 2019. Among other things, at the end of 2016, the advisory board submitted the concrete recommendation to the Federal Council that ex-post analyses should be introduced for important financial market regulations: several years after a regulation is introduced, the costs and benefits thereof should be analysed and recommendations for improvement should be developed.

5 Competitiveness Ranking, Institute for Management Development (IMD).
6 “Neue Wachstumspolitik 2016–2019”, Federal Council (2016).
7 “Konzeptionelle Grundlagen einer unabhängigen Regulierungsprüfstelle”, Büro Vatter (2016).
8 “Jahresbericht 2016 zuhanden des Bundesrates”, Future of the financial centre advisory board (2016).

FinSA and FinIA

In December 2016, the Council of States as the first chamber concluded its debate regarding the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) and made a number of amendments and improvements to the bills (among others, the removal of insurance companies from FinSA, rejection of the facilitation of the initiation of legal actions by financial customers, rejection of the reversal of the burden of proof for information and disclosure obligations). The bills are now with the National Council and are expected to come into force at the beginning of 2019 at the latest.

Basel III

In March 2016, the Basel Committee on Banking Supervision proposed new rules[9] according to which the use of internal risk models by banks for the calculation of their regulatory capital is to be restricted. The adoption of the new package of regulations, which was initially planned for January 2017, has been postponed indefinitely due to its members' ongoing differences of opinion, particularly between the US and the EU. In the interests of competitiveness, Switzerland must in particular ensure that it does not hastily implement regulations that in the end extend beyond the requirements of the Basel Banking Supervision.

1.1.4 Taxes and compliance

AEOI in force since 1 January 2017

The act and ordinance for the AEOI, which governs the global exchange of information regarding the accounts and custody accounts of taxpayers between the tax authorities and participating countries, have been in force since 1 January 2017. In addition to Switzerland, over 100 nations, including all key financial centres and financial centres with which Switzerland competes, have committed to adopting this standard. Information is being collected this year and will be exchanged by the Swiss authorities with 38 countries including all EU countries starting in 2018. Switzerland has agreed to exchange information with 43 additional countries from 2019 onwards. These commitments must still, however, be ratified by the national parliaments.

9 Basel Committee on Banking Supervision (2016).

AEOI is highly significant for Switzerland, as around one-quarter[10] of global assets managed cross-border are held in Switzerland. The Swiss financial centre is therefore strongly advocating a single global standard whereby all nations collect and exchange the same data, the information is used exclusively for the purposes foreseen in the agreement and the confidentiality of data is guaranteed. The protection of privacy and professional confidentiality for customers are important matters for the Swiss banks, and sufficient legal and technical data protection is therefore essential.

The Financial Action Task Force (FATF) Mutual Evaluation

In 2014, the FATF revised its 40 recommendations, resulting in a necessary adjustment to Swiss anti-money laundering mechanisms. This came into force on 1 January 2016.[11] In December 2016, the FATF published its fourth Mutual Evaluation Report[12], which assesses the implementation of the recommendations that were revised in 2012. In its Mutual Evaluation Report, the FATF recognises the quality of the Swiss mechanisms for the fight against money laundering and terrorist financing. The Swiss financial centre achieved an above-average result compared to those countries that had already been reviewed.

1.1.5 Competitiveness

It is not only digitalisation that calls for continuous adjustments to the Swiss financial centre's framework conditions, but also the further development of certain areas of business. The expectations for growth in the cross-border wealth management business are significantly lower than for competing financial centres. Zurich and Geneva achieved their best rankings in the Global Financial Centres Index in 2013. Since then, Zurich has fallen from 5th to 11th place and Geneva from 7th to 20th place. This underscores the necessity for improving locational factors in Switzerland. In order for Switzerland to improve in international comparison and continue to have a strong, competitive international financial market in future, the best possible, internationally recognised framework conditions are required.

10 The Boston Consulting Group (2017).
11 Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 16).
12 Mutual Evaluation Report, FATF (2016).

The political decision-makers have recognised the signs. In October 2016, the Federal Council introduced the goals for the further development of the Swiss financial market strategy in its financial market report.[13] While the implementation of globally-recognised standards will continue to be a core policy issue, the Federal Council is of the view that room for manoeuvre in Switzerland should be exploited and the framework conditions in the Swiss financial centre should be forward-looking and efficient. In the report, it recognises the important role of the financial centre for the Swiss economy, and commits to promoting Switzerland as a competitive, leading global financial centre.

Promotion of the Swiss financial centre

According to the Federal Council, the FDF is to assume an important role in promoting the financial centre. In addition to tax compliance, issues such as the healthy capitalisation of the banking system, the expertise, excellent training, political stability and the foreseeability of legislation are to be promoted abroad. Federal Councillor and Head of the FDF Ueli Maurer put his intentions into action in April 2017 by travelling to Asia. Together with the SBA and other representatives of the financial sector, he visited Beijing, Shanghai, Hong Kong and Singapore to conduct almost 40 bilateral meetings and a number of promotional events.

In discussions about regulation, fintech, market access and collaboration with Asian banks, the interlocutors expressed their willingness to further collaborate and declared themselves in favour of joint projects. The regulatory and political environment demand a rising level of transparency and security, which means that a new commensurability must be found and coordination with like-minded partner states such as Singapore is becoming increasingly important. In order to credibly represent the interests of the financial centre and clearly position the Swiss financial centre at home and abroad, close and intensive collaboration between all financial centre stakeholders, business, the authorities and politicians is required.

13 "Financial market policy for a competitive Swiss financial centre", Federal Council (2016).

Fig. 2

Select events that impacted the financial centre

When	Issue	Event
Jan 16	Tax and compliance	FINMA puts the fully-revised Anti-Money Laundering Ordinance into effect. The revision takes into account both the revised Anti-Money Laundering Act as well as the adjustments to the international standard.
Jan 16	Tax and compliance	The revised Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 16) comes into force on 1 January 2016.
Jan 16	Regulation	The Financial Market Infrastructure Act (FMIA), which governs the organisation and operation of financial market infrastructures as well as conduct for securities and derivatives trading, enters into force.
Jan 16	Structural change	FINMA launches a fintech desk for startups.
Jan 16	Regulation	The Basel Committee issues the revised capital requirements that will come into force at the beginning of 2019.
Jan 16	Banking sector	The China Construction Bank (CCB) becomes the first Chines bank to open a branch in Zurich.
Feb 16	Tax and compliance	The US Department of Justice concludes the voluntary disclosure programme for Swiss banks, under which 80 institutions admitted to aiding and abetting tax evasion and paid USD 1.3 bn in fines.
Feb 16	Banking sector	Private bank EFG International acquires Ticino-based BSI for CHF 1.3 bn.
Mar 16	Tax and compliance	As the first chamber, the Council of States approves AEOI with the EU.
Mar 16	Structural change	FINMA approves online and video identification for account openings.
Mar 16	Regulation	The Basel Committee proposes new rules according to which the banks will in future be permitted to use internal models to determine their regulatory capital requirements.
Apr 16	Structural change	The Federal Council adopts the "Digital Switzerland" strategy.
Mai 16	Regulation	The Federal Council announces ordinance with stricter capital requirements for big banks, it comes into force in July 2016.
June 16	Banking sector	PostFinance becomes a member of the SBA.
June 16	Tax and compliance	Swiss parliament approves agreement with 28 EU countries for the introduction of AEOI.
June 16	Economic policy	The UK votes to exit the EU.
July 16	Structural change	In Zug, payments for public services up to a maximum of CHF 200 can be made in bitcoin starting on 1 July 2016.
July 16	Tax and compliance	The new Foreign Illicit Assets Act comes into force, making it possible to handle such assets using measures ranging from freezing to restitution to the countries of origin.
Aug 16	Structural change	FINMA amends guidelines in line with the rise of digitalisation: asset management contracts must no longer be concluded in writing, they are also allowed in digital form.
Oct 16	Competitiveness	The Federal Council publishes the new report on financial market strategy.
Nov 16	Structural change	The Federal Council announces initial parameters for fintech regulation. For certain financial institutions, a less stringent "fintech licence" is to be available above a threshold of CHF 1 m.
Nov 16	Structural change	Starting on 11.11.2016, the virtual currency bitcoin can be bought at over 1,000 SBB ticket machines across Switzerland. During a two-year trial period, the SBB aims to find out whether a market exists for the sale of the digital currency.
Nov 16	Competitiveness	The Federal Council approves FINMA's seven strategic goals for the coming 4 years: maintain strong capitalisation of banks / sustainably and positively influence proper business conduct of financial institutions / mitigate "too big to fail" problem through viable emergency plans / protect creditors, protect insured persons and the system / make regulation innovation-friendly / principle-based financial market regulation / even more efficient supervision.
Nov 16	Banking sector	Credit Suisse Switzerland, a fully-owned subsidiary of Credit Suisse AG, begins operations.
Jan 17	Regulation	The Basel Committee postpones decision regarding rules governing the calculation of capital requirements.
Jan 17	Regulation	The regulation on key information documents for packaged retail and insurance-based investment products (PRIIP-KID) comes into force on 1 January 2017. It is the first European regulation in this area.
Jan 17	Regulation	The new capital requirements for banks for derivatives and fund units come into force on 1 January 2017. A revision was necessary as the existing calculation methods were outdated.
Jan 17	Tax and compliance	The Swiss banks begin to implement AEOI with other countries on 1 January 2017.
Jan 17	Structural change	The Federal Council adopts the report on the key framework conditions for the digital economy.
Feb 17	Competitiveness	In their study "The 3rd contributor to occupational pension plans", asset management experts from various banks and the SBA provide proposals for the optimisation and strengthening of the pension system in Switzerland.
Feb 17	Tax and compliance	The FDF opens consultation for the introduction of AEOI with additional countries. AEOI with 43 additional countries is expected to enter into force on 1 January 2018.
Apr 17	Tax and compliance	The Federal Council rejects the counterproposal to the initiative for the protection of privacy ("Matter Initiative").
Apr 17	Structural change	Payment apps Twint and Paymit merge.
Apr 17	Competitiveness	The Swiss population trusts the banks. This is one of the findings of a survey commissioned by the SBA and conducted by the research institute M.I.S. Trend.
June 17	Banking sector	According to the SNB's stability report, the banks have improved their capital ratios. Risks exist in the mortgage lending segment.
July 17	Regulation	The Federal Council adopts the revised Banking Ordinance. Starting on 1 August, fintech companies are subject to less stringent rules.

2 Bank net income

In 2016, 226 of the total 261 banks in Switzerland reported an annual profit. Total annual profit amounted to CHF 11.8 bn. The losses generated by the unprofitable institutions increased slightly, by CHF 0.1 bn to CHF 3.9 bn (+2.6 %). The banks paid CHF 2.3 bn in taxes (up 3.2 %).

Aggregate operating net income was CHF 62.5 bn (-3.2 %) in 2016. In the balance sheets, net income from the interest-earning business accounted for CHF 24.1 bn, thus making the largest contribution to total net income, despite the low interest rate environment. Net income from the trading business experienced the strongest decline at CHF 2.4 bn (-27.9 %). Other ordinary net income once again rose substantially (+27.9 %).

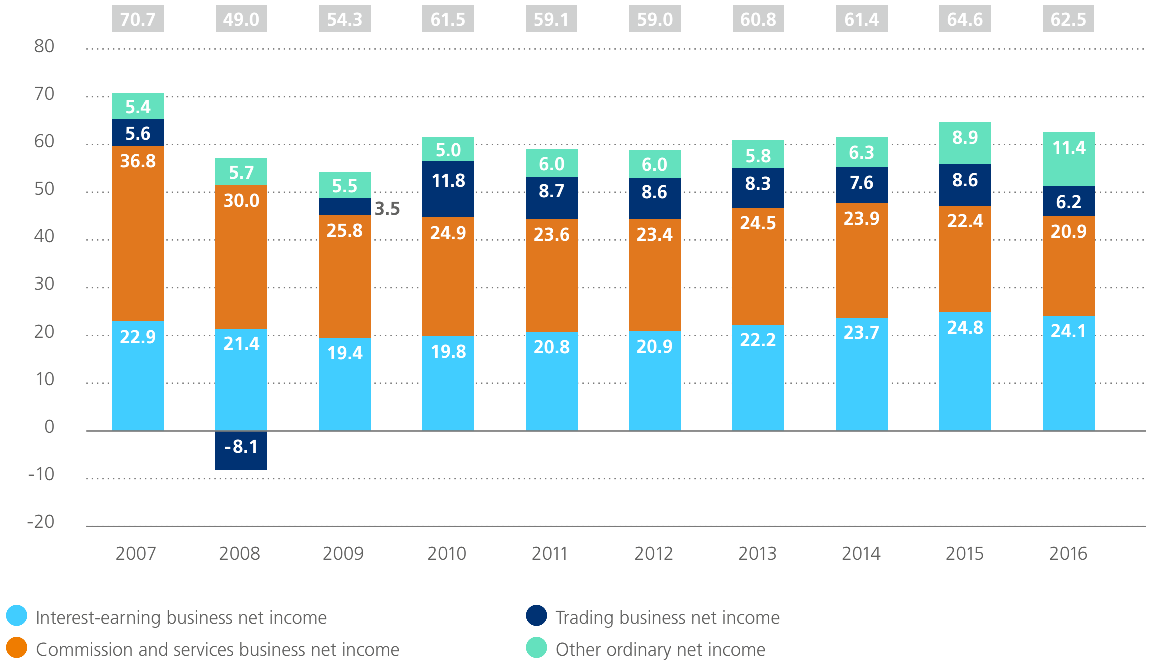
2.1 Trends in 2016

2.1.1 Net income by banking activity

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 fell 3.2 percent in 2016 to CHF 62.5 bn. This is the first decline in net income since 2012. In the last ten years, net income reached its lowest level in 2008, totalling CHF 49.0 bn. Compared to 2008, net income rose by CHF 13.6 bn (+27.8 %).

Fig. 3

Net income by banking activity
in CHF bn



Source: SNB

Interest-earning business biggest contributor to total net income
Accounting for 38.6 percent, net income from the interest-earning business contributed the largest share to total net income in 2016. The low interest rate environment continued to put a strain on the banks' interest margin business. Net income from the interest-earning business fell from CHF 24.8 bn in 2015 to CHF 24.1 bn in 2016 (-2.7 %). This negative net balance is the result of interest income, which remained virtually unchanged, and the slight rise in interest expenses: the rise in interest and discount income of CHF 644 m was offset by the decline in interest and dividend income from financial investments (-CHF 71 m) and interest and dividend income from trading portfolios (-CHF 575 m). Interest expenses rose by CHF 675 m. One reason for this are the negative interest rates. The big banks were most impacted, as they have the largest sight deposits at the SNB. Last year, the banks in Switzerland paid the SNB negative interest rates amounting to CHF 1,523.2 m.

Further decline in net income from the commission and services business
Accounting for 33.4 percent, net income from the commission and services business was the second-largest contributor to total net income. This decreased once again in 2016 (-6.7 %), and currently amounts to CHF 20.9 bn. This drop is attributable to the decline in commission income from the securities and investment business, which fell from CHF 20.9 bn to CHF 19.4 bn. Commission income from the lending business remained unchanged at CHF 1.9 bn. Commissions from other services (+CHF 0.2 bn to CHF 4.4 bn) and commissions and services expenses (+CHF 0.1 bn to CHF 4.8 bn) changed only slightly.

The commission and services business has been declining since 2008. The big banks and foreign banks are most impacted by this trend. When examining the fall in net income from the commission and services business, several developments should be noted. Firstly, commissions were in some cases increased because of the negative interest rates. This room for manoeuvre was, however, limited due to the price sensitivity of investors, which has further increased, and the rising pressure on margins associated with this factor. In addition, there was a decrease in the number of transactions, which is reflected, for example, in the trend in the number of worldwide IPOs compared to 2007. These factors had an overall negative impact on the services business.

Income from trading declining
Trading net income decreased in 2016 by CHF 2.4 bn or 27.9 percent compared to the previous year. Totalling CHF 6.2 bn, it accounted for 9.9 percent of total net income. The majority of the decline (-CHF 2.3 bn) was borne by the big banks. When examining these developments, it should be taken into account that the lifting of the minimum exchange rate by the SNB in the first quarter of 2015 resulted in an above-average rise in trading activities. 2016 was characterised by economic and geopolitical uncertainties that tended to lead to a reduction in the trading activities of bank clients. As a result, the trading volume fell compared to the previous year.

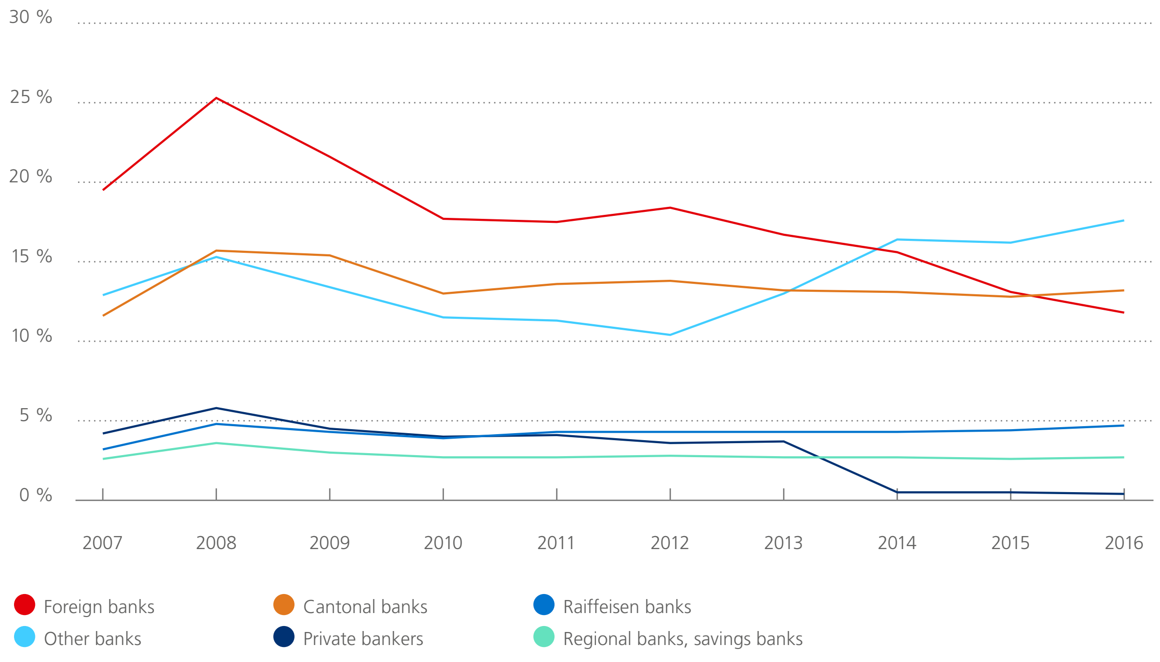
Rise in other ordinary net income
Other ordinary net income rose by CHF 2.5 bn to CHF 11.4 bn (+27.9 %) and accounted for 18.2 percent of total net income. This renewed increase is primarily attributable to higher income from investments (+CHF 1.0 bn to CHF 3.9 bn) and a rise in "Other ordinary income" (+CHF 1.0 bn to CHF 7.4 bn). Both items were significantly influenced by the big banks. These increases are likely due to the improved economic environment in Switzerland in 2016 compared to the previous year, as well as the successful handling of the "Frankenschock" in 2015. There was only a slight change in income from the sale of financial investments (+CHF 0.4 bn) and income from real estate (+CHF 0.8 bn), while "Other ordinary expenses" decreased by CHF 0.3 bn to CHF 1.2 bn.

2.1.2 Net income according to bank group

The cantonal banks (+0.3 %), Raiffeisen banks (+3.2 %) and other banks (+5.2 %), comprising the groups "Other banking institutions" and stock exchange banks, reported a rise in net income compared to the previous year. At the big banks (-4.9 %), regional and savings banks (-0.6 %), foreign banks (-12.8 %) and private bankers (-16.2 %), net income fell.

Fig. 4

Net income by bank group (excluding big banks)[14]



Source: SNB

Despite the differing developments in net income, the shares of net income attributable to the different bank groups changed only negligibly compared to the previous year. The cantonal banks reported an increase to 13.2 percent (+0.4 %), as did the other banks and the Raiffeisen banks, which grew their shares from 16.2 percent to 17.6 percent and from 4.4 percent to 4.7 percent. In contrast, the share attributable to the big banks fell from 50.5 percent to 49.6 percent. The share held by the foreign banks also declined, from 13.1 percent to 11.8 percent. There was only a slight change in the shares attributable to the regional and savings banks, and the private bankers.

Since 2012, the share of total net income of the other banks increased from 10.4 percent to 17.6 percent. The big banks also grew their share of total net income during this period, from 46.8 percent to 49.6 percent (not shown). Since 2012, the shares attributable to the private bankers and foreign banks decreased from 3.6 percent to 0.4 percent and from 18.4 percent to 11.8 percent. The decrease experienced by the private bankers is related to the change in legal structure of institutions since 2014. As a result, they have been categorised as stock exchange banks, which has led to structural breaks in the statistics for the "private bankers" and "stock exchange banks" bank groups. The decline experienced by the foreign banks is an international phenomenon. As part of restructuring measures, banks are reducing their international activities in certain areas of business. The shares attributable to the remaining bank groups, however, have changed only slightly.

14 Since 2009, the share of net income attributable to the big banks has been between 46 and 51 percent, and is therefore substantially higher than the shares of the remaining bank groups. In order to better illustrate the trend for the remaining bank groups, the developments in the share of net income of the big banks is not included in this figure.

2.1.3 Annual profit and taxes

Gross profit from the business operations of the banks in Switzerland decreased by CHF 3.3 bn (-16.8 %) in 2016 and amounted to CHF 16.5 bn. This decline is attributable to the fall in net income (-CHF 2.1 bn) and the simultaneous rise in operating expenses (+CHF 1.2 bn).

In 2016, 226 of the 261 banks in Switzerland reported an annual profit.[15] Their total annual profit amounted to CHF 11.8 bn and was therefore CHF 7.8 bn lower than in the previous year (-39.8 %). It should be noted here that the high extraordinary income generated by a big bank resulting from a group-internal divestiture totalling CHF 10.7 billion had a major impact on last year's result. Profit in 2016 was higher than profit in 2014 (CHF 7.4 bn), but below profit in 2013 (CHF 10.5 bn). Despite the decline in profit compared to the previous year, the banks paid CHF 2.3 bn in income taxes and taxes on earnings, which corresponds to an increase of 3.2 percent.[16] The losses generated by the unprofitable institutions increased slightly, by CHF 0.1 bn to CHF 3.9 bn (+2.6 %).

15 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".
16 It can be presumed that the reason taxes were higher in 2016 than in 2015 despite the lower annual profit is because a significant share of the profit in the previous year was the result of the high extraordinary income generated by a big bank following a group-internal divestiture totalling CHF 10.7 billion, which had a major impact on last year's result. In such cases, particular rules apply for taxation.

2.2 Trends in 2017

The International Monetary Fund (IMF) expects global economic growth of 3.5 percent for 2017.[17] The situation in Europe has improved, in particular following the elections in France. In the US and China, the positive economic trend stabilised in the first half of 2017. Despite ongoing geopolitical uncertainties and protectionist tendencies, political risks have generally decreased. It is now possible to better assess the existing uncertainties such as the ongoing Brexit negotiations. In addition, the positive developments in the EU have relieved some of the pressure on the Swiss franc and led to a strengthening of the euro in the first half of 2017.

In light of the developments in the global economy, the outlook for the Swiss economy is cautiously positive for the current year. For 2017, the SNB expects to see growth of around 1.5 percent. Due to the existing uncertainties and the risks they pose for global growth, monetary policy remains expansive. This is illustrated, for example, by the rise in the SNB's balance sheet total to CHF 774,9 bn in the first half of 2017, as well as the increase in the payment of negative interest rates to the SNB to CHF 970.3 m (+CHF 278.4 m compared to the same period in the previous year).

The economic trend resulted in a positive sentiment in stock markets. The trading volume amounted to CHF 723.6 bn in the first half of 2017, which corresponds to an increase of 5.3 percent compared to the same period in the previous year.[18] In addition to the trading volume, the number of global IPOs also increased compared to the previous year period, to 772 (+70.0 %). This has been the strongest first half-year since 2007, which saw the execution of 941 IPOs.[19] This suggests that the banks are likely to report substantially higher income from the trading business this year compared to 2016.

17 World Economic Outlook.
18 SIX (2017).
19 EY (2017).

3 Balance sheet business

The aggregate balance sheet total of all the banks in Switzerland rose by CHF 74.7 bn to CHF 3,100.8 bn in 2016. The SNB's currency interventions have impacted the breakdown of assets of commercial banks. The banks' sight deposits at the SNB have been rising continuously since the introduction of the minimum exchange rate in the autumn of 2011. Notwithstanding the introduction of negative interest rates and the lifting of the minimum euro exchange rate, the banks in Switzerland continue to fulfil their function as lenders and financing partners to the full extent.[20]

3.1 Trends in 2016

3.1.1 Balance sheet trends

In 2016, the aggregate balance sheet total of all the banks in Switzerland rose from CHF 3,026.2 bn to CHF 3,100.8 bn (+2.5 %). With an increase in balance sheet total of CHF 30.6 bn, the big banks reported the greatest rise compared to the previous year, followed by the stock exchange banks (+CHF 16.2 bn), the cantonal banks (+CHF 15.8 bn) and the Raiffeisen banks (+CHF 12.9 bn). The strongest decrease was reported by the foreign banks (-CHF 10.2 bn). The private bankers also experienced a fall in their balance sheet total (-CHF 0.8 bn).

20 SECO (2017).

Fig. 5

Balance sheet total by bank group

in CHF bn	Balance sheet 2015	Balance sheet 2016	Development	Share total 2016
Big banks	1,424.2	1,454.8	2.1 %	46.9 %
Cantonal banks	537.4	553.2	2,9 %	17.8 %
Foreign banks	333.7	323.5	-3.0 %	10.4 %
Stock exchange banks	210.1	226.3	7.7 %	7.3 %
Raiffeisen banks	202.4	215.3	6.3 %	6.9 %
Other banks	198.6	205.7	3.6 %	6.6 %
Regional banks, savings banks	113.1	116.1	2.7 %	3.7 %
Private bankers	6.7	5.9	-11.9 %	0.2 %
Total	**3,026.2**	**3,100.8**	**2.5 %**	**100.0 %**

Source: SNB

Mortgage loans biggest asset item

In 2016, domestic and foreign mortgage loans rose by CHF 24.3 bn (+2.6 %), from CHF 943.2 bn to CHF 967.5 bn compared to the previous year. Mortgage loans therefore remained the largest asset item for the banks in Switzerland in 2016, accounting for a share of around 31.2 percent of total assets. The cantonal banks (+4.3 % to CHF 343.5 bn) and the Raiffeisen banks (+4.3 % to CHF 164.9 bn) in particular reported a significant increase.

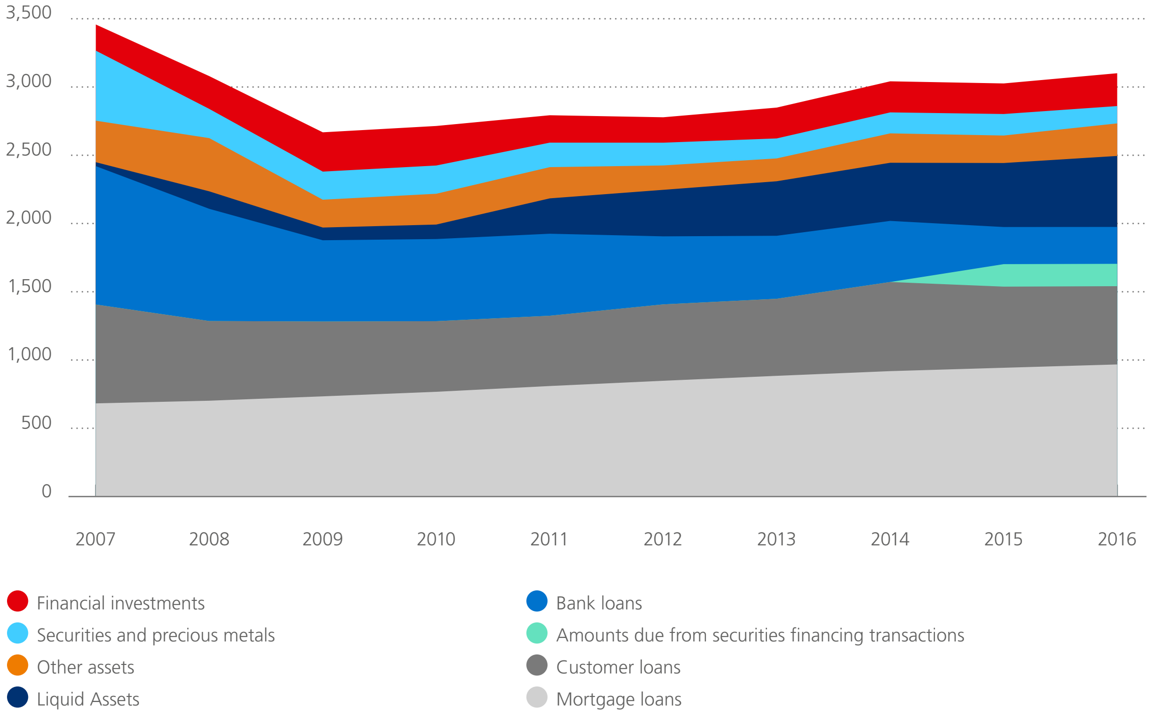
Further decline in customer loans

Accounting for a share of 18.5 percent of total assets, customer loans were the second biggest item. Loans decreased in 2016 by CHF 21.1 bn (-3.5 %) to CHF 573.3 bn. This reduction is due to a decline in loans to foreign customers of CHF 27.5 bn to CHF 415.1 bn, and is primarily attributable to the big banks (-CHF 27.2 bn). Loans to customers in Switzerland rose by CHF 6.5 bn to CHF 158.2 bn.

Fig. 6

Breakdown of assets

in CHF bn



Source: SNB

Rise in liquid assets

Liquid assets rose by CHF 51.1 bn to CHF 520.0 bn (+10.9 %). As in the previous year, this is attributable to an increase in domestic holdings of CHF 61.5 bn to CHF 460.4 bn. Foreign holdings fell by CHF 10.3 bn to CHF 59.6 bn. The rise in domestic holdings is mainly connected to the SNB's foreign currency purchases and the increase in the banks' sight deposits at the SNB (+CHF 60.6 bn to CHF 447.0 bn).

Increase in financial investments

The balance sheet item financial investments rose by CHF 16.4 bn (+7.3 %) compared to the previous year. This was the case both for domestic (+CHF 7.3 bn) and foreign financial investments (+CHF 9.1 bn). Financial investments increased in particular at the big banks (+CHF 15.7 bn to CHF 68.9 bn) and the bank group "Other banking institutions" (+CHF 4.5 bn to CHF 64.5 bn). The strongest decline was reported by the stock exchange banks (-CHF 4.0 bn to CHF 45.7 bn).

Further decline in securities and precious metals in trading portfolios

The item trading portfolios of securities and precious metals fell once again compared to the previous year, by CHF 30.6 bn (-19.4 %) to CHF 127.0 bn. This can in part be attributed to the fact that the banks have increased the effectiveness of their resource management and to the overall decline in the trading business due to lower customer activity.

Fundamental changes in breakdown of assets since 2007

There was a substantial change in the breakdown of assets between 2007 and 2016. Liquid assets recorded an enormous rise between 2007 and 2016. While in 2007, holdings were at CHF 28.9 bn, by the end of 2016, they amounted to CHF 520.0 bn. A number of factors contributed to this sharp 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. 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 held at the SNB. Despite the negative interest rates, the banks increased their sight deposits at the SNB from around CHF 12 bn in 2007 to CHF 447 bn in 2016.

Domestic and foreign mortgage loans also rose continuously between 2007 and 2016 (+41.8 %, from CHF 682.3 bn to CHF 967.5 bn). Their share of total assets increased from 19.7 percent (as at year-end 2007) to 31.2 percent as at year-end 2016. This is also due to the persistently low interest rates and the resulting strong demand for real estate, although the momentum here slowed somewhat in 2016. In 2007, loans to banks accounted for 29.3 percent of total assets. In 2016, their share was down to 8.7 percent (2007: CHF 1,013.6 bn, 2016: CHF 270.3 bn). Among other factors, this decrease is a result of the banks' consciously reducing this balance sheet item in order to diminish their linkages with other banks. This development is also attributable to the higher capital ratio required by regulation. From 2007 to 2016, holdings in securities and precious metals for trading purposes recorded a drop of 75.2 percent (2007: CHF 513.1 bn, 2016: CHF 127.0 bn). Their share of total assets fell from 14.8 percent to 4.1 percent. This continuous decline reflects the ongoing strategic efforts of the banks to reduce their risk-weighted assets.

Rise in liabilities in the form of customer deposits

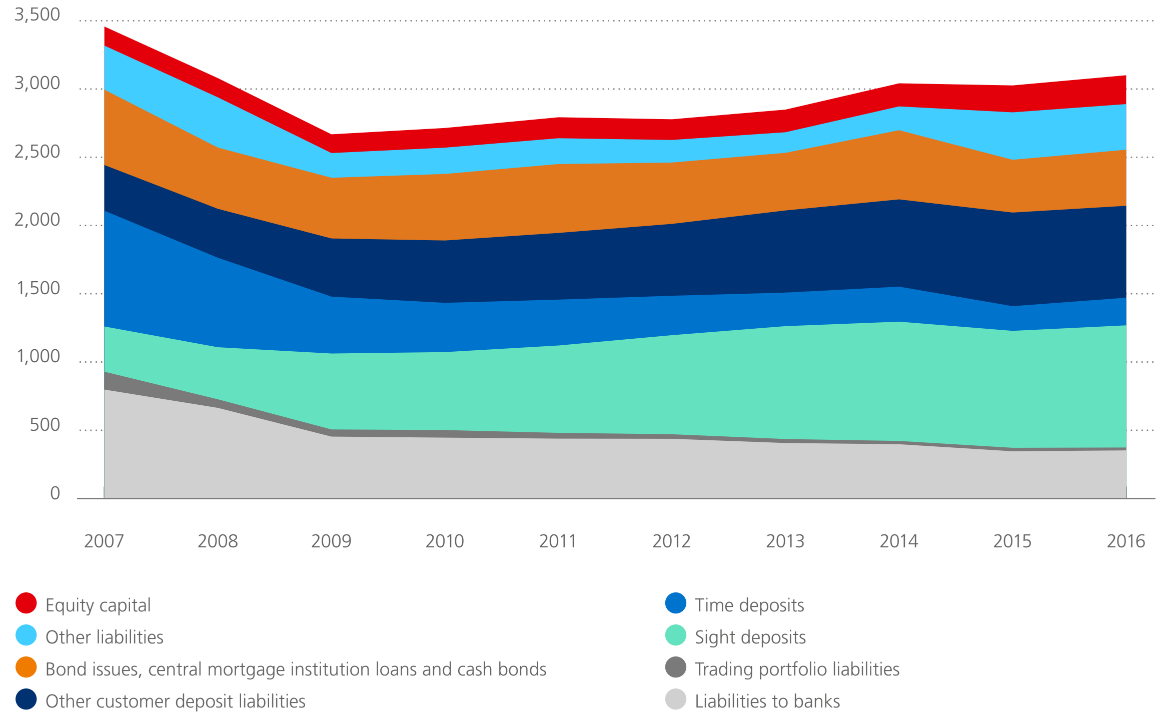
The balance sheet item amounts due in respect of customer deposits, which comprises the items sight deposits, time deposits and other amounts due in respect of customer deposits, rose by CHF 47.4 bn (+2.7 %) to CHF 1,770.6 bn in 2016. Amounts due in respect of customer deposits accounted for 57.1 percent of the balance sheet total at the end of 2016. Sight deposits rose by CHF 38.1 bn (+4.5 %) to CHF 895 bn, and at 28.9 percent, accounted for the largest share of liabilities. Time deposits also rose, by CHF 21.6 bn (+12.0 %) to CHF 202.4 bn. In contrast, other amounts due in respect of customer deposits decreased by CHF 12.5 bn (-1.8 %).

Rise in equity capital

In 2016, equity capital rose by CHF 14,0 bn (+7.1 %) to CHF 211.2 bn. Since 2015, equity capital is defined as the sum of a bank's capital, statutory capital reserve, statutory retained earnings reserve, voluntary retained earnings reserves, own shares (negative item) and profit/loss carried forward.

Fig. 7

Breakdown of liabilities
in CHF bn



Source: SNB

Fall in liabilities from trading portfolios

Trading portfolio liabilities fell by CHF 4.2 bn (-16.7 %) to CHF 21.1 bn. Among other factors, this is related to the overall decline in the trading business.

Rise in bond issues, central mortgage institution loans and cash bonds

The balance sheet item "bond issues, central mortgage institution loans and cash bonds" increased by CHF 24.3 bn (+6.3 %). This rise is due to an increase in "bond issues and central mortgage institution loans" of CHF 26.0 bn and is mainly attributable to the big banks (+CHF 14.5 bn) and cantonal banks (+CHF 8.0 bn).

Breakdown of liabilities over time

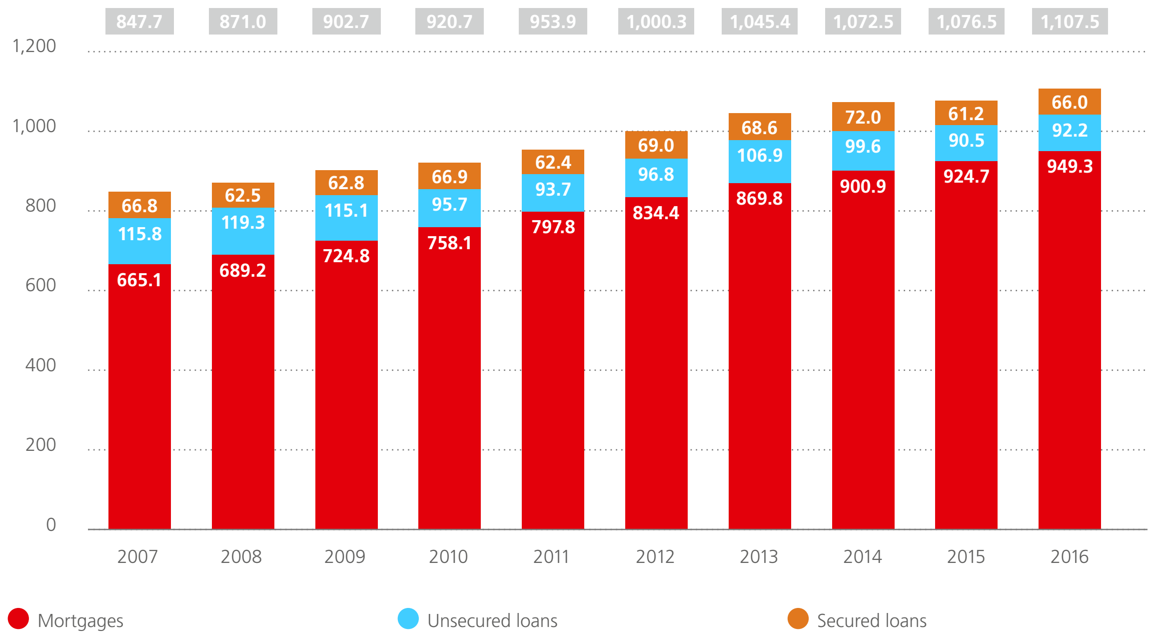
Liabilities to banks remained the second largest liability item in 2007, accounting for a 23.1 percent share of total liabilities. Since then, however, they have fallen by 55.8 percent or by CHF 445.7 bn to CHF 352.6 bn. This demonstrates that the linkages between banks – in particular in Switzerland – have decreased. Figure 7 illustrates the shift to sight deposits. These rose from CHF 331.3 bn to CHF 895.0 bn between 2007 and 2016. Sight deposits as a share of total of liabilities rose from 9.6 percent in 2007 to 28.9 percent in 2016. They were thus the biggest liabilities item at the end of 2016. At the same time, the share of time deposits fell from 24.5 percent in 2007 to 6.5 percent in 2016. In the low interest rate environment of expansion of monetary policy, time deposits are less attractive than sight deposits and are shifted accordingly.

3.1.2 Trends in the lending business in Switzerland

The total outstanding domestic credit volume was CHF 1,107.5 bn in 2016. Of that total, CHF 158.2 bn stemmed from secured and unsecured customer loans (companies, public corporations and consumer credit), and CHF 949.3 bn was attributable to mortgage loans. Compared to the previous year, the total volume of credit in Switzerland rose by 2.9 percent in 2016. At 2.7 percent in 2016, domestic mortgage lending growth was slightly higher than in the previous year (2015: +2.6 %). Mortgage loans have increased by CHF 284.2 bn (+42.7 %) since 2007 and their share of the outstanding domestic credit volume has grown from 79.5 percent to 85.7 percent. Mortgage loans therefore continue to account for the largest share of credit volume. Unsecured loans (+1.8 %) and secured loans (+7.7 %) increased compared to the previous year.

Fig. 8

Trends in the credit volume in Switzerland
in CHF bn



Source: SNB

Three-quarters of total mortgage loans attributable to private households in 2016

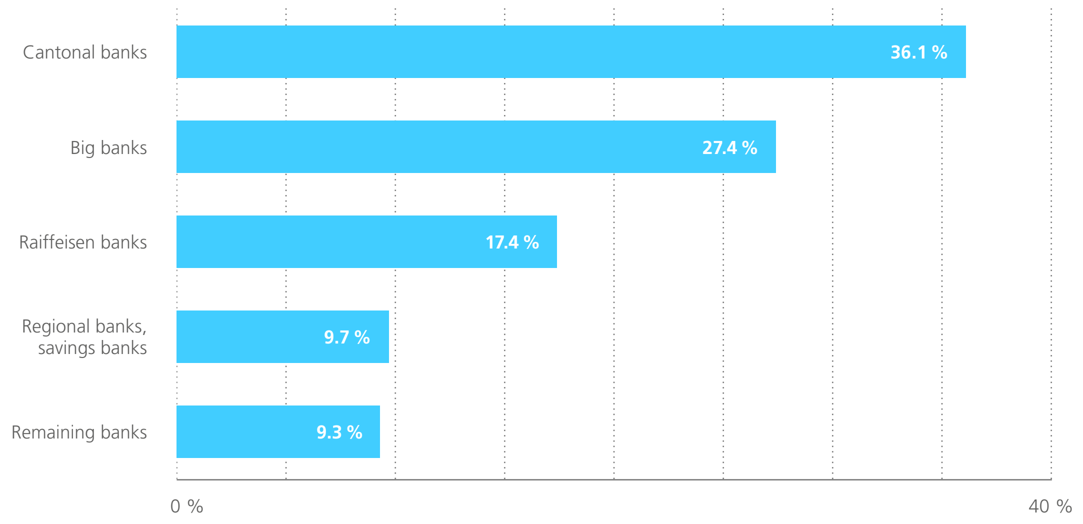
Total outstanding mortgage loans rose by 2.6 percent to CHF 967.5 bn in 2016. The large majority thereof (CHF 949.3 bn) stemmed from customers in Switzerland. 75 percent of these mortgages were granted to private households. Fixed-rate mortgages accounted for a 79 percent share of outstanding mortgages in 2016. The average interest rate for outstanding domestic mortgage loans decreased once again in 2016, from 1.8 to 1.6 percent. The rising importance of mortgage loans with a term upwards of five years, a trend that has been identifiable for several years, continued in 2016. The share of mortgage loans in this category rose from 12.4 percent in 2008 to 26.4 percent in 2016.

Cantonal banks have largest share of domestic mortgage market

The cantonal banks' market share of domestic mortgage lending volumes was slightly more than one-third at the end of 2016. They were followed by the big banks, which had a share of 27.4 percent (see Figure 9). In the last few years, the share of market for domestic mortgage lending has grown to a lesser extent at the big banks and the regional and savings banks, while the remaining banks have gained market share.

Fig. 9

Market share of domestic mortgage lending 2016



Source: SNB

First mortgages clearly strongest lending group

Broken down by lending groups, the share of first mortgages in Switzerland in 2016 was 92.4 percent. This lending group comprises mortgage loans of up to two-thirds of the market value of the respective property. In 2015, this lending group accounted for a share of 92.2 percent. There are no relevant identifiable differences between the various bank groups in this segment. The high proportion of first mortgages likely reflects that on the one hand, mortgages are being granted with caution and that on the other hand, mortgages in the second lending group are being amortised faster.

According to the SNB's Financial Stability Report, the banks with a domestic focus are standing on a solid foundation. In recent years, the banks' eligible capital has grown substantially faster than risk-weighted assets. This has resulted in risk-weighted capital ratios that are significantly above the minimum regulatory requirements.[21]

Declining demand for consumer credit

Consumer credit continues to be of relatively negligible importance in Switzerland. In total, there were 446,429 loans with a volume of CHF 5.5 bn outstanding at the end of 2016. Compared to the previous year, this corresponds to a decrease in volume of 25.9 percent.

3.2 Trends in 2017

Rise in balance sheet total

The aggregate balance sheet total of the banks in Switzerland rose by CHF 26.4 bn (+0.8 %) in the first five months of 2017 (December 2016: CHF 3,205.8 bn to May 2017: CHF 3,232.2 bn).[22] The trend in 2016 has therefore continued in 2017.

Trading portfolio assets increase substantially

The largest increases were seen in trading portfolio assets and amounts due from securities financing transactions. Trading portfolio assets increased by CHF 21.7 bn (+18.3 %) and amounts due from securities financing transactions rose by CHF 17.4 bn (+10.5 %). These increases are attributable to the fact that the trading volume rose significantly in the first half of 2017 compared to the previous year. This reflects the effects of the moderately positive trend in the economy as well as the cautiously optimistic sentiment in stock markets. Mortgage loans also rose, by CHF 11.6 bn (+1.2 %), as did loans to customers, by CHF 7.3 bn (+1.3 %). In contrast, financial investments decreased by CHF 16.6 bn (-6.6 %), loans to banks by CHF 13.2 bn (-4.3 %) and liquid assets by CHF 5.4 bn (-1.0 %).

21 SNB Financial Stability Report (2017).
22 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.

Liabilities from securities financing transactions rising, liabilities to banks falling

On the liabilities side, liabilities from securities financing transactions rose substantially, by CHF 27.0 bn (+31.9 %). It can be expected that both repurchase transactions as well as securities lending transactions have increased as a result of higher trading activity on stock markets, and that the balance sheet item has risen as a result. Amounts due in respect of customer deposits also increased, by CHF 12.1 bn (+0.7 %), as did equity capital, by CHF 2.0 bn (+1.0 %). Sight deposits rose by CHF 2.4 bn (+0.3 %). The rise recorded in sight deposits is therefore significantly below the increase in the previous year, when sight deposits increased by CHF 33.9 bn (+3.8 %) for the same period. This is likely attributable to a number of different factors. In the first half of 2017, general political uncertainty was lower than during the first half of 2016, and economic growth as well as investments rose. At the same time, the effects of negative interest rates will likely become increasingly noticeable. Time deposits rose by CHF 10.0 bn (+4.9 %) in the first half of 2017 and therefore to a similar extent as in the first half of 2016. Liabilities to banks further decreased in the first five months of the year, by CHF 14.6 bn (-3.8 %). Bond issues, central mortgage institution loans and cash bonds also recorded a drop, by CHF 6.6 bn (-1.6 %).

Moderate rise in the provision of mortgage loans

Mortgage loans continued to rise in the first five months of 2017, by CHF 11.6 bn (+1.2 %) to CHF 959.6 bn. In contrast, secured and unsecured loans declined slightly, by CHF 0.7 bn (-1.0 %) and CHF 1.1 bn (-1.2 %). Despite the moderately positive economic trend, the period of low interest rates is likely to persist for the time being. Further to this, the trend that has existed for some time whereby stakeholders from sectors other than banking (e.g. insurance companies and pension funds) are positioning themselves in the credit market and offering loans at competitive interest rates, is ongoing. Due to the attractive conditions for borrowers, a reversal of the lending trend is not expected during the remainder of the year.

4 Wealth management

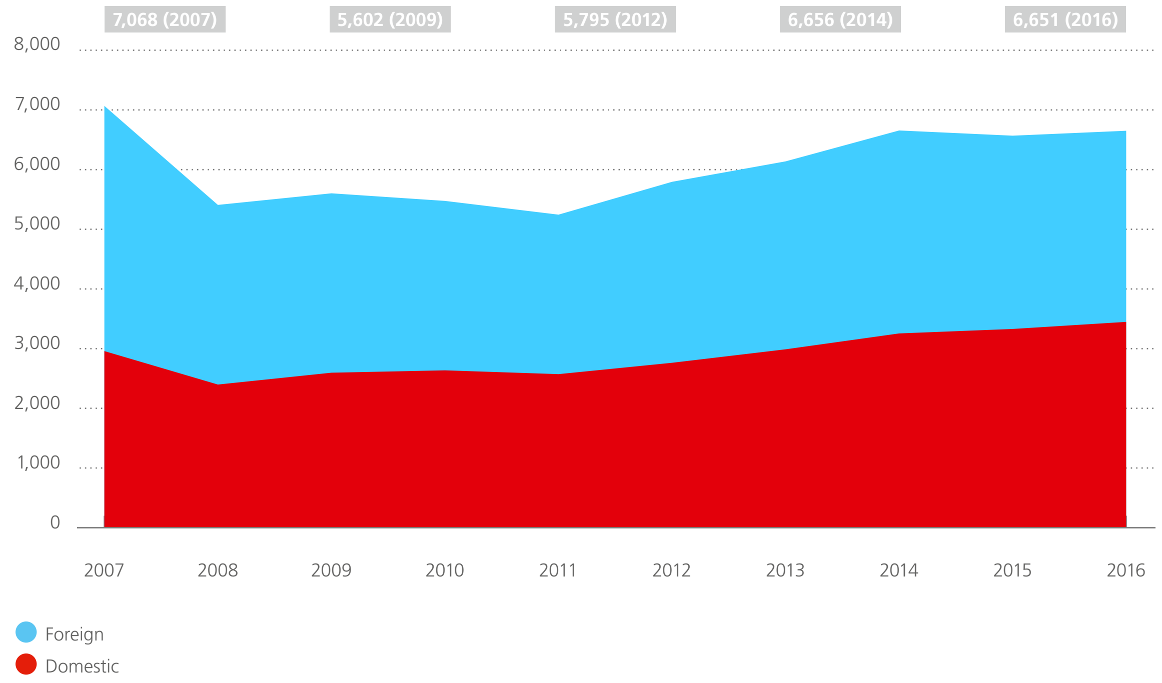
The banks in Switzerland managed total assets of CHF 6,650.8 bn at the end of 2016, which corresponds to an increase of CHF 83.0 bn (+1.3 %) compared to the previous year. The share of foreign customer assets decreased from 49.3 percent to 48.2 percent. Switzerland remains the global market leader for cross-border private banking: around one-quarter of cross-border assets managed globally is located in Switzerland.

4.1 Trends in 2016

Assets under management consist of securities holdings in customer custody accounts (2016: CHF 5,654.1 bn), liabilities to customers excluding sight deposits (2016: CHF 875.6 bn), as well as fiduciary liabilities (2016: CHF 121.0 bn). The banks in Switzerland managed total assets of CHF 6,650.8 bn at the end of 2016 (+1.3 %). This is primarily attributable to a rise in domestic customer assets, which grew by CHF 119.0 bn (+3.6 %) compared to the previous year, while foreign customer assets decreased by CHF 36.0 bn (-1.1 %).

Fig. 10

Assets under management in Switzerland by customer origin[23]
in CHF bn



Source: SNB

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 strong 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 dramatic fall in assets under management of 23.5 percent to CHF 5,408 bn by the end of 2008. As a result of market developments, assets under management have since risen by CHF 1,242.4 bn (+23.0 %).

23 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 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. The amended reporting of the items from 2006 until 2014 can result in discrepancies in the amounts reported to date.

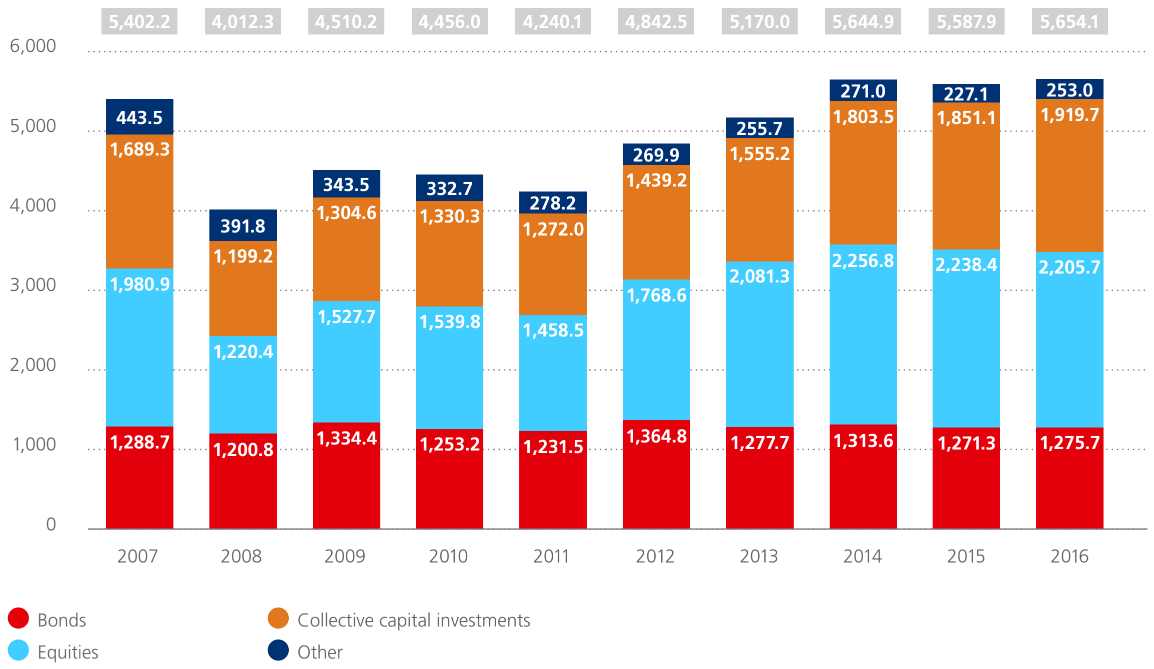
The share of assets attributable to foreign customers fell from 58.1 percent to 48.2 percent between 2007 and 2016. The decrease in the share of assets held by foreign customers is the result of a number of factors. One is the currency effect. Foreign customers hold a significantly higher portion of their assets in euro and dollars than domestic customers. The shares of assets are calculated in Swiss francs. If the franc appreciates against other currencies, the assets of foreign customers automatically fall in relation to those of domestic customers. However, what is probably more relevant is the quantity effect. Due to the ongoing efforts in the area of tax transparency in the last several years, many foreign customers have likely used their assets to regularise their tax situation and transferred at least some of their assets to their country of origin. There has been only a slight change in the share of assets attributable to foreign customers since Switzerland committed to AEOI in 2013.

Rise in securities holdings

Securities holdings in customer custody accounts rose by CHF 66.2 bn (+1.2 %) to CHF 5,654.1 bn in 2016. This rise is mainly due to an increase in collective capital investments (+3.7 %) and bonds (+0.3 %). Euro-denominated securities holdings decreased from CHF 846 bn in 2015 to CHF 837.6 bn in 2016. During the same period, Swiss franc-denominated holdings increased slightly from CHF 2,918.6 bn in 2015 to CHF 2,920.6 bn in 2016. Securities holdings are broken down into the categories equities (39.0 %), collective capital investments (34.0 %), bonds (22.6 %) and “other” (4.5 %). These three categories recorded differing trends.

Fig. 11

Securities holdings in customer custody accounts by type
in CHF bn



Source: SNB

Slight reduction in equity holdings

Equity holdings in customer custody accounts at the banks declined by 1.5 percent compared to the previous year. At the end of 2016, equity holdings amounted to CHF 2,205.7 bn. With a share of around 39.0 percent, equities were the largest position in terms of securities holdings.

Rising demand for collective capital investments

Accounting for a 34.0 percent share, collective capital investments, consisting primarily of investment funds, were the second-largest securities category. They increased by 3.7 percent to CHF 1,919.7 bn in 2016.

Bond holdings almost unchanged

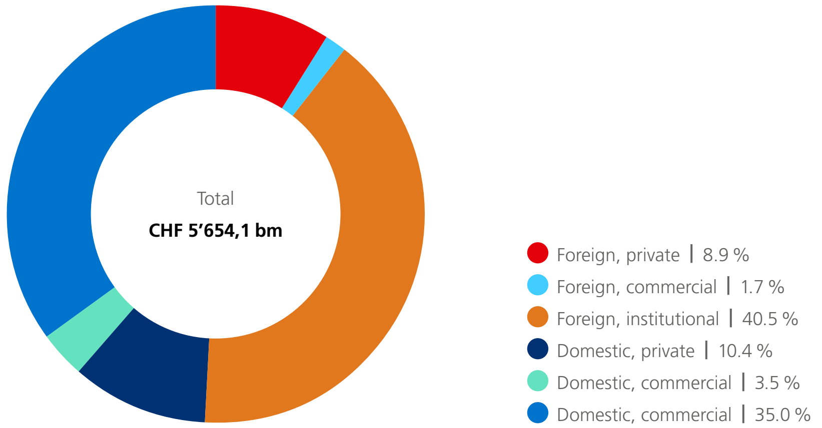
Bond holdings remained almost unchanged. In 2016, they rose only slightly from 0.3 percent to CHF 1,275.7 bn. The bond holdings of domestic customers rose (+1.3 %), while the holdings of foreign customers decreased (-0.9 %). Accounting for a share of 22.6 percent, bonds were the third-largest asset class in customer custody accounts.

Institutional investors hold largest deposits

Institutional customers, both domestic and foreign, had the largest deposits in 2016 (35.0 % and 40.5 % respectively as a share of total deposits). This was followed by domestic and foreign private investors, who accounted for comparable shares (10.4 % and 8.9 % respectively). While deposits held by foreign private customers decreased by CHF 31.3 bn (-5.9 %), domestic private customer deposits rose from CHF 573.2 bn to CHF 585.3 bn (+2.1 %).

Fig. 12

Asset deposits by customer type, end 2016



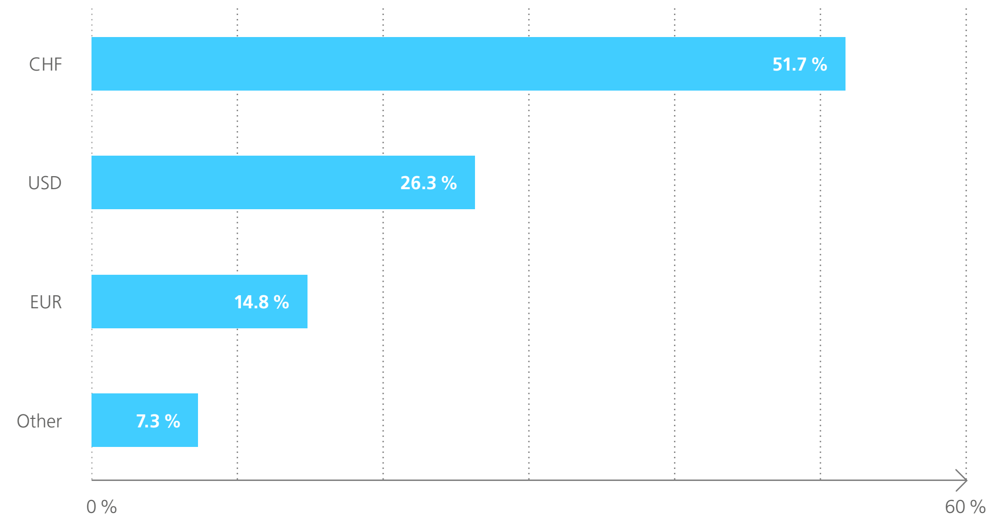
Source: SNB

Dollar-denominated investments rise, euro-denominated investments fall

The importance of the euro as an investment currency further declined in 2016. The share of euro-denominated investments decreased from 15.1 percent to 14.8 percent of total securities holdings in 2016. In 2009, they still accounted for a 25.0 percent share. Custody account holdings in US dollars rose by CHF 95.8 bn compared to the previous year. The share thereof rose from 24.9 percent to 26.3 percent. At 51.7 percent, the Swiss franc was by far the most important investment currency.

Fig. 13

Asset deposits by currency, end 2016



Source: SNB

Slight fall in savings and investment liabilities

Savings and investment liabilities to customers amounted to CHF 673.2 bn at the end of 2016, which corresponds to a reduction of 1.8 percent compared to the previous year. A total of 88.6 percent of customer savings and investment deposits were attributable to domestic customers in 2016. These assets include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar).

Fiduciary deposits rise for first time since 2007
The fiduciary deposits managed by the banks in Switzerland increased by CHF 6.9 bn to CHF 121.2 bn (+6.1 %) in 2016. The majority of these inflows (63 %) originated from abroad. This increase is primarily attributable to an accounting effect in connection with the restructuring of a big bank. This is the first rise in fiduciary deposits since 2007. In 2007, fiduciary deposits under management amounted to CHF 482.9 bn. They declined continuously until 2015, when they reached CHF 114.0 bn.

At two percent of total assets under management, fiduciary deposits have only a negligible impact on private banking in Switzerland.

4.2 Trends in 2017

At the end of May 2017, the banks in Switzerland managed total assets of CHF 6,871.4 bn, which represents an increase of CHF 277.7 bn (+4.2 %) compared to December 2016 (December 2016: CHF 6,593.6 bn).[24] Securities holdings rose by CHF 268.8 bn (+4.8 %), from CHF 5,585.5 bn to CHF 5,854.4 bn. Liabilities to customers not including sight deposits also increased, by CHF 9.8 bn (+1.1 %) to CHF 896.3 bn. In contrast, fiduciary liabilities fell slightly, by CHF 0.9 bn (-0.7 %) to CHF 120.7 bn. The rise in assets under management is attributable to the moderately positive economic trend and to a certain extent, a currency effect. The euro appreciated against the Swiss franc in the first half of 2017. This resulted in a rise in the value of assets held in euro.

24 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.

Switzerland remains the leader in cross-border private banking
Despite stricter regulatory framework conditions and the low interest rate environment, Switzerland has a 24.0 percent share of the global cross-border private banking market and will remain the global market leader in this segment for the medium-term.[25] Switzerland is in intense competition with financial centres around the world. The Asian financial centres Hong Kong and Singapore, among others, are experiencing stronger growth than Switzerland and will therefore manage a growing share of assets in the medium-term. If Switzerland wishes to continue to hold its ground against the rapidly growing financial centres in Asia and the competing financial centres with higher growth forecasts, Swiss private banking should, in addition to fostering attractive locational factors, also further promote innovation, for example in the digital banking segment.

25 The Boston Consulting Group (2017).

5 Employment in Switzerland's banks

At the end of 2016, the banks employed 101,382 people (in full-time equivalents, in Switzerland) and therefore 1.6 percent fewer than in the previous year. The decline in staff levels at the banks in Switzerland thus continued in 2016 and among other factors, is attributable to the challenging environment. At 2.8 percent, the unemployment rate in the banking industry is comparatively low and below that of the overall economy.

According to a survey conducted by the SBA, the employment trend in the first half of 2017 was stable. Almost two-thirds of the banks surveyed expect the employment trend in the second half of 2017 to be flat.

5.1 Trends in 2016

In 2016, the banks employed 101,382 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 that resulted in five fewer institutions. The employment figures fell by 1,660 jobs (-1.6 %) compared to the previous year.

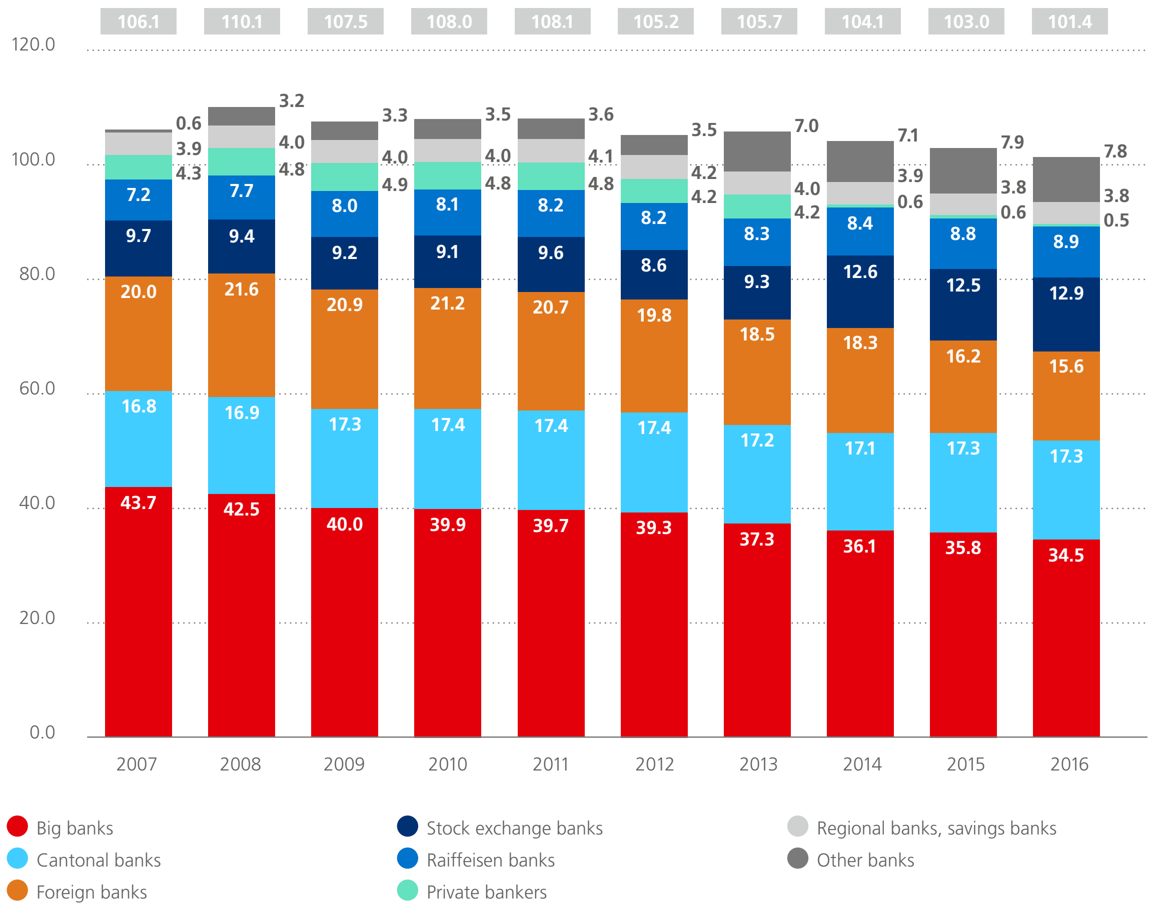
According to SECO, the average unemployment rate in the Swiss banking sector was 2.8 percent in 2016. It was thus half a percentage point below the figure for the overall economy, which was 3.3 percent, and is therefore comparatively low. Overall, an annual average of 3,821 registered unemployed people in the banking sector was reported for 2016, which corresponds to an increase of 155 compared to 2015.[26] Considering the major challenges faced by the banks, the labour market continues to be highly robust.

The trend towards consolidation in the banking sector has been ongoing for many years. The low interest rate environment, the stricter rules for lending and the new capital requirements are putting pressure on margins. The outsourcing and digitalisation of business processes make it possible to reduce labour costs and increase the efficiency of processes. Job cuts in Switzerland resulting from the realisation of efficiency measures therefore remain an ongoing issue.

26 SECO (2017).

Fig. 14

Staff levels at the banks in Switzerland (domestic)
in thousands full-time equivalents



Source: SNB

The big banks, cantonal banks, private bankers, "Other banking institutions" and foreign banks cut 2,142 jobs in 2016. The biggest share of the decline in staff levels is attributable to the big banks, which reported job reductions of 1,253 (-3.6 %) to their workforce. They were followed by the foreign banks, which recorded a decrease of 647 jobs (-4.2 %). The cantonal banks reduced their workforce by 66 jobs (-0.4 %), the private bankers by 93 jobs (-4.2 %) and the "Other banking institutions" by 84 jobs (-1.1 %). Regional banks and savings banks, and the Raiffeisen and stock exchange banks created a total of 483 additional jobs in 2016. The strongest growth was reported by the stock exchange banks with 413 jobs (+3.3 %). The Raiffeisen banks created 61 additional jobs (+0.7 %), and staff levels increased by nine new jobs (+0.2 %) at the regional banks and savings banks.

Domestic wage costs fell by CHF 0.2 bn (-1.0 %) compared to the previous year as a result of the decline in staff levels. The number of gainfully employed rose in the 15 to 24 year-old segment and the 25 to 39 year-old segment, from 13,100 to 14,300 (+9.6 %) and from 41,700 to 42,300 (+1.4 %). In contrast, the 40 to 54 year-old segment and the 55 to 64 year-old segment reported a decline from 54,600 to 52,400 (-4.1 %) and 16,100 to 14,400 (-10.6 %) gainfully employed.[27]

The share of female employees increased slightly compared to the previous year from 37.2 percent to 37.3 percent. As in previous years, the regional and savings banks and the Raiffeisen banks reported the highest share of female employees at 45.5 percent and 45.3 percent respectively. Swiss banks employed 37,858 women (full-time equivalents) in Switzerland at the end of 2016.

5.2 Trends in 2017

The annual SBA employment survey on employment trends at the banks shows a slight reduction in employment in Switzerland for the first half of 2017. The number of jobs declined from 88,006 to 87,035 between the end of 2016 and June 2017. Compared to the end of 2016, there were 971, or around one percent, fewer jobs in Switzerland. In contrast, staff levels abroad increased by 283 jobs.

27 SLFS (2017).

Fig. 15

Staff levels domestic[28]

Full-time equivalents	Position at 31.12.2016	Position at 30.06.2017	Staff trend during 1st half of 2017			
			Net	In %	Incoming	Outgoing
Switzerland	88,006	87,035	-971	-1,1%	4,243	5,214

NB: Number of responses: 159

Source: SBA survey (2017)

The detailed results regarding incoming and outgoing staff show that there were 4,243 incoming domestic employees at the banks in Switzerland in the first six months of the year. 5,214 outgoing employees were reported for the same period, which resulted in a decline in staff levels amounting to slightly above one percent.[28]

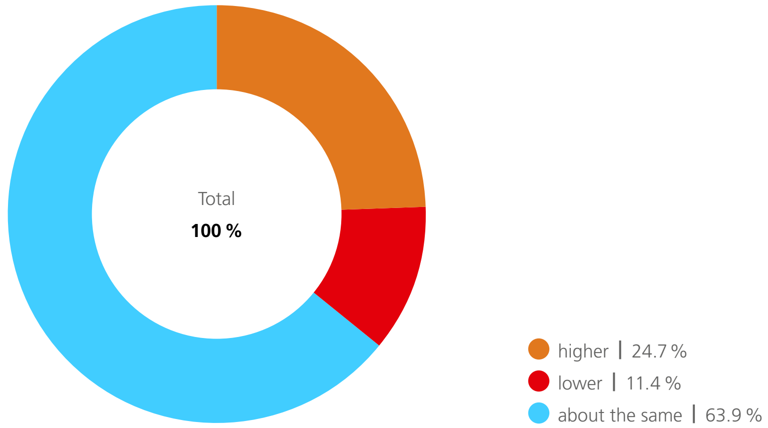
Expectation of flat employment trend broadly shared

63.9 percent of respondent banks expect employment levels to remain unchanged in the second half of 2017, which corresponds to a decrease of 3.4 percentage points compared to the 2016 survey. 24.7 percent of survey participants expect staff levels to rise in Switzerland and 11.4 percent expect to see lower levels. Because those survey participants who expect no change or higher employment levels represent a share of approximately 87 percent of total employment, the trend for overall employment is expected to be at least flat for the second half of 2017.

28 Staff levels in Switzerland at the end of 2016 were lower according to the SBA survey than to the SNB statistics. The reason for this disparity is the response rate to the SBA survey. 220 banks in Switzerland were surveyed. The response rate was 72.3 percent, which accounts for 86.8 percent of staff levels at the banks in Switzerland.

Fig. 16

Expected employment trend in the second half of 2017



NB: Number of responses: 159. Shares as percentage of all responses.

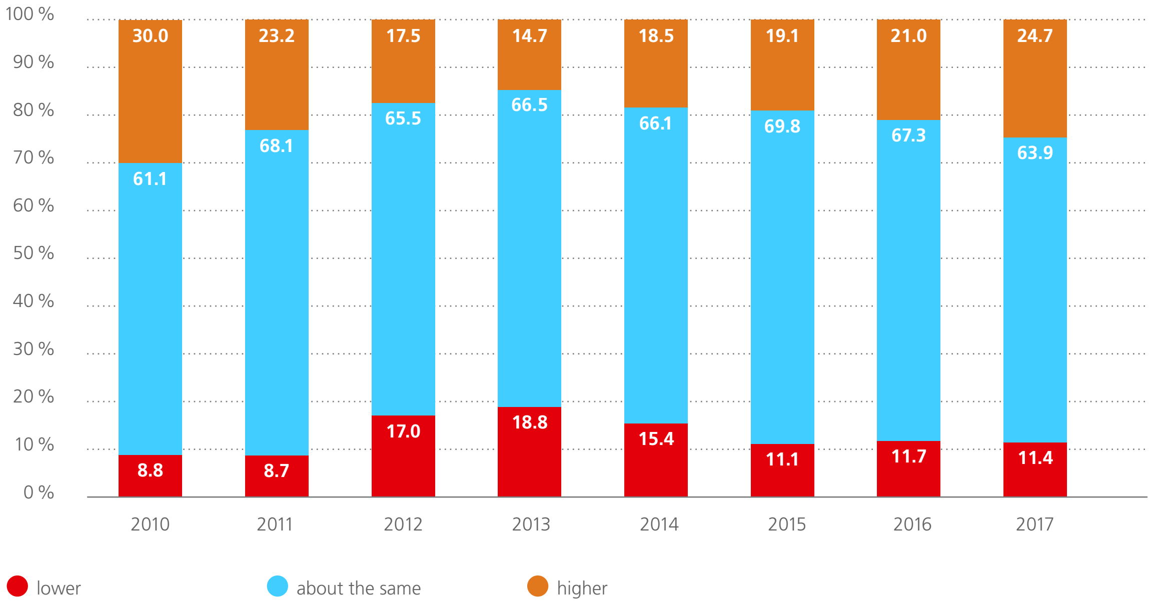
Source: SBA survey (2017)

Share of respondents expecting lower employment levels remains small

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 toward expectations of higher employment continued last year. Almost one-quarter of the banks surveyed (unweighted) expect to see a higher level of employment in the second half of 2017. The more optimistic outlook in comparison to corresponding previous years is also reflected in the fact that the share of banks that tend to expect employment to fall in the second half of 2017 decreased compared to the previous year.

Fig. 17

Employment expectations for second half of the year 2017
shares as a percentage of all responses



NB: Number of responses: 159

Source: SBA survey (2017)

Employment expectations unchanged for almost all areas of business

A comparison of the statements regarding trends for the individual business areas with the corresponding employment levels of the banks at the end of June 2017 indicates that the expectation that the employment trend will remain unchanged for all business segments dominated.[29] Nevertheless, several differences in the expectations for the future can be inferred. A number of the banks surveyed tend to be cautiously optimistic in their outlook, particularly for private banking and institutional asset management. In contrast, for retail banking and the trading business, the employment situation is predominantly expected to remain unchanged. Expectations for the trend in the business areas logistics and operations were more pessimistic. In particular, this likely reflects the expectation of greater digitalisation in future.

29 In an annual study entitled "Arbeitgeber Banken Monitor", the Employers Association of Banks in Switzerland, publishes an assessment of how employment at the banks in Switzerland will develop in the next five years. This assessment is based on a survey of HR managers at the banks in Switzerland. The association also publishes a quarterly monitor, which retroactively examines the trend in job openings and the unemployment rates in the sector – also by region and according to occupational category. Due to the different methods for analysing the results and the different time horizons under review, the results of the study by the Employers Association and those of the SBA survey can only be compared to a limited extent.

Fig. 18

Employment trend in the second half of the year 2017

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

NB: Number of responses: between 90 and 111 depending on business activity. For "total", the number of responses is 159. 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 2017.

Source: SBA survey (2017)

Unemployment rate in the banking sector unchanged

According to the monthly statistics of the SECO, the unemployment rate in the banking sector in the first half of 2017 was unchanged compared to December 2016 and remained at 2.8 percent. The unemployment rate was therefore still below the national Swiss average of 3.0 percent in June, even though the latter has dropped since December 2016.

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