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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 centres and continues to be the top location for cross-border wealth management. At the end of 2017 there were 253 banks in Switzerland, eight less than the previous year.

The banks in Switzerland are operating in a challenging environment, which is currently being impacted by a number of factors. These include rising regulatory costs, a sustained period of negative interest rates, as well as political and legal uncertainties arising from Brexit and international trade tensions. In addition, the ongoing decline in margins and further digitalisation of the finance industry will continue to drive structural realignment in the banking sector in the coming years. The banks are rising to these challenges and succeeding in their efforts to develop robustly in this changed environment.

Challenging economic policy environment
The Swiss National Bank (SNB) introduced negative interest rates more than two years ago. At the end of 2017, bank deposits totalling CHF 270 bn were subject to negative interest rates in Switzerland. In 2017, 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 triggered by the interest rate environment enabled the banks to compensate for the pressure on margins by increasing lending volumes.

With Brexit and the developments in the trade environment, Swiss banks will continue to face uncertainties in the near term. Uncertainty prevails also with regard to the recognition of the Swiss stock market's equivalence, which has been limited to one year by the European Commission. The technical equivalence of the Swiss stock exchange is undisputed. The Federal Council has adopted a contingency measure to protect the Swiss stock exchange infrastructure should an extension of the recognition of equivalence not be granted.

Digitalisation gives rise to opportunities
New digital technologies are on the one hand changing business processes and job profiles in the banking sector. On the other hand, fintech companies are entering the and intensifying competition. The banks are optimising their business models in this environment and are taking advantage of opportunities for innovation. Banks and fintech companies can often be seen working together and leveraging potential synergies in this area.

As a location, Switzerland offers banks and fintech companies excellent advantages, and has developed into one of the leading global fintech centres for blockchain. Zurich and Geneva took second and third place in the Fintech Hub Ranking. At present, there are 220 fintech companies in Switzerland. In 2017 alone, 30 new companies established themselves in the country.

With the continuous digitalisation of business processes in the banking sector, the risk of cyber criminality is also rising. The Federal Council is working towards implementing the various recommendations on cybersecurity made by the advisory board for the future of the financial centre. In July 2018, the Federal Council reached a fundamental decision to establish a competence centre for cyber risks. Further to this, a Swiss Bankers Association (SBA) group of experts compiled a list of initiatives relating to cybersecurity, which includes – apart from the competence centre for cyber risks – raising user awareness and targeted training of cyber specialists.

Strengthening Switzerland's competitiveness as a location
Although various indicators continue to show that Switzerland is very competitive, the costs arising from the density of regulation are weighing heavily on the banks. It is necessary to reduce the administrative burden and improve existing and future regulation. Fintech companies offer great potential for cost savings, namely regtech solutions designed to fulfil regulatory duties.

To remain one of the leading global financial centres, Switzerland requires market access to foreign customers. It therefore selectively, where relevant and appropriate, transposes international standards into national law in order to ensure the equivalence of legislation. Examples thereof are the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) adopted in June 2018, and two amendments contained in Basel III implemented by the Federal Council as part of the revision of the Capital Adequacy Ordinance.

Further to this, Switzerland has adopted the Automatic Exchange of Information (AEOI), which came into force on 1 January 2017. In addition to Switzerland, over 100 nations, including all key financial centres – except the USA – and financial centres with which Switzerland competes, have committed to applying this standard.

In May 2018, the financial market policy forum briefed the Federal Council on the opportunities for strengthening the competitiveness of the financial centre. In addition to a general improvement of the framework conditions for the labour market, the regulatory environment and education, the briefing focused on financial market-specific measures such as the abolition of stamp duty, a reform of the withholding tax as well as improving EU market access.

Banks report solid net income
The banks in Switzerland reported solid results despite the regulatory and structural challenges.

In 2017, aggregate operating was CHF 62.5 bn, and thus remained at the same level as the previous year. Net income from the interest-earning business declined by 0.6 percent. One reason for this was negative interest rates. Last year, the banks in Switzerland paid negative interest rates amounting to approx. CHF 2.0 bn, which corresponds to an increase of around CHF 500 m compared to the previous year. Nevertheless, interest-earning business accounts for the largest share of aggregate operating net income.

Net income from the commission and services business rose for the first time since 2013 (+4.0 %). This is mainly attributable to the increase in the number of transactions compared to the previous year, for example the global rise in IPOs. The trading business also increased, by 25.4 percent. One reason for this development is that the economic environment in 2017 was significantly better than in 2016, which had a favourable impact on clients' trading activities. This trend was seen in Asia and Switzerland, among others. According to SIX Swiss Exchange, due to the increased volatility in the foreign exchange markets, hedging transactions also increased.

Other ordinary net income in particular declined in 2017, falling by 20.4 percent. This is in mainly attributable to a big bank's transfer of services from the parent company to an intragroup services company.

Gross profit from the business operations of the banks in Switzerland increased by 11.9 percent in 2017. The banks paid CHF 2.2 bn in income taxes and taxes on earnings.

Overall positive trend in the balance sheet business
The aggregate balance sheet total of all the banks in Switzerland rose by 4.8 percent to CHF 3,249.4 bn in 2017. Mortgage loans increased again compared to the previous year, by 2.9 percent. Accounting for 30.6 percent of the balance sheet total, mortgage loans were the largest asset item. With a share of 19.3 percent of total assets, customer loans were the second biggest item. Loans rose by 9.2 percent in 2017. Liquid asset declined by 1.8 percent compared to the previous year. This is in particular due to the big banks' reduction in sight deposits at foreign central banks. Trading portfolios of securities and precious metals increased by 55.2 percent compared to the previous year. This rise was in part caused by a big bank's transfer of its trading portfolio and securities financing business from a foreign subsidiary to a foreign branch.

On the liabilities side, customer deposits recorded a rise of 1.0 percent and at 55.0 percent, accounted for the largest share of liabilities. Sight deposits and other amounts due in respect of customer deposits decreased. In contrast, time deposits and equity capital increased by 13.8 percent and 1.4 percent. Liabilities to banks rose by 10.6 percent in 2017, while liabilities from trading portfolios increased by 63.3 percent. This trend was substantially impacted by the big banks and their foreign liabilities due to the transfer of business from a foreign subsidiary to a foreign branch of the same big bank (see above).

In the first five months of 2018, the aggregate balance sheet total of the banks in Switzerland increased once again, by 2.4 percent. The positive trend seen in 2017 has therefore continued. The balance sheet items "amounts due from banks", "amounts due from securities financing transactions" and "mortgage loans" all rose. Customer loans and financial investments also increased. Trading portfolio assets, in contrast, declined compared to the previous year.

The banks' lending business is an important pillar for economic development in Switzerland, and lending to companies and private individuals in Switzerland is intact. Compared to the previous year, the total domestic credit volume rose by 2.1 percent to CHF 1,131.1 bn in 2017. Of that total, CHF 156.4 bn originated from secured and unsecured customer loans, and CHF 974.7 bn was attributable to mortgage loans. The growth in domestic mortgage loans (+2.7 %) remained almost unchanged compared to the previous year. Secured loans rose by 1.3 percent, while unsecured loans decreased by 2.8 percent.

Wealth management: assets under management reach highest level since financial crisis
Assets under management in Switzerland rose by 9.6 percent to CHF 7,291.8 bn in 2017. This is the highest level since the financial crisis. Despite stricter regulatory framework conditions and the low interest rate environment, Switzerland remains the world leader in the global cross-border private banking business with assets under management of CHF 2,276.2 bn and a market share of 27.5 percent.

Employment at the banks declines slightly
At the end of 2017, the banks in Switzerland employed 93,554 people (in full-time equivalents, in Switzerland), which corresponds to a decrease of 7.7 percent compared to the previous year. The main cause of this strong decline is a big bank's transfer of central services from its parent company to intragroup service companies (see above). If the decreasing trend in staff levels is adjusted for this one-off effect, staff levels declined only slightly compared to the previous year (-0.9 %). At 2.8 percent, the unemployment rate in the banking industry is significantly lower than that of the overall economy.

According to a survey conducted by the SBA, the employment trend in the first half of 2018 was stable. Over 60 percent of the survey participants expect the employment situation to remain flat, while almost one-third expect it to improve in the second half of 2018.

Strong growth potential for asset management
Further to this, as an important pillar of the Swiss financial centre, asset management in particular shows strong potential for global growth. Compared to the previous year, the assets managed by the asset management industry rose by waround 13 percent in 2017. Strong growth is also expected in the sustainable investments segment. Sustainable investments in Switzerland rose by 82 percent in 2017 and accounted for approx. 8.7 percent of to the overall Swiss fund market.

Fig. 1

Key figures banking industry

	2016	2017	Change YoY
Number of institutions	**261**	**253**	**-8**
Number of employees (in full-time equivalents, domestic)	**101,382**	**93,554**	**-7.7 %**
excluding one-off effect	101,382	100,496	-0.9 %
in CHF bn			
Aggregate operating net income	**62.5**	**62.5**	**-0.1 %**
Interest-earning business	24.1	24.0	-0.6 %
Net income from the commission and services business	20.9	21.7	4.0 %
Net income from trading	6.2	7.7	25.4 %
Other ordinary net income	11.3	9.0	-20.4 %
Gross profit from business operations	**16.5**	**18.5**	**11.9 %**
Income taxes and taxes on earnings paid	**2.3**	**2.2**	**-3.5 %**
Aggregate annual profit (result for the period)	**7.9**	**9.8**	**24.1 %**
Annual profit	11.8	10.3	-12.7 %
Annual loss	3.9	0.5	-87.2 %
Balance sheet total	**3,100.8**	**3,249.4**	**4.8 %**
Lending volume	**1,107.5**	**1,131.1**	**2.1 %**
Assets under management in Switzerland	**6,650.2**	**7,291.8**	**9.6 %**
Assets under management cross-border for private investors	**2,213.1**	**2,276.2**	**2.8 %**
Assets under management institutional	**2,987.0**	**3,386.0**	**13.4 %**
Institutional investors (discretionary mandates and collective investment schemes)	1,970	2,208	12.1 %
Private investors (discretionary mandates, advisory mandates) and advisory mandates for institutionals	1,017	1,178	15.8 %

Sources: SNB, SBA, IFZ/AMP and BCG

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 centres and continues to be the top location for cross-border wealth management. At the end of 2017, assets under management in Switzerland reached a new post-financial crisis record. The country is also a leading location for fintech. In the Fintech Hub Ranking, Zurich and Geneva took second and third place.[1]

The Swiss banking sector is characterised by a large variety of banking institutions and differing business models. It provides a comprehensive range of services. The digital banking segment in particular is growing steadily. In 2017, in a challenging economic environment, the banking sector made an important contribution to value creation in Switzerland, accounting for around for 5 percent thereof.[2]

1 Institute of Financial Services Zug (2018)
2 State Secretariat for Economic Affairs (2018)

At the end of 2017, there were 253 banks in Switzerland, reflecting a slight overall decrease of 8 banks. This reduction pertained only to the foreign banks or their branches. In 2017, there was one newly founded branch and 9 banks exited the market. One institution was reallocated to a different bank group.[3]

The Swiss National Bank (SNB) breaks the banks in Switzerland down into 8 groups: cantonal banks, big banks, regional banks and savings banks, Raiffeisen banks, foreign banks, private bankers, stock exchange banks and "other banking institutions".

Fig. 2

Structure of the Swiss banking sector as at year-end 2017

	No. of institutions 2016	No. of institutions 2017	New additions	Reallocations	Reductions
Cantonal banks	24	24			
Big banks	4	4			
Regional banks, savings banks	62	62			
Raiffeisen banks	1	1			
Foreign banks	107	99	1	-1	8
Private bankers	6	6			
Stock exchange banks	43	43		1	1
Other banking institutions	14	14			
Total	**261**	**253**	**1**		**9**

Source: SNB

3 The exits affected the foreign-controlled banks (-4), branches of foreign banks (-4) as well as the stock exchange banks (-1). Three institutions were closed, three lost their status as a bank, two were acquired by other institutions and one institution was liquidated. Further to this, one institution was reclassified to a different bank group. 9 banks exited the market and there was one new addition.

1.1 Economic policy environment

Low interest rates

Following the Federal Reserve's (Fed) gradual increase of the key interest rate in line with the US' healthy economic situation, the European Central Bank (ECB) now also aims to gradually bring its ultra-expansionary monetary policy to a close. The ECB announced that it will discontinue its purchase programme for government bonds at the end of the year. It nevertheless wants to leave the key interest rate unchanged at zero percent until at least the summer of 2019. The period of low interest rates is likely to last much longer than that. This is mainly due to the ongoing fragile environment with regard to indebtedness and the situation in the banking sector in certain countries. Due to the de facto standstill in further developing a European currency and banking union, a change to monetary policy is not expected any time soon.

Because of the continuing fragile situation in the currency market, the SNB will have to uphold its negative interest rate policy. However, the risks associated with this policy are increasing at the same rate as the effectiveness of the extraordinary monetary policy interventions of the central banks 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".

The tensions in international trade relations observed in recent months are fuelling uncertainty and risks. To date, this has had almost no impact on the banks' results.

At the end of 2017, bank deposits of around CHF 270 bn were subject to negative interest rates in Switzerland. Negative interest rates once again had a dampening effect on interest rate margins industry-wide in 2017. As a result, the retail business has little room for manoeuvre. The strong demand for credit arising from the interest rate environment enables the banks to compensate for the pressure on margins by increasing lending volumes. Mortgage lending has exceeded economic growth in recent years, a fact that the Swiss Financial market Supervisory Authority (FINMA) and the SNB have identified as entailing risks. They are closely monitoring the developments in this area.

In the deposit business with retail customers, the banks have to date refrained from passing negative interest rates on to their private customers. 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 clients and high-net-worth customers.

Brexit and Switzerland's market access

The United Kingdom will leave the European Union (EU) in March 2019. Under which conditions exactly, is as yet unclear. In its White Paper, the UK government states that it is striving for an agreement that includes a comprehensive free trade agreement as well as the end of the general free movement of people. In order for the exit treaty to be ratified on time, the negotiations between the UK and the EU must be concluded by October 2018.

Switzerland must also renegotiate its relationships with the UK, as these are currently based on the bilateral agreements with the EU. However, until the UK has established its definitive relationships with the EU, defining the concrete relationships between Switzerland and the UK is almost impossible. Notwithstanding, both nations have a strong interest in ensuring that future mutual market access is as liberal as possible.

Because its negotiating position includes not granting the EU the general free movement of people, it will likely no longer be part of the EU single market in the future. As a result, it is probable that the UK will lose its EU passporting, or in other words, the right to provide customers across the EU with financial services out of London. Many financial institutions with operations in the UK are therefore faced with the question of whether to remain in the country. To what extent jobs and value creation will move from London to other locations in Europe is difficult to predict. One thing is clear, however: the loss of EU passporting would mean that London would also become less attractive for certain business activities conducted by the Swiss banks.

Because the UK will be considered a "third country" by the EU in the future, Brexit also has an impact on the approach taken by the EU regarding extending the EU passport to other third countries such as Switzerland. Although the European

Securities and Markets Authority ESMA recommended the extension of the EU passport to Switzerland for alternative funds (AIFMD) in 2016, the decision at the political level is still pending. Third-country EU passporting for the provision of cross-border services to professional customers (MiFIR) also remains unresolved.

Recognition of equivalence of the Swiss stock market

Access to foreign markets is of strategic importance for Swiss financial services providers. The EU is one of the biggest export markets for Swiss banks. EU recognition of the equivalence of regulation is a requirement for accessing the EU market. At present, a number of equivalence assessments have as yet to be concluded on the EU side.

At the end of 2017, the European Commission limited recognition of the equivalence of the Swiss stock market to one year. The Federal Council is therefore vehemently advocating for unlimited recognition. Free and efficient capital markets are key for the global economy and therefore also for Switzerland as a financial centre and business location. All market participants should have the opportunity to trade on the markets with the best liquidity and biggest order books.

The technical equivalence of the Swiss stock market is undisputed. Should an extension not be granted, the Federal Council has adopted a contingency measure to protect the Swiss stock exchange infrastructure. This would result in a recognition obligation for foreign trading venues that admit Swiss shares to trading. In the event that Swiss stock market equivalence is not recognised, EU trading venues would not receive this recognition.

1.2 Structural change

Relocation of jobs

New digital technologies are leading to changing job profiles in the banking sector. According to the Employers Association of Banks in Switzerland, the core abilities sought after by human resources managers when recruiting new employees are interdisciplinary thinking, flexibility, good teamwork as well as expertise in media and technology. It is expected that jobs will shift away from the back office to IT, credit and risk management, research and product development as well as to intragroup service companies without a banking license (see also Chapter 5). Further to this, fintech companies are intensifying the competition and increasing margin pressure. The banks are optimising their business models in this environment and will take advantage of opportunities and possibilities for innovation. The collaboration between banks and fintech companies is a trend in this area that makes use of potential synergies.

Location-specific advantages for fintech

As a location, Switzerland offers outstanding advantages (proximity to education, research and innovation, relatively liberal labour market, entrepreneurial environment with business-friendly framework conditions, high quality of life, etc.) and has successfully positioned itself for fintech companies. The blockchain ecosystem in Zug is growing continuously. The crypto exchange Bitfinex, for example, is planning to move to Switzerland. Digitalisation and the establishment of fintech companies in Switzerland will further strengthen the financial centre. With prudent, business-friendly framework conditions for digital innovations, Switzerland's advantages as a location will further increase. This will also have a positive impact on employment in the banking sector.

The Fintech Hub Ranking indicates just how successful Switzerland has been in becoming a leading centre for global fintech in the area of blockchain: Zurich and Geneva are ranked second and third.[4] In 2017, around 30 new fintech companies were established in Switzerland, making for a total of 220 to date. The average size of the companies also increased in 2017: both in terms of the number of full-time employees as well as capitalisation. The trend of collaboration between fintech companies and banks is growing. Start-ups offer an ideal platform for developing and swiftly implementing new business ideas. The banks on the other hand have the necessary knowledge in terms of regulation and management of assets and data. Due to their experience in these areas, they enjoy a high level of trust and have expertise in customer acquisition. Fruitful collaboration between fintech companies and banks makes it possible for both sides to mutually benefit from their strengths.

4 Institute of Financial Services Zug (2018)

Opening of customer interfaces
In order for bank customers to gain easy access to the fintech ecosystem using their existing banking relationship, the data interfaces between individual providers must be defined and standardised. The Swiss banks are working closely with fintech start-ups in this area and are developing applications to increase customer value. It is the demand from customers for tools and services of third-party providers that defines the development of interfaces between the bank and the fintech provider. In order to be successful in this segment, the banks are continuously increasing their activities relating to "open banking". Open banking makes it possible to provide customer data to third-party providers at the request of the customer. However, the banks want to decide for themselves to which third-party providers they open their customer interfaces, not least for reasons of data security. A legal obligation to open the interfaces to all third-party providers, such as under the revised European Payment Services Directive (PSD2), which has been in force since January 2018 in the European Union (EU), is not necessary and entails unnecessary security risks.

Cybersecurity
With the ongoing digitalisation of business processes in the banking sector, the risk of cybercrime is also rising. In its 2017 annual report for the attention of the Federal Council, the advisory board for the future of the financial centre identified safeguarding cybersecurity as one of the most important challenges faced by the Swiss financial centre. Cybersecurity breaches involve the risk of both financial losses as well as reputational risks and have the potential to undermine trust in the Swiss financial centre. The advisory board for the future of the financial centre submitted three recommendations to the Federal Council aimed ultimately at establishing a financial sector-specific cybersecurity crisis organisation.[5] As part of the revision of the federal government's national strategy for Switzerland's protection against cyber risks (NCS) in April 2018, the Federal Council is working towards implementing these recommendations promptly and took its first fundamental decision to establish a competence centre for cyber risks in July 2018. Further to this, in 2017, the Swiss Bankers Association's (SBA) Information Security and Cyber Defence group of experts compiled a list of cybersecurity initiatives and prepared a strategy paper for the Swiss financial centre. The strategy paper outlines the areas in which the Swiss financial centre needs to take action over the coming years. It highlights the synergies with the NCS and contains recommendations for collaboration between the private and public sectors in the fight against cybercrime, for example, raising user awareness or targeted training of cyber specialists.

5 Future of the financial centre advisory board (2017)

1.3 Regulation

FinSA and FinIA
With the adoption of the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) by Parliament in June 2018, Switzerland now has a modern and practicable overall approach to investor protection. Under FinSA, the entire relationship between financial services providers and customers at the point of sale is now governed by one single law. Customers are protected by requirements regarding documentation and accountability, information duties, fiduciary and due diligence requirements as well as appropriateness and suitability tests. In the event of a dispute, customers can invoke the duty to provide information, and ombudsman services will also be strengthened. All financial services providers must affiliate themselves with an existing or newly created ombudsman's office. Moreover, FinIA closes the gaps in the supervision of independent asset managers (IAMs). They are now also subject to appropriate supervision. With FinSa and FinIA, Switzerland is creating the necessary prerequisites for a positive decision on equivalence by the EU Commission.

Finalisation and implementation of Basel III
In December 2017, the Basel Committee on Banking Supervision (BCBS) finalised the Basel III regulatory package (Basel III: Finalising post-crisis reforms). The key element contained in the package is the introduction of so-called output floors when applying the guidelines for capital requirements. These limit the use of internal models by banks for the calculation of risk-weighted assets in relation to the amounts calculated using the standard model. The finalised Basel III reforms also include important changes to the approaches used for calculating minimum capital requirements for credit and operational risks. The BCBS has established a transition period ending in 2022 for transposing the regulatory package into national supervisory law. The output floor is to be increased gradually to the targeted level over a five-year period ending in 2027.

The Federal Council had already adopted a revision of the Capital Adequacy Ordinance in November 2017, and in doing so implemented two amendments contained in Basel III. On the one hand, a minimum leverage ratio of 3 percent will be introduced for Tier 1 capital. As a result, all non-systemically important banks must also adhere to a minimum unweighted capital adequacy requirement. Stricter requirements continue to apply for systemically relevant banks. On the other hand, new rules will be introduced in the area of risk diversification. The focus is on so-called risk concentrations, which will now be measured according to Tier 1 capital. As a consequence, banks will be allowed to use models for determining their risk concentrations only in a very restricted capacity. The new regulation is expected to come into force on 1 January 2019.

FINMA's regime for small banks
In July 2018, the Swiss Financial Market Supervisory Authority (FINMA) announced the new regulatory regime foreseen for small banks, which makes regulation and supervision less complex for these institutions. With this regime, FINMA will strengthen proportionality. From the perspective of the SBA, this initiative is a step in the right direction that focuses mainly on qualitative aspects, which will allow for further facilitation while ensuring system stability.

FINMA guidelines initial coin offerings
In February 2018, FINMA published guidelines for the legal qualification of initial coin offerings (ICOs). It focuses on the economic function and purpose of the tokens issued. FINMA categorises tokens into three types, although hybrid forms also exist: payment tokens, utility tokens and asset tokens. Payment tokens can be used primarily as a means of payment and are therefore synonymous with actual cryptocurrencies. Utility tokens comprise a claim to purchase a product or a service, while asset tokens represent entitlement to an asset. According to FINMA, payment tokens fall under anti-money laundering regulations, while utility and asset tokens are generally categorised and treated as securities.

Electronic identity
The creation of an electronic identity (e-ID) for natural persons is intended to verify the unequivocal electronic identity of a person. An e-ID enables payment orders to be executed online more quickly and easily, supports the development of online business and could be used for various e-government applications.

In June 2018, the Federal Council adopted the dispatch on the Federal Act on Electronic Identification Services. This foresees that the official verification and confirmation of the existence of a person and their identifying features remain the remit of the government. In contrast, responsibility for developing and issuing the electronic identity is to be assumed by the private sector. To this end, a group of Swiss companies, including banks, founded the SwissSign Group joint venture in March 2018.

Regtech
The number of supervisory requirements to which banks and other service providers must adhere are continuously increasing in the highly-regulated financial sector. Total annual compliance costs have more than doubled since 2010. In light of the high costs, regtech solutions designed to fulfil regulatory duties offer significant potential for strengthening the competitiveness of Swiss banks. These include, for example, the application of biometric processes to identify customers, using robo-advisors for the automatic transmission of reporting duties to the competent supervisory authorities and innovations that apply artificial intelligence to uncover improper conduct in the analysis of large amounts of unstructured data.

Switzerland is closely monitoring such developments in regtech. For example, in a recent report, the Federal Council examines the possibilities for further developing regtech in Switzerland. The SBA sees substantial potential for the application of regtech solutions in particular in the areas of risk management, regulatory reporting, customer identification, money laundering and overarching corporate governance.

1.4 Taxes

Developments in AEOI

The legal foundations for the Automatic Exchange of Information (AEOI) that enable the Swiss authorities to exchange tax-related information with 38 countries, including all EU countries, have been in place since 2017. The first exchange of information with these 38 countries will take place in autumn 2018. Switzerland will exchange information with a further 41 countries starting in 2019. Prior to the exchange of information, the Federal Council will verify a series of criteria for each of these partner states. On the one hand, it will be looking at the level of confidentiality and the measures for data security and data protection in the partner states. On the other hand, the Federal Council will check to ensure the playing field is level, or in other words, whether the relevant competing financial centres are also implementing the Automatic Exchange of Information with our partner states. If a partner state does not meet the AEOI requirements, the Federal Council can take appropriate measures and if required, suspend the exchange of information. For the Swiss banks, this ensures that their customers continue to benefit from sufficient legal and technical data protection.

In March 2018, the OECD published the "Mandatory Disclosure Rules for Addressing CRS Avoidance Arrangements and Offshore Structures". In parallel to this, it launched the consultation on the "Preventing abuse of residence by investment schemes to circumvent the CRS" initiative in February. The SBA will continue to work in the interests of the proper implementation of AEOI rules.

Tax proposal 17

In June 2018, the Council of States concluded its debate on tax proposal 17 as the first chamber. Core elements thereof include the higher taxation of dividends, tightening of the capital contribution principle, as well as the possibility of a notional interest deduction in cantons with a high tax burden. Tax proposal 17 creates urgently needed legal certainty for companies and safeguards the attractiveness of Switzerland as a business location. The Swiss banks will also benefit from this.

Bank-client confidentiality in Switzerland

After Swiss Parliament's decision to forego a revision of the law on tax offences, the popular initiative "Yes to the protection of privacy" was withdrawn. The Council of States rejected the National Council's counter-proposal, which has therefore also been taken off the table. Domestic bank-client confidentiality is sufficiently protected under the existing law.

Stamp duty and withholding tax

The abolition of stamp duty on the purchase and sale of securities as well as on newly issued shares could eliminate a significant competitive disadvantage in wealth and asset management. The majority of investment funds are domiciled abroad and not in Switzerland, the trading of bonds with short maturities is unprofitable and customers of asset and wealth managers are subject to higher fees in Switzerland than in competing locations. The Federal Department of Finance (FDF) will submit recommendations for the abolition of stamp duty to the Federal Council in this regard.

Withholding tax is another factor preventing solid and lucrative businesses from relocating to Switzerland's financial sector. None of its competitors, including the UK, Singapore, the US or Hong Kong are subject to a comparable tax regime. They all have substantial advantages over Switzerland in their financial industry. In its recommendations to the Federal Council adopted in April 2018, the advisory board for the future of the financial centre urges for a swift reform of withholding tax. It recommends that withholding tax be changed to a paying agent tax and that it be limited to natural persons resident in Switzerland.

Digital tax

The current rules for the taxation of companies that operate internationally no longer correspond to the realities of the modern and increasingly digitalised economy. A physical presence in the form of business premises (which would constitute a tax obligation) is no longer required in order to conduct business activities in a country. A digital presence is sufficient, though difficult or even impossible to account for, and can therefore not be fully taxed. The OECD is currently drafting recommendations for how corporate taxation can be brought into line with the recent digital developments. The principle that taxes should be levied in the location of value creation is to remain in place. But discussions are underway in the EU regarding the alignment of taxation with the revenues of digital companies. In addition to this, individual countries are planning unilateral measures for the taxation of major global tech companies. As an important location for enterprises that operate internationally, an adjustment to corporate taxation would also impact Switzerland.

1.5 Competitiveness and growth potential

Switzerland continues to be the largest global financial centre for cross-border private banking. However, the Swiss finance industry has been growing more slowly than the overall economy in recent years and is also under pressure due to the growing competition between international financial centres. Compared to the previous year, Zurich and Geneva have come down in the Global Financial Centres Index rankings: Zurich is in 16th place (previous year: 11th) and Geneva is in 26th place (previous year 20th).[6] In a comparison with Europe, Switzerland ranks 2nd, ahead of Frankfurt, and Geneva ranks 6th.

In the interests of competitiveness, it will be essential that Switzerland's locational factors are continually improved. Switzerland requires the best possible, internationally recognised framework conditions in order to ensure that it continues to have a strong and internationally competitive financial market in future.

The political decision-makers have recognised the signs. On 9 May 2018, the Federal Council was briefed on the possibilities for strengthening the competitiveness of the financial centre. This is being examined by the financial market policy forum under the leadership of the State Secretariat for International Finance, and includes private sector representation, specifically also the SBA. In addition to general framework conditions such as the labour market, the regulatory environment and education, the briefing included financial market-specific measures such as the further

6 Z/Yen Group Limited (2018). The reasons for this decline are not clearly identifiable. Both locations have a relatively good business environment (e.g. political stability, tax burden, regulatory environment). According to the Global Financial Centres Index, however, they have certain deficits, particularly in the areas of reputation and human capital.

development of regulatory processes, improvement of EU market access and the abolition of stamp duties.

Latest developments

In 2017, the assets managed by the banks in Switzerland grew by almost 10 percent. The assets under management in Switzerland at the end of 2017 thus reached a new record since the financial crisis (see Chapter 4). The outlook is favourable. According to a forecast by The Boston Consulting Group, assets under management in Switzerland will grow by 3 to 4 percent annually until 2021.[7]

Further to this, asset management, which is an important pillar of the Swiss financial centre, in particular shows strong potential for global growth. A new study indicates that in 2017, the assets under management in this business segment increased by around 13 percent compared to the previous year (see Chapter 6). This growth is expected to continue provided that Switzerland's framework conditions remain attractive and that access to international growth markets is ensured.

Strong growth is also expected in the sustainable investments segment. According to the "Forum für Nachhaltige Geldanlage", sustainable investments are those whose investment processes incorporate ESG criteria (environment, social and governance) in their financial analysis. The most recent market analysis conducted by the Swiss Sustainable Finance association has documented impressive growth of 82 percent for sustainable investments in Switzerland between 2016 and 2017.[8] Accordingly, the share of sustainable investments accounts for approx. 8.7 percent of the overall Swiss fund market. One main driver of this development is the increased demand from pension funds, which is a reaction to growing societal and political awareness of the impact of investment decisions. Market participants expect this trend to continue and that sustainable investments will maintain double-digit growth in future.

7 The Boston Consulting Group (2017). According to the most recent findings (BCG Global Wealth 2018), growth of up to 5 percent is expected in the UHNW segment.

8 Swiss Sustainable Finance (2018)

Fig. 3

Select events that impacted the financial centre

When	Issue	Event
Jan 17	Taxes	The Swiss banks have been implementing the Automatic Exchange of Information (AEOI) since 1 January 2017.
Jan 17	Structural change	The Federal Council adopts the report on the key framework conditions for the digital economy.
Feb 17	Taxes	The Federal Department of Finance (FDF) initiates consultations on the introduction of the AEOI with additional countries. The AEOI is planned to come into force on 1 January 2018.
Apr 17	Taxes	The Federal Council rejects the counter-proposal to the initiative "Yes to the protection of privacy".
June 17	Banking sector	According to the Swiss National Bank's (SNB) stability report, the banks have improved their capital ratios. Risks exist in the mortgage lending segment.
Aug 17	Regulation	The revised Banking Ordinance comes into force. The acceptance of public funds up to CHF 1 million will now be exempt from authorisation. The time frame for settlements for fintech companies is extended to 60 days.
Sept 17	Taxes	The Federal Council initiates consultations on tax proposal 17.
Sept 17	Regulation	The Federal Council adopts the dispatch on the complete revision of the Federal Act on Data Protection and the amendment of additional ordinances relating to data protection.
Sept 17	Taxes	The Council of States confirms its rejection of the initiative "Yes to the protection of privacy" and of the counter-proposal.
Sept 17	Economic policy environment	The Swiss electorate votes against the Pensions 2020 reform.
Nov 17	Regulation	The Federal Council adopts the revision of the Capital Adequacy Ordinance (CAO). It concerns the introduction of a leverage ratio, as well as new risk diversification provisions. Two additions to the international standards of the Basel Committee on Banking Supervision (Basel III) will thereby be implemented.
Dec 17	Regulation	The Federal Act on the International Automatic Exchange of Country-by-Country Reports of multinationals (CbC Act) comes into force.
Dec 17	Taxes	Parliament approves the extension of the AEOI to 41 countries and requests to regularly review adherence to certain standards for these countries.
Dec 17	Regulation	The Basel Committee on Banking Supervision finalises the Basel III standards.
Dec 17	Taxes	The National Council and Council of States decide to forego a revision of the law on tax offences.
Dec 17	Economic policy environment	The advisory board for the future of the financial centre publishes its annual report for the attention of the Federal Council.
Jan 18	Economic policy environment	The EU limits recognition of the equivalence of Swiss stock market regulation to one year.
Jan 18	Taxes	The popular initiative "Yes to the protection of privacy" is withdrawn.
Jan 18	Structural change	The second Payment Services Directive (PSD2) comes into force in the EU.
Jan 18	Regulation	The Federal Council initiates consultations on the implementation of the recommendations of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum).
Feb 18	Taxes	The OECD initiates consultations on the "Preventing abuse of residence by investment schemes to circumvent the CRS" initiative.
Feb 18	Regulation	The federal government initiates consultations on changes to the Capital Adequacy Ordinance.
March 18	Taxes	The Federal Council adopts the dispatch on tax proposal 17.
Apr 18	Structural change	The Federal Council adopts the revised national strategy for Switzerland's protection against cyber risks (NCS).
Apr 18	Taxes	The advisory board for the future of the financial centre publishes its recommendations for withholding tax reform for the attention of the Federal Council.
May 18	Banking sector	The financial market policy forum informs the Federal Council of the possibilities for strengthening the competitiveness of the Swiss financial centre.
May 18	Regulation	Founding of the association of Swiss regional banks.
June 18	Regulation	The Federal Council initiates consultations on the revision of the Anti-Money Laundering Act.
June 18	Regulation	The Federal Council adopts the dispatch on the Federal Act on Recognised Electronic means of Identification (e-ID law).
June 18	Taxes	The Council of States votes in favour of tax proposal 17 with a strong majority.
June 18	Economic policy environment	The Federal Council adopts contingency measures to protect the Swiss stock market infrastructure.
June 18	Regulation	The Swiss electorate votes decisively against the Sovereign Money Initiative.
June 18	Regulation	Swiss Parliament adopts the bills for the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA).
June 18	Regulation	The FDF initiates consultations on the amendment of the Banking Ordinance: this will enable companies without a banking licence to accept public funds of up to a maximum of CHF 100 million.
June 18	Regulation	The Federal Council adopts the report on the use of innovative technologies in the area of financial market supervision and regulation (regtech).
July 18	Regulation	The SBA publishes the revised Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20).
July 18	Structural change	Introduction of the new international standard ISO 20022 for Swiss payment transactions.
July 18	Regulation	FINMA concretises the announced regime for small banks and launches a pilot phase. The objective is to establish a regulatory regime with significantly reduced complexity.
July 18	Regulation	FINMA revises its circular on auditing.

2 Bank net income

In 2017, 229 of the 253 banks in Switzerland reported an annual profit. Total annual profit amounted to CHF 10.3 bn. The losses generated by the unprofitable institutions fell significantly, by CHF 3.3 bn to CHF 0.5 bn (-84.6 %). The banks paid CHF 2.2 bn in taxes.

Aggregate operating net income was CHF 62.5 bn (-0.1 %) in 2017. In the balance sheets, net income from the interest-earning business accounted for CHF 24.0 bn (-0.6 %), thus making the largest contribution to total net income despite the low interest rate environment. Net income from the commission and services business increased for the first time since 2013, by CHF 0.8 bn (+4.0 %) to CHF 21.7 bn. The trading business also rose significantly, by CHF 1.6 bn (+25.4 %). A decline was observed only in other ordinary net income, which fell by CHF 2.3 bn (-20.4 %).[9]

9 The amounts indicated in the figures may deviate slightly from the amounts contained in the text due to rounding.

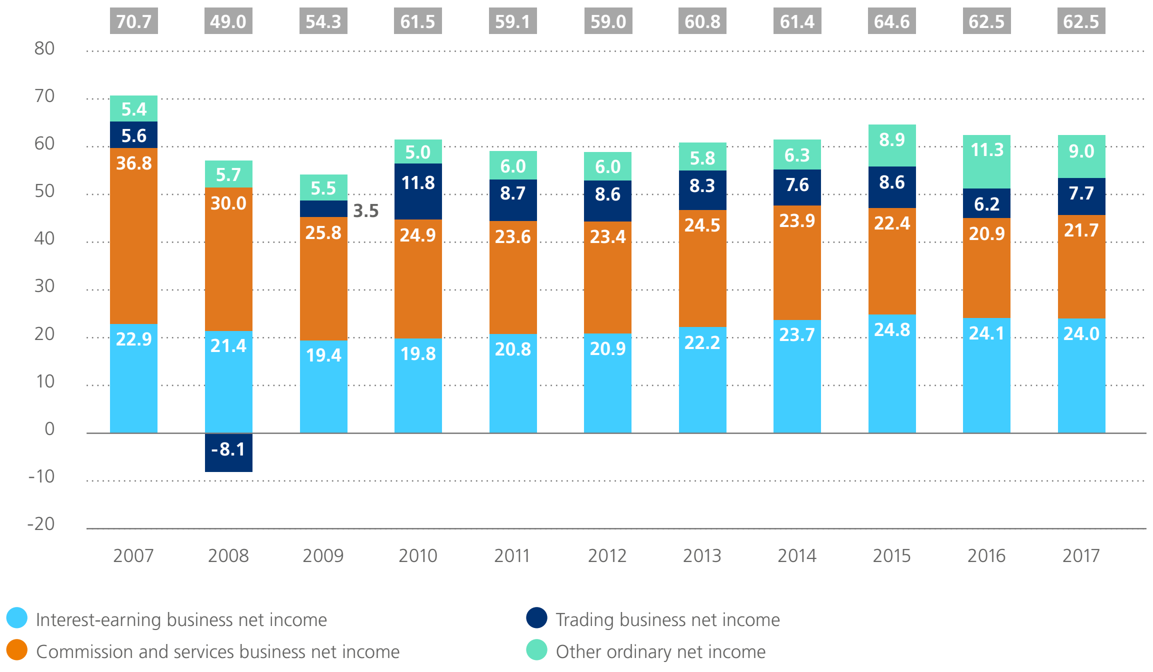
2.1 Trends in 2017

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. Total net income remained almost unchanged compared to the previous year, and in 2017, as in the prior year, was CHF 62.5 bn. Looking back at the past 11 years, net income reached its lowest level in 2008 at CHF 49.0 bn. Compared to 2008, net income has recovered and has increased by CHF 13.5 bn (+27.7 %).

Fig. 4

Net income by banking activity
in CHF bn



Source: SNB

Interest-earning business biggest contributor to total net income
Accounting for 38.4 percent in 2017, net income from the interest-earning business contributed the largest share to total net income. The low interest rate environment continued to put a strain on the banks' interest margin business. Net income from the interest-earning business fell slightly from CHF 24.1 bn in 2016 to CHF 24.0 bn in 2017 (-0.6 %). The slightly negative net balance is the result of the fact that interest income (+CHF 1.3 bn) rose less than interest expenses (+CHF 1.4 bn). The rise in interest and discount income of CHF 900 m, and the interest and dividend income from trading portfolios (+CHF 368 m), was not as strong as the renewed rise in interest expenses (+CHF 1.4 bn) and the decline in interest and dividend income from financial investments (-CHF 16 m). A key factor in the rise in interest expenses is the negative interest rates. Last year, the banks in Switzerland paid the SNB negative interest rates amounting to approx. CHF 2.0 bn, which corresponds to a rise of around CHF 500 m compared to the previous year.

Commission and services business increases again for first time since 2013
Accounting for 34.8 percent, net income from the commission and services business was the second-largest contributor to total net income. It rose by 4.0 percent in 2017 and amounted to CHF 21.7 bn. The commission and services business thus rose again for the first time since 2013. This was driven primarily by the rise in commission income from the securities and investment business (+CHF 1.2 bn). Commission income from the lending business also rose slightly (+CHF 0.1 bn). Commission income from the "other services business" remained unchanged at CHF 4.4 bn, while commission expenses rose (+CHF 0.4 bn). The big banks (+CHF 0.3 bn) and the "other banks"[10] (+CHF 0.5 bn) benefited most from this increase. One of the main reasons for this is the increase in the number of transactions compared to the previous year, for example the rise in IPOs globally compared to 2016. This has a positive effect on the commission and services business.

10 The "other banks" bank group consists of "other banking institutions" and "stock exchange banks". "Other banking institutions" comprises all banks that cannot be classified into any of the other groups and do not have any shared characteristics of note.

Significant rise in income from trading business
Trading business net income rose in 2017 by CHF 1.6 bn (+25.4 %). Totalling CHF 7.7 bn, it accounted for 12.4 percent of total net income. This rise is primarily attributable to the big banks group (+CHF 1.6 bn). The foreign banks reported a negative trend (-CHF 82 m), while developments at the other bank groups were relatively moderate. When examining these developments, it should be noted that the economic environment in 2017 was significantly better than in 2016, which had a favourable impact on the trading activities of bank clients. One big bank, for example, reported higher customer activity in the Asia-Pacific region and in Switzerland as the reason for the rise in income from the trading business. According to SIX Swiss Exchange, hedging transactions also increased due to the increased volatility in the foreign exchange markets.

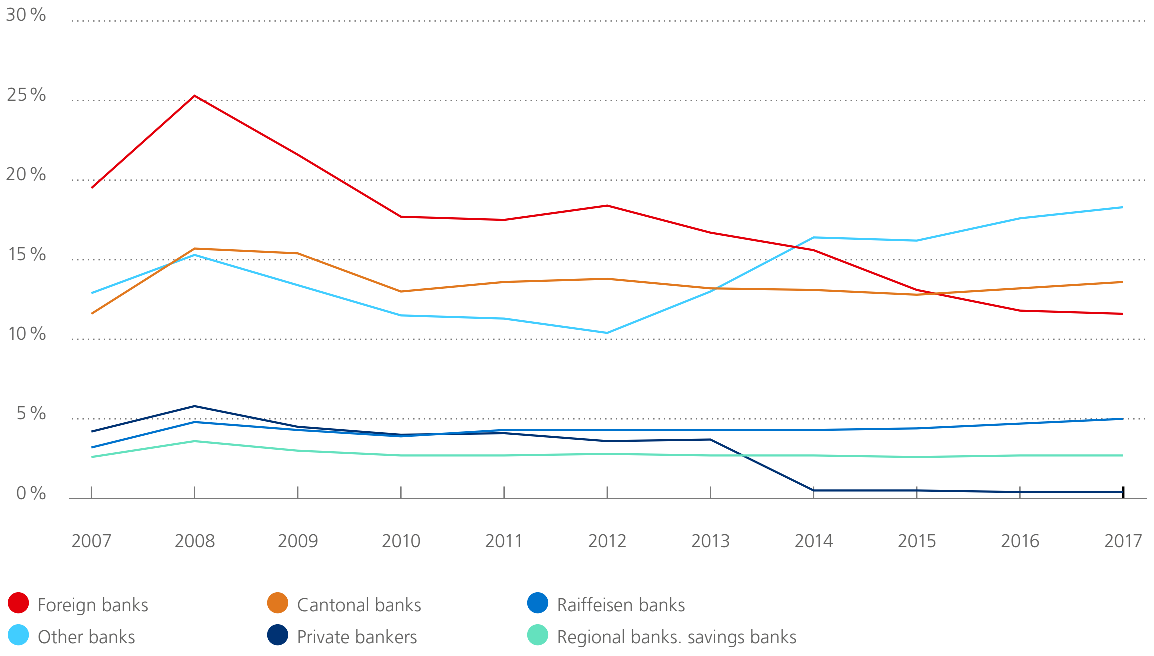
Decline in other ordinary net income
Other ordinary net income fell by CHF 2.3 bn to CHF 9.0 bn (-20.4 %) and accounted for 14.4 percent of total net income. This decline is in particular attributable to a big bank's transfer of services from the parent company to an intragroup services company, which resulted in a reduction in "other ordinary income" of CHF 1.2 bn. Income from investments fell by CHF 1.1 bn. "Other ordinary expenses" declined slightly by CHF 0.1 bn, as did income from the sale of financial investments, also by CHF 0.1 bn. Conversely, income from real estate remained unchanged at CHF 0.8 bn.

2.1.2 Net income according to bank group

The cantonal banks (+2.9 %), regional banks and savings banks (+1.5 %), Raiffeisen banks (+6.8 %), private bankers (+10.8 %) as well as "other banks" (+4.0 %), comprising the groups "other banking institutions" and stock exchange banks, reported a rise in total net income compared to the previous year. Total net income decreased for the big banks (-2.7 %) and foreign banks (-1.7 %) bank groups.

Fig. 5

Net income by bank group (excluding big banks)[11]



Source: SNB

In line with the moderate 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 in share (from 13.2 % to 13.6 %), as did the "other banks" and the Raiffeisen banks, which grew their shares from 17.6 percent to 18.3 percent and from 4.7 percent to 5.0 percent. In contrast, the share attributable to the big banks fell once again compared to the previous year, from 49.6 percent to 48.3 percent. The share held by the foreign banks also declined slightly, from 11.8 percent to 11.6 percent. There was only a slight change in the shares attributable to the regional banks and savings banks, and the private bankers.

11 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.

Since 2012, the share of total net income of the "other banks" has increased from 10.4 percent to 18.3 percent. The big banks also grew their share of total net income during this period, from 46.8 percent to 48.3 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 11.6 percent. The decline experienced by the private bankers is related to the change in legal structure of institutions since 2014. Since then, these institutions have been categorised as stock exchange banks, which has led to structural breaks in the statistics for the "private bankers" and "stock exchange banks" groups. The decline experienced by the foreign banks is to some extent an international phenomenon. As part of restructuring measures, banks are reducing their international activities in certain areas of business. They also face widespread margin pressure and declining profitability in cross-border private banking. The shares attributable to the remaining bank groups have changed only slightly.

2.1.3 Annual profit and taxes

Gross profit from the business operations of the banks in Switzerland increased by CHF 2.0 bn (+11.9 %) in 2017 and amounted to CHF 18.5 bn. This rise is attributable to the decrease in operating expenses (CHF -2.0 bn).

In 2017, 229 of the 253 banks in Switzerland reported an annual profit.[12] Their total annual profit amounted to CHF 10.3 bn and was therefore CHF 1.5 bn lower than in the previous year (-12.7 %). The losses generated by the unprofitable institutions decreased substantially, by CHF 3.3 bn to CHF 0.5 bn (-84.6 %). This is the lowest level since the outbreak of the financial crisis in 2007. Overall, the aggregate result for the period (annual profit) across all banks rose by CHF 1.9 bn (+24.0 %) compared to the previous year and now amounts to CHF 9.8 bn. The largest share of the aggregate result for the period was reported by the big banks bank group (CHF 3.2 bn), cantonal banks (CHF 2.9 bn) and stock exchange banks (CHF 1.2 bn).

12 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".

Despite the rise in profit, the banks paid CHF 2.2 bn in income taxes and taxes on earnings, which is 3.5 percent lower than in the previous year.[13]

2.2 Trends in 2018

The International Monetary Fund (IMF) expects to see global economic growth of 3.9 percent in 2018.[14] The global economic situation remains favourable. Factors such as Brexit, growing trade protectionism and political crises (the war in Syria) have not yet significantly negatively impacted the economic trend. The positive economic trend also continued in the US, China and Europe during the first half of 2018. The stabilisation of the economic trend in the EU resulted in a temporary easing of pressure on the Swiss franc. In light of the developments in the global economy, the outlook for the Swiss economy is cautiously positive for the current year. For 2018, the State Secretariat for Economic Affairs (SECO) expects to see growth of around 2.4 percent.

The SNB continues to view the Swiss franc as highly valued and the situation in the foreign exchange market as still fragile. It is therefore leaving expansionary monetary policy unchanged for the time being. According to statements by the SNB, the negative interest rate and the willingness to intervene in the foreign exchange market "remain essential". The target range for the three-month Libor remains at between -1.25 percent and -0.25 percent. Interest on sight deposits at the SNB remains at -0.75 percent. There are indications, however, of careful initial steps towards a reduction of expansionary monetary policy. This can be seen, for example, in the slight decrease in the SNB's balance sheet from CHF 843.3 bn at the end of 2017 to CHF 827.9 bn (-1.8 %) in the first half of 2018.

13 One possible reason for this is an intragroup sale of a participation by a big bank in 2016. At the time, this resulted in extraordinary income amounting to CHF 10.7 bn.
14 International Monetary Fund (2018)

The economic trend resulted in a cautiously optimistic sentiment in stock markets, despite growing uncertainties. This is reflected in the rise of the trading volume during the first half of 2018 by 1.5 percent compared to the previous year period to CHF 733.5 bn. Since the beginning of the year, there has been an average turnover of CHF 6 bn per trading day.[15]

Although global equity market valuations are favourable, the number of IPOs decreased by 14.5 percent compared to the same period in the previous year, to a total of 660.[16] In order to put this trend in context, it should be noted that the number of IPOs in the first half of 2017 (941) had reached a new record since 2007, meaning that this point of reference was at a high level. It remains to be seen how this trend will impact income from trading for the current year. Initial coin offerings (ICOs) and hybrid models have continuously gained traction as financing alternatives. While a total of 33 ICOs were conducted in 2017, 28 have already been carried out in the current year and 36 more ICOs are planned by year-end.[17]

15 SIX Swiss Exchange (2018)
16 Ernst & Young (2018)
17 PricewaterhouseCoopers (2018)

3 Balance sheet business

The aggregate balance sheet total of all the banks in Switzerland rose by CHF 148.6 bn to CHF 3,249.4 bn in 2017. The SNB's currency interventions have impacted the breakdown of assets of commercial banks. The banks' sight deposits at the SNB remain at a very high level. The banks in Switzerland have been fulfilling their function as lenders and financing partners to the full extent since the introduction of negative interest rates and the lifting of the minimum euro exchange rate.[18]

3.1 Trends in 2017

3.1.1 Balance sheet trends

In 2017, the aggregate balance sheet total of all the banks in Switzerland rose from CHF 3,100.8 bn to CHF 3,249.4 bn (+4.8 %). This is primarily attributable to market developments relating to assets and to the rise in credit volume, which among other factors is a result of expansive monetary policy. At CHF 111.6 bn, the big banks reported the greatest rise compared to the previous year, followed by the cantonal banks (+CHF 22.1 bn), the Raiffeisen banks (+CHF 10.0 bn), the "other banking institutions" (+CHF 3.8 bn) as well as the regional banks and savings banks

18 State Secretariat for Economic Affairs (2018)

(+CHF 2.0 bn). The foreign banks (+CHF 1.1 bn) and private bankers (+CHF 0.3 bn) also reported a slight rise. Only the stock exchange banks reported a slight decline in their balance sheet total (-CHF 2.31 bn).

Fig. 6

Balance sheet total by bank group

	Balance sheet			
in CHF bn	**2016**	**2017**	**Development**	**Share total 2017**
Cantonal banks	553.2	575.3	4.0 %	17.7 %
Big banks	1,454.8	1,566.4	7.7 %	48.2 %
Regional banks, savings banks	116.1	118.1	1.7 %	3.6 %
Raiffeisen banks	215.3	225.3	4.6 %	6.9 %
Foreign banks	323.5	324.6	0.3 %	10.0 %
Private bankers	5.9	6.2	5.1 %	0.2 %
Stock exchange banks	226.3	224.0	-1.0 %	6.9 %
Other banking institutions	205.7	209.5	1.8 %	6.4 %
Total	**3,100.8**	**3,249.4**	**4.8 %**	**100.0 %**

Source: SNB

Mortgage loans biggest asset item

In 2017, domestic and foreign mortgage loans rose by CHF 27.8 bn (+2.9 %), from CHF 967.5 bn to CHF 995.3 bn compared to the previous year. Mortgage loans therefore remained the largest asset item for the banks in Switzerland in 2017, accounting for a share of around 30.6 percent of total assets. While mortgage lending at the big banks remained practically unchanged compared to the previous year, all of the other bank groups reported a rise in this segment. The cantonal banks (+CHF 13.2 bn), the Raiffeisen banks (+CHF 7.2 bn) as well as "other banking institutions" (+CHF 2.4 bn) in particular reported a significant increase. Around one-third of mortgage loans are for the purpose of rental properties.[19]

19 Swiss National Bank (2018): Financial Stability Report 2018

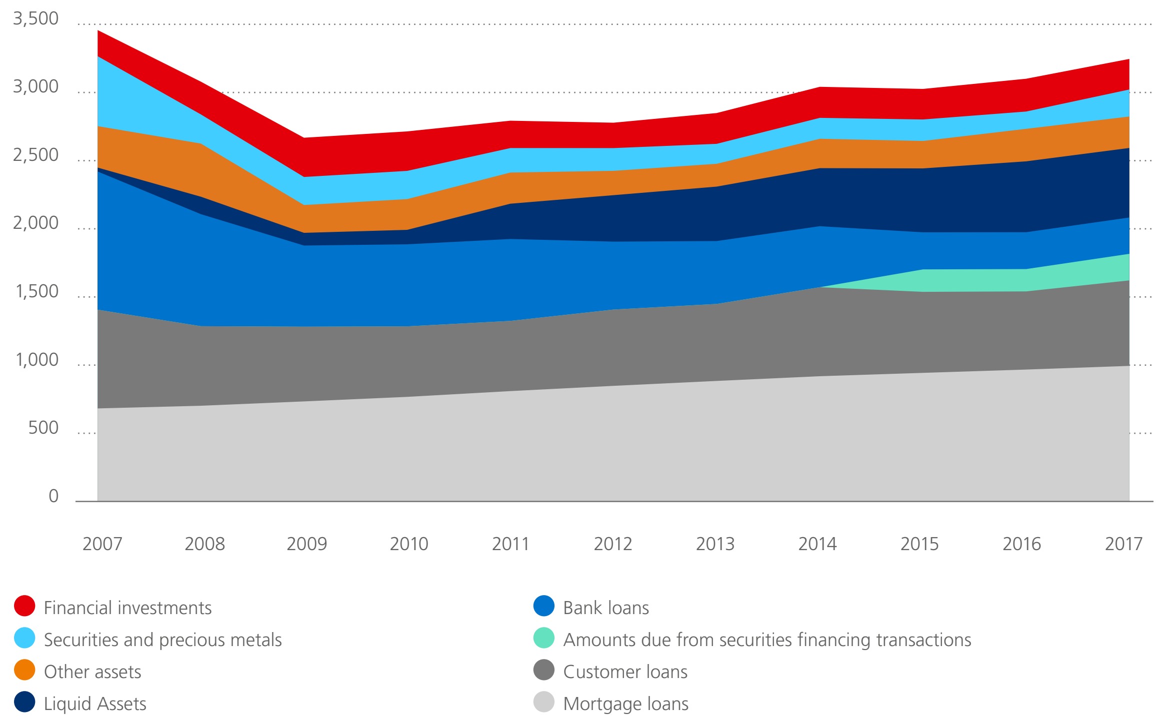
Customer loans increase

Accounting for a share of 19.3 percent of total assets, customer loans were the second biggest item. In 2017, these loans rose by CHF 52.6 bn (+9.2 %) to CHF 625.9 bn. Loans to foreign customers in particular increased substantially compared to the previous year, by CHF 54.3 bn to CHF 469.5 bn. A pronounced rise can be observed here in euro, precious metals, yen and "other currencies". Loans in dollars and Swiss francs, in contrast, increased only slightly. The largest share of this rise is attributable to the big banks (+CHF 40.3 bn), the stock exchange banks (+CHF 9.4 bn) and the foreign banks (+CHF 4.3 bn). Loans to customers in Switzerland declined, falling by CHF 1.8 bn to CHF 156.4 bn.

Fig. 7

Breakdown of assets

in CHF bn



Source: SNB

Liquid assets decrease

Liquid assets declined by CHF 9.1 bn to CHF 511.4 bn (-1.8 %). Both domestic (-CHF 1.1 bn) as well as foreign holdings (-CHF 8.1 bn) decreased. The fall in liquid assets abroad is attributable to the big banks (-CHF 8.2 bn) and pertained in particular to their sight deposits (liabilities in the form of customer deposits, on sight) at foreign central banks, which decreased by CHF 8.0 bn last year. In Switzerland, the big banks also reduced their holdings in liquid assets (-CHF 16.0 bn). In contrast, the cantonal banks (+CHF 8.1 bn) and foreign banks (+CHF 6.4 bn) increased their holdings.

Decline in financial investments

The balance sheet item financial investments decreased by CHF 14.7 bn (-6.1 %) to CHF 225.7 bn compared to the previous year. This is due to a fall in foreign financial investments (-CHF 18.6 bn). Domestic financial investments, in contrast, rose (+CHF 3.8 bn). Financial investments at the big banks (-CHF 7.7 bn) and at the stock exchange banks (-CHF 8.4 bn) in particular declined.

Rise in securities and precious metals in trading portfolios

Compared to the previous year, the item trading portfolios of securities and precious metals rose by CHF 70.1 bn (+55.2 %) to CHF 197.1 bn. One of the reasons for this increase was a big bank's transfer of its trading portfolio and securities financing business from a foreign subsidiary to a foreign branch. The business conducted by branches is reflected in the statutory unconsolidated financial statements of the banks. But because the activities of subsidiaries are not, the transfer of business activities resulted in a rise in the balance sheet total. This is reflected in the increase in trading portfolio assets (approx. +CHF 30 bn) and securities financing transactions (approx. +CHF 7 bn). Another reason was last year's positive economic environment, which had a positive impact on customer trading activities as well as on asset valuations.

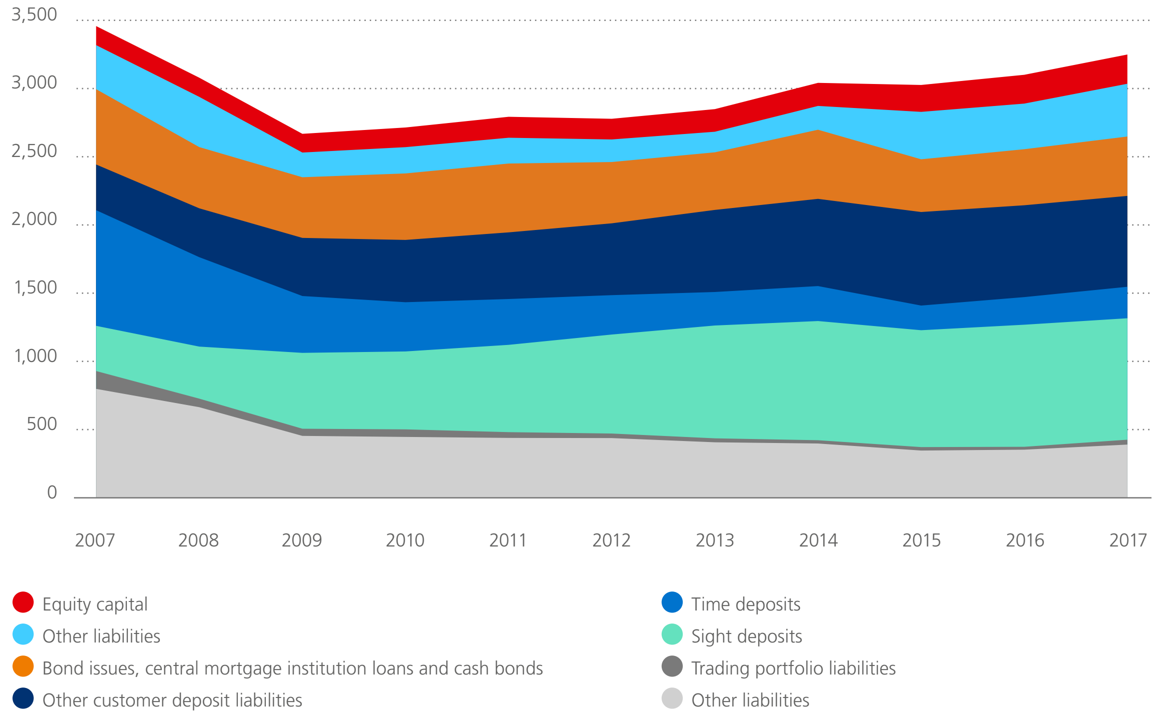
Fundamental changes in breakdown of assets since 2007
There was a substantial change in the breakdown of assets between 2007 and 2017. Liquid assets increased enormously between 2007 and 2017. While in 2007, holdings were at CHF 28.9 bn, by the end of 2017, they amounted to CHF 511.4 bn. A number of factors contributed to this sharp rise: on the one hand, the SNB's interventions to counteract the strong Swiss franc were a determining factor, because when selling foreign currencies, the SNB credits the sight deposit accounts of the counterparty for the equivalent value in Swiss francs. On the other hand, 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 applied since 2015, the domestic banks increased their sight deposits at the SNB from around CHF 37.2 bn in 2008 to CHF 470.4 bn in 2017.

Domestic and foreign mortgage loans also rose continuously between 2007 and 2017 (+45.9 %, from CHF 682.3 bn to CHF 995.3 bn). Their share of total assets increased from 19.7 percent (as at year-end 2007) to 30.6 percent as at year-end 2017. The reason for this is also the continued low interest rates as well as the associated high demand for real estate. In 2007, loans to banks accounted for 29.3 percent of total assets. In 2017, their share was down to 8.2 percent (2007: CHF 1,013.6 bn, 2017: CHF 267.2 bn). Among other factors, this decrease is a result of the banks' consciously reducing this balance sheet item in order to decrease their linkages with other banks. This development is also a result of the higher capital ratio required by regulation. From 2007 to 2017, holdings in securities and precious metals for trading purposes recorded a drop of 61.6 percent (2007: CHF 513.1 bn, 2017: CHF 197.1 bn). Their share of total assets fell from 14.8 percent to 6.1 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 customer deposits, which comprises the items sight deposits (liabilities in the form of customer deposits, on sight), time deposits (amounts due in respect of customer deposits, with a remaining period to maturity) and other customer deposit liabilities, rose by CHF 17.1 bn (+1.0 %) to CHF 1,788.1 bn in 2017. Amounts due in respect of customer deposits accounted for 55.0 percent of the balance sheet total at the end of 2017. Sight deposits fell by CHF 5.3 bn (-0.6 %). Other amounts due in respect of customer deposits declined, by CHF 5.6 bn (-0.8 %). Time deposits, in contrast, rose by CHF 28.0 bn (+13.8 %).

Fig. 8

Breakdown of liabilities
in CHF bn



Source: SNB

The trend in liabilities to customers was significantly influenced by a decline in liabilities to foreign customers of CHF 40.5 bn and the simultaneous domestic rise by CHF 57.6 bn. The reason for the decline is once again a big bank's transfer of business activities from a foreign subsidiary to a foreign branch, mentioned previously. In parallel to this, the big bank raised additional funds through a new debt securities issue by the domestic company. This resulted in a rise in the big banks' liabilities to domestic customers of CHF 33.1 bn, while foreign liabilities fell by CHF 21.4 bn.

Rise in liabilities to banks
Liabilities to banks rose by CHF 37.5 bn (+10.6 %) to CHF 390.4 bn in 2017. This marks the second consecutive year that liabilities to banks have risen.

Equity capital increases
In 2017, equity capital increased by CHF 2.9 bn (+1.4 %) to CHF 214.1 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.

Rise in liabilities from trading portfolios
Trading portfolio liabilities rose by CHF 13.4 bn (+63.3 %) to CHF 34.5 bn. This trend was substantially impacted by the big banks and their foreign liabilities due to the transfer of business from a foreign subsidiary to a foreign branch of the same big bank (see above).

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 24.9 bn (+6.1 %). This increase is due to a rise in "bond issues and central mortgage institution loans" of CHF 26.4 bn. The increase was observed both domestically (+CHF 20.4 bn) as well as abroad (+CHF 6.0 bn). The domestic rise is in large part attributable to the cantonal banks (+CHF 9.2 bn). In contrast, the big banks were responsible for the increase abroad. The increase abroad consists of money market instruments issues (+CHF 14.5 bn) and a reduction in bond issues (-CHF 8.5 bn). Cash bonds fell last year by CHF 1.5 bn.

Breakdown of liabilities over time
Liabilities to banks were the largest liability item in 2007, accounting for a 23.1 percent share of total liabilities. Since then, however, they have fallen by 51.1 percent or by CHF 798.3 bn to CHF 390.4 bn. This demonstrates that the linkages between banks – in particular in Switzerland – have decreased. Figure 8 shows the shift from time deposits to sight deposits. Sight deposits rose from CHF 331.3 bn to CHF 890.0 bn between 2007 and 2017. Sight deposits as a share of total of liabilities thus rose from 9.6 percent in 2007 to 27.4 percent in 2017. They were therefore the biggest liabilities item at the end of 2017. Accordingly, the share of time deposits fell from 24.5 percent in 2007 to 7.1 percent in 2017. In the low interest rate environment, time deposits are less attractive than sight deposits.

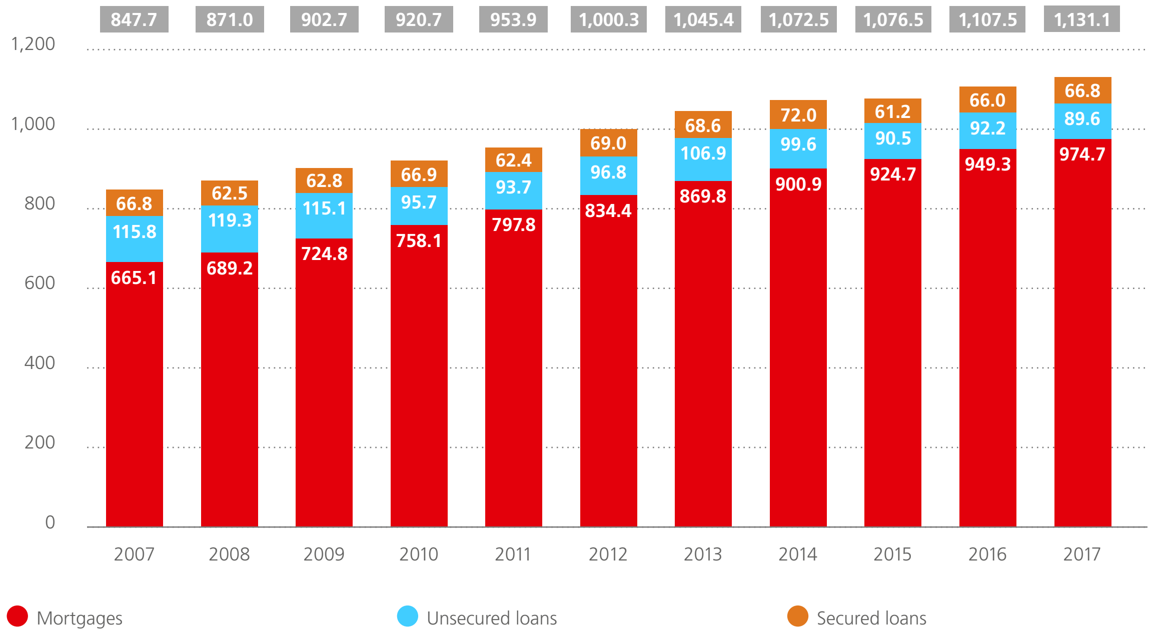
3.1.2 Trends in the lending business in Switzerland

The total outstanding domestic credit volume was CHF 1,131.1 bn in 2017. Of that total, CHF 156.4 bn stemmed from secured and unsecured customer loans (companies, public corporations and consumer credit), while CHF 974.7 bn was attributable to mortgage loans.

Compared to the previous year, the total volume of credit in Switzerland rose by 2.1 percent in 2017. The growth of domestic mortgage loans (+2.68 %) remained almost unchanged compared to the previous year (+2.66 %). Mortgage loans have increased by CHF 309.6 bn (+31.8 %) since 2007 and their share of the domestic credit volume has grown from 78.5 percent to 86.2 percent. Mortgage loans therefore continue to account for the largest share of credit volume. Secured loans also increased (+1.3 %), while unsecured loans fell (-2.8 %). In connection with this, the SNB states that the stabilising measures introduced between 2012 and 2014 substantially diminished the risks in the real estate and mortgage markets.

Fig. 9

Trends in the credit volume in Switzerland
in CHF bn



Source: SNB

Three-quarters of total mortgage loans attributable to private households in 2017

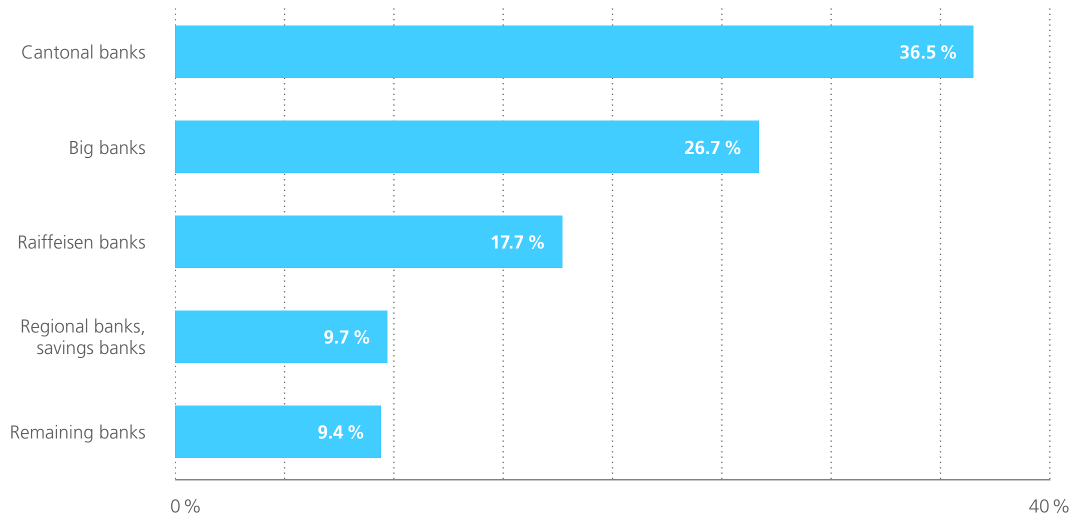
Total outstanding mortgage loans rose by 2.9 percent to CHF 995.3 bn in 2017. The large majority thereof (CHF 974.7 bn) stemmed from customers in Switzerland. 75 percent of these were mortgages granted to private households. Fixed-rate mortgages accounted for a 79 percent share of outstanding mortgages last year. The average interest rate for outstanding domestic mortgage loans decreased in 2017, from 1.63 to 1.53 percent. A look at the historical trend shows that mortgage loans with a term upwards of five years have risen. While their share accounted for only 12.4 percent in 2008, this rose to 25.6 percent in 2017.

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 2017. They were followed by the big banks, which had a share of 26.7 percent (see Figure 10). In the last few years, the share of market for domestic mortgage lending has grown to a lesser extent in particular at the big banks and the regional banks and savings banks, while other banks, led by the Raiffeisen and cantonal banks, have gained market share.

Fig. 10

Market share of domestic mortgage lending 2017



Source: SNB

First mortgages clearly strongest lending group

Broken down by lending groups, the share of first mortgages in Switzerland in 2017 was 92.6 percent. This lending group comprises mortgage loans of up to two-thirds of the market value of the respective property. In 2016, this lending group accounted for a share of 92.4 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.[20]

Declining demand for consumer credit

Consumer credit continues to be of relatively negligible importance in Switzerland. In total, there were 535,201 loans with a volume of CHF 7.3 bn outstanding at the end of 2017. Compared to the previous year, this corresponds to a decrease in volume of 5.0 percent.

3.2 Trends in 2018

Rise in balance sheet total

The aggregate balance sheet total of the banks in Switzerland rose by CHF 80.2 bn (+2.4 %) in the first five months of 2018 (December 2017: CHF 3,384.4 bn to May 2018: CHF 3,464.5 bn).[21] The positive trend observed in 2017 has therefore continued in 2018.

Assets: rise in loans and amounts due

During the period from January to May 2018, the most significant growth in terms of balance sheet items was seen in bank loans, which increased by CHF 20.8 bn (+6.9 %), amounts due from securities financing transactions, which was up by CHF 14.2 bn (+7.2 %) and mortgage loans, which rose by CHF 13.0 bn (+1.3 %). Customer loans also increased, by CHF 8.9 bn (+1.4 %), as did financial investments, by CHF 4.3 bn (+1.9 %).

20 Swiss National Bank (2018): Financial Stability Report 2018
21 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.

Decline in the trading business

In contrast to the significant increase seen in the previous year, trading portfolio assets declined by CHF 6.6 bn (-3.3 %) in the first five months of 2018. One of the possible drivers of this trend could be the developments in the capital markets, which unlike last year, tended to move sideways.

Rise in liabilities: customer deposits, bond issues, central mortgage institution loans and cash bonds

On the liabilities side, customer deposits rose by CHF 26.2 bn (+1.4 %). Sight deposits increased by CHF 7.8 bn (+0.8 %). The rise in sight deposits was greater than the increase seen in the previous year, when they grew by only CHF 2.4 bn (+0.3 %) over the same period. Time deposits rose in the first five months by CHF 18.7 bn (+8.0 %), and also more than in the first five months of the previous year. A significant increase of CHF 11.1 bn (+2.5 %) was also recorded for bond issues, central mortgage institution loans and cash bonds. Liabilities to banks rose by CHF 6.6 bn (+1.5 %) after having fallen during the same period in the previous year. Liabilities from securities financing transactions rose by CHF 5.2 bn (+3.8 %), and therefore substantially less than for the same period in 2017. Equity capital, in contrast, declined. It fell slightly, by CHF 1.7 bn (-0.8 %).

Moderate rise in the provision of mortgage loans

Mortgage loans continued to rise slightly in the first five months of 2018, increasing by CHF 12.5 bn (+1.3 %) to CHF 986.4 bn. Secured and unsecured loans also rose, by CHF 3.4 bn (+4.9 %) and CHF 4.5 bn (+4.9 %). As a result of the positive economic trend and the solid utilisation of production capacities, Swiss companies are signalling that they plan to expand their investment activities substantially in 2018. A reversal of the trend in lending is therefore not expected for the remainder of the year.

4 Wealth management

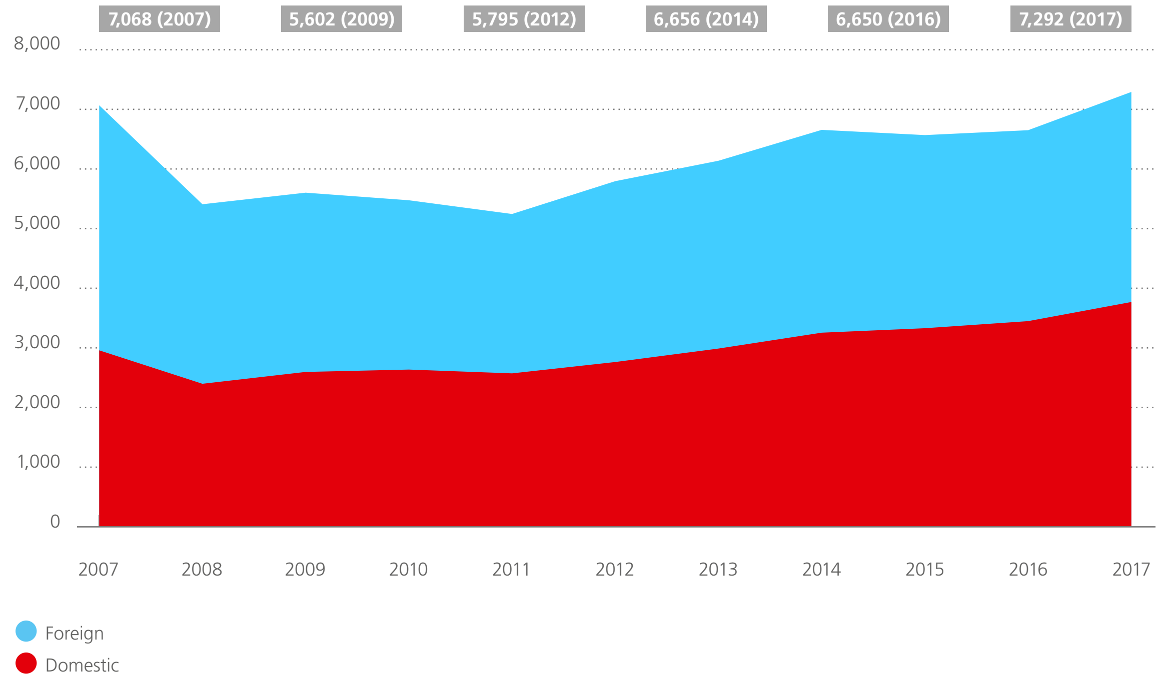
The banks in Switzerland managed total assets of CHF 7,291.8 bn at the end of 2017. This is the highest level since the financial crisis. The relative share of foreign customer assets was almost unchanged at 48.3 percent. Switzerland remains the global market leader for cross-border private banking: over one-quarter (27.5 % market share) of global cross-border assets is managed in Switzerland.

4.1 Trends in 2017

Assets under management in Switzerland increased by CHF 642.0 bn at the end of 2017 and rose by 9.6 percent compared to the previous year. This growth was reflected both in foreign (+10.0 %) as well as domestic customer assets (+9.3 %). Assets under management consist of securities holdings in customer custody accounts (2017: CHF 6,255.5 bn), liabilities to customers excluding sight deposits (2017: CHF 898.1 bn) as well as fiduciary liabilities (2017: CHF 138.2 bn).

Fig. 11

Assets under management in Switzerland by customer origin[22]
in CHF bn



Source: SNB

Assets under management increased sharply until shortly before the onset of the financial and economic crisis, and reached their interim 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. Since then, assets under management have risen by CHF 1,883.4 bn (+34.8 %) due to market developments.

22 Starting in the reporting month November 2015, the SNB for the first time conducted surveys according to the revised accounting rules for banks (ARB) of the Swiss Financial market Supervisory Authority 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.

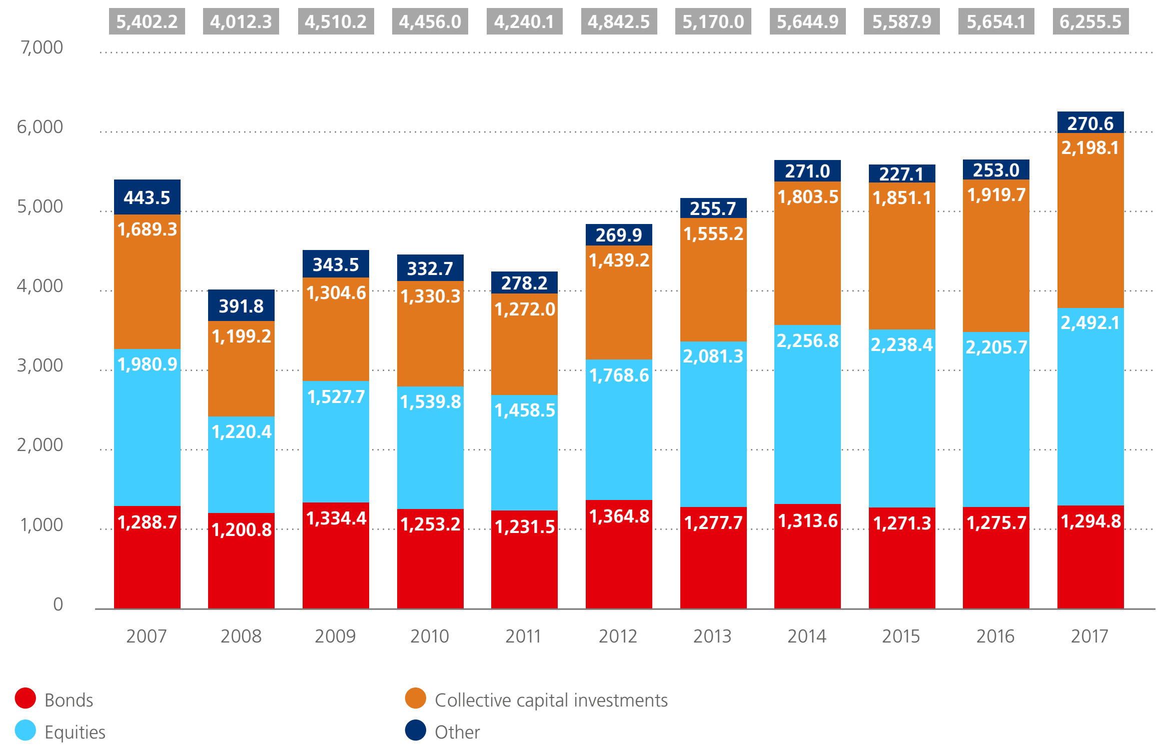
The share of assets attributable to foreign customers fell from 55.7 percent to 48.3 percent between 2008 and 2017. The decline in the share of assets held by foreign customers is the result of a number of factors. One is the currency effect. Foreign customers hold a significantly higher portion of their 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. The efforts in the area of tax transparency over the last several years and the ensuing regularisation of customers' tax situations is another factor that has likely impacted the share of foreign customer assets. However, this share has only changed minimally since Switzerland committed to the automatic exchange of information in 2013.

Rise in securities holdings

In 2017, securities holdings in customer custody accounts rose by CHF 601.4 bn (+10.6 %) to CHF 6,255.5 bn. Securities holdings are broken down into the categories equities (39.8 %), collective capital investments (35.1 %), bonds (20.7 %) and "other" (4.3 %). These categories recorded differing trends. The rise is mainly attributable to an increase in collective capital investments (+14.5 %) and equities (+13 %). In contrast, bonds rose only slightly (+1.5 %). Swiss franc-denominated securities holdings grew by CHF 271.5 bn (+8.5 %). This was followed by securities held in euro (+CHF 150.5 bn or +15.2 %) and dollars (+CHF 122.2 bn or +7.6 %).

Fig. 12

Securities holdings in customer custody accounts by type
in CHF bn



Source: SNB

Significant rise in equity holdings

Equity holdings in customer custody accounts at the banks rose by 13.0 percent compared to the previous year. At the end of 2017, equity holdings amounted to CHF 2,492.1 bn. With a share of around 39.8 percent, equities were the largest position in terms of securities holdings.

Growing demand for collective capital investments

Accounting for a 35.1 percent share, collective capital investments, consisting primarily of investment funds, were the second-largest securities category. In 2017, they increased by 14.5 percent to CHF 2,198.1 bn.

Rise in bond holdings

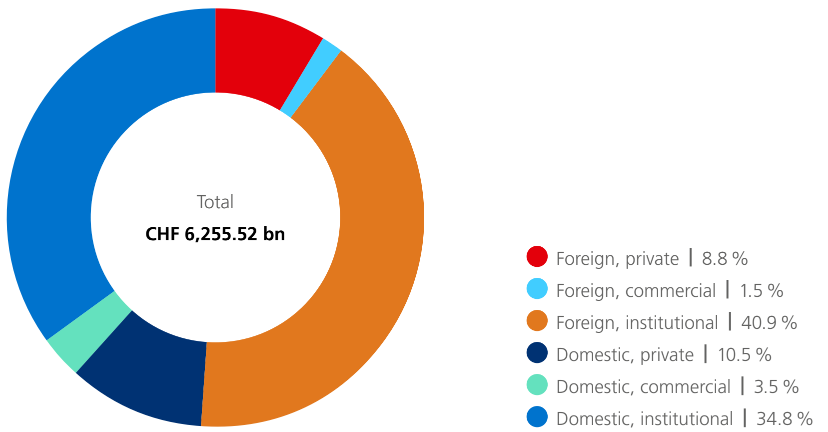
Bond holdings recorded a rise of 1.5 percent to CHF 1,294.8 bn in 2017. Both domestic customer bond holdings (+2.2 %) and foreign customer bond holdings (+0.6 %) increased. Accounting for a share of 19.1 percent, bonds were the third-largest asset class in customer custody accounts.

Institutional investors hold largest deposits

Institutional customers, both domestic and foreign, had the largest deposits in 2017 (34.8 % and 40.9 % respectively, as a share of total deposits). This was followed by domestic and foreign private investors, who accounted for comparable shares (10.5 % and 8.8 % respectively). Deposits rose both for foreign (+9.9 %) as well as for domestic (+12.5 %) private investors. The same applies for foreign (+11.5 %) and domestic (+9.8 %) institutional customers.

Fig. 13

Assets deposits by customer type, end 2017



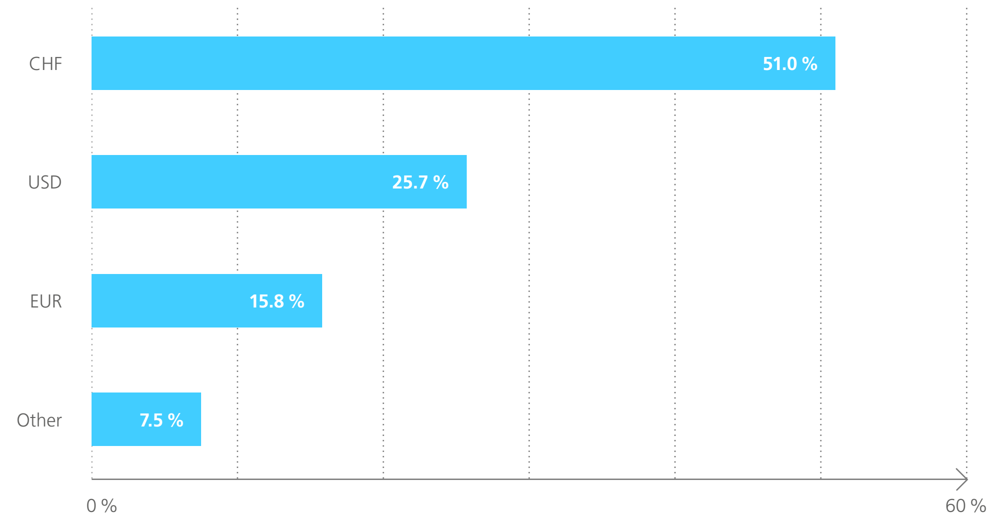
Source: SNB

Euro-denominated share up, dollar share down

The importance of the euro as an investment currency increased slightly in 2017. The share of euro-denominated investments rose from 14.8 percent to 15.8 percent of total securities holdings in 2017. This was primarily caused by currency effects arising from the strengthening of the euro. Although deposits in US dollars increased by 7.6 percent in absolute terms compared to the previous year, they did not grow to the same extent as the other currencies. Their share of total deposits therefore declined from 26.3 percent to 25.7 percent. At 51.0 percent, the Swiss franc remained by far the most important investment currency.

Fig. 14

Assets deposits by currency, end 2017



Source: SNB

Slight fall in savings and investment liabilities

At the end of 2017, liabilities to customers excluding sight deposits amounted to CHF 898.1 bn. Of this total, CHF 667.6 bn was attributable to savings and investment liabilities to customers. This corresponds to a reduction of 0.8 percent compared to the previous year. A total of 89.6 percent of customer savings and investment deposits stemmed from domestic customers in 2017. These assets include vested benefits accounts (Second Pillar) and assets related to the tied pension provision (Third Pillar), as well as time deposits, which amounted to CHF 230.4 bn (+CHF 28 bn). A large part of this growth is attributable to the big banks.

Fiduciary deposits rise once again

The fiduciary deposits managed by the banks in Switzerland increased once again in 2017, by CHF 17.8 bn to CHF 138.2 bn (+14.8 %). The majority of these inflows (94.8 %) originated from abroad. In 2016, fiduciary deposits rose for the first time since 2007. The main driver of this trend was the higher US dollar money market interest rates, which resulted in a rise in fiduciary deposits held in US dollars. In 2007, fiduciary deposits under management amounted to CHF 482.9 bn. They declined continuously until 2015, when they reached CHF 114.0 bn. However, accounting for 1.9 percent of total assets under management, fiduciary deposits have only a negligible impact on private banking in Switzerland.

4.2 Trends in 2018

While assets under management at banks in Switzerland experienced strong growth of almost 10 percent in 2017 (December 2017: CHF 7,220.9 bn), as at the end of May 2018, they had declined by CHF 71.2 bn to CHF 7,149.7 bn (1.0 %).[23] This reduction is due to a decrease in securities holdings of CHF 95.8 bn (-1.6 %) from CHF 6,170.1 bn to CHF 6,074.2 bn. In contrast, liabilities to customers not including sight deposits increased during the same period by CHF 18.4 bn (+2.0 %) to CHF 929.2 bn. Fiduciary liabilities also rose, by CHF 6.2 bn (+4.4 %) to CHF 146.3 bn. These short-term fluctuations are primarily attributable to market and currency effects. Equity markets tended to move sideways in the first half of 2018 and uncertainties increased. The rise in long-term interest rates is likely to have further contributed to the reallocation of some customer assets from securities to time deposits. This would explain the rise in liabilities to customers excluding sight deposits.

23 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 as with assets under management of CHF 2,276.2 bn a market share of 27.5 percent of the global cross-border private banking business. It will remain the global market leader in this segment for the medium term.[24] Switzerland is in intense competition with financial centres all over the world. The Asian financial centres in Hong Kong and Singapore in particular are recording stronger growth than Switzerland. In the coming years, they will manage a growing share of assets, especially from nearby Asian countries such as China, Japan, Taiwan and Indonesia. If Switzerland wishes to continue to hold its ground as the leader in this highly competitive environment, Swiss private banking must look beyond attractive location-specific factors and continue to forge ahead with innovations in areas such as digital banking. Further to this, viable access to foreign markets is key for Swiss financial services providers if they want to preserve market share in the cross-border private banking business.

24 The Boston Consulting Group (2018). This figure deviates slightly from the figures published last year due to an adjustment made by BCG to its calculation methods. The increase in market share is mainly the result of a reduction in global cross-border assets arising from a change in definition.

5 Employment in Switzerland's banks

At the end of 2017, the banks in Switzerland employed 93,554 people (in full-time equivalents, in Switzerland), which corresponds to a decrease of 7.7 percent compared to the previous year. The main cause of this strong decline is a big bank's transfer of central services from its parent company to intragroup service companies as a result of regulatory requirements. If the decreasing trend in staff levels is adjusted for this one-off effect, staff levels declined only slightly compared to the previous year. At 2.8 percent, the unemployment rate in the banking industry was significantly lower than that of the overall economy at the end of 2017.

According to a survey conducted by the SBA, the employment trend in the first half of 2018 remained stable. Over 60 percent of the banks surveyed expect the employment situation to remain flat, while almost one-third expect it to improve in the second half of 2018.

5.1 Trends in 2017

In 2017, the banks employed 93,554 people in Switzerland (in full-time equivalents). The number of jobs fell by 7,822 (-7.7 %) compared to the previous year. This decline, which at first glance appears substantial, was primarily due to regulatory requirements (specifically, the so-called "Too big to fail" regulations), due to which the big banks were required to adjust their organisational structures, which also resulted in the transfer of employees to intragroup service companies. The staff working for these companies are therefore not included in the banking statistics. If the average change in staff levels at the big banks since 2007 is taken as the baseline, approximately 6,942 jobs can be attributed to this one-off effect. Adjusted for the one-off effect (+6,942), staff levels declined only slightly compared to the previous year (-0.9 % or 880 jobs).

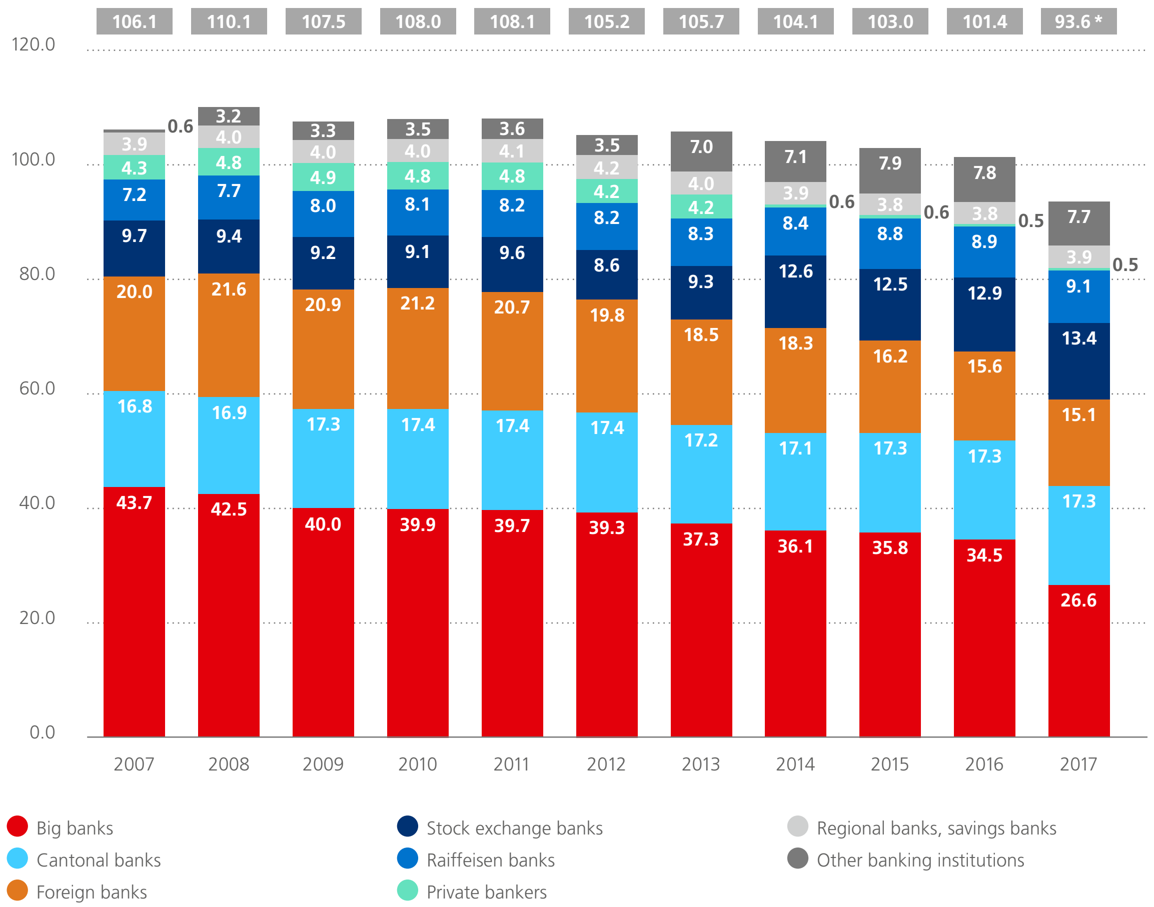
According to SECO, the average unemployment rate in the Swiss banking sector was 2.8 percent in December 2017. It was thus half a percentage point below the figure for the overall economy, which was 3.3 percent, and is comparatively low. Overall, an annual average of 3,999 people was reported as being registered as unemployed in the banking sector in 2017, which corresponds to an increase of 178 compared to 2016.[25] Considering the major, ongoing 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.

25 State Secretariat for Economic Affairs (2018)

Fig. 15

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



* This reflects a one-off effect of approximately 6,942 jobs. The effect was caused by a big bank's transfer of employees to an intragroup service company.

Source: SNB

The big banks, foreign banks and "other banking institutions" cut 8,517 jobs in 2017. The big banks accounted for the greatest decline in staff levels, with a reduction of 7,959 (-23.1 %) jobs. As outlined previously, this is mainly due to the transfer of jobs to intragroup service companies without banking licenses. The foreign banks reduced their staff levels by 457 jobs (-2.9 %) and the "other banking institutions" by 100 jobs (-1.3 %). Conversely, the cantonal banks, regional banks and savings banks, Raiffeisen banks, private bankers and stock exchange banks created 694 additional jobs in 2017. The strongest growth was reported by the stock exchange banks with 431 jobs (+3.3 %), and the Raiffeisen banks with 212 jobs (+2.4 %). Staff levels rose by 31 new jobs at the cantonal banks (+0.2 %). At the regional banks and savings banks, there was an increase of 9 jobs (+0.2 %) and the private bankers reported 11 additional jobs (+2.2 %).

Domestic wage costs fell by CHF 1.5 bn (-7.0 %) 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 14,300 to 16,800 (+17.2 %), and from 42,300 to 48,000 (+13.5 %). In contrast, the 40 to 54-year-old segment declined from 52,400 to 49,400 (-5.8 %) gainfully employed. For the 55 to 64-year-old segment, an increase from 14,400 to 15,600 (+8.3 %) was reported.[26]

The share of female employees once again increased slightly compared to the previous year, from 37.1 percent to 37.5 percent. As in previous years, the regional banks and savings banks, and the Raiffeisen banks reported the highest share of female employees at 45.2 percent and 44.6 percent respectively. Swiss banks employed 35,040 women (in full-time equivalents) in Switzerland at the end of 2017.

5.2 Trends in 2018

The annual SBA survey on employment trends at the banks shows a slight decline in domestic employment for the first half of 2018. The number of jobs decreased from 86,234 to 86,120 between the end of 2017 and June 2018. Compared to the end of 2017, there were 114, or minus 0.1 percent, fewer jobs in Switzerland. In contrast, staff levels abroad increased relatively significantly, by 2,274 jobs.

26 Swiss Labour Force Survey (2017).

Fig. 16

Staff levels, total and in Switzerland[27]

Full-time equivalents	Position at 31.12.2017	Position at 30.06.2018	Staff trend during H1 2018			
			Net	In %	Incoming	Outgoing
Switzerland	86,234	86,120	-114	-0.1 %	5,566	5,680

NB: Number of responses 2018: 138

Source: SBA employment survey (2018).

The detailed results regarding incoming and outgoing staff show that there were 5,566 incoming domestic employees at the banks in Switzerland in the first six months of the year. There were 5,680 outgoing employees reported for the same period, which resulted in a slight decline in staff levels of 0.1 percent.

Expectation of flat employment trend broadly shared

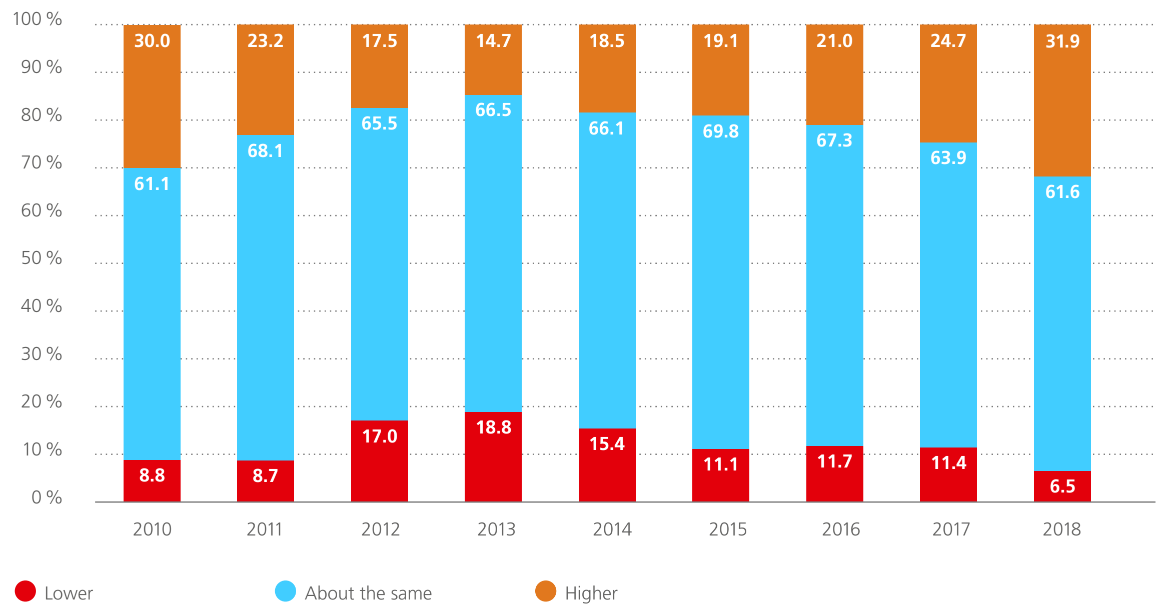
61.6 percent of survey participants expect employment levels to remain unchanged in the second half of 2018, which corresponds to a decrease of 2.6 percentage points compared to the previous year's survey. 31.9 percent of survey participants expect staff levels to rise in Switzerland and 6.5 percent expect to see lower levels. This is the highest level of optimism regarding the domestic employment trend seen in a number of years. Because those survey participants who expect no change or higher employment levels represent a share of approximately 92 percent of total employment, the trend for overall employment is expected to be at least flat for the second half of 2018.

27 Staff levels in Switzerland at the end of 2017 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. 234 banks in Switzerland were surveyed. The response rate was 59 percent, which accounts for 92.2 percent of staff levels at the banks in Switzerland.

Fig. 17

Survey results for employment expectations 2018

Shares as a percentage of all responses



NB: Number of responses 2018: 138

Source: SBA survey (2018)

Optimistic trend persists

In past surveys conducted on expected 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. This trend of higher employment expectations continued last year. Almost one-third of the banks surveyed (unweighted) expect to see a higher level of employment in the second half of 2018. The more optimistic outlook in comparison to 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 2018 has almost halved compared to the previous year.

Employment expectations unchanged for almost all areas of business

A comparison of the statements regarding trends for the individual business areas and the corresponding employment levels at the banks at the end of June 2018 shows that the expectation of an unchanged employment trend for all business segments dominated.[28] Nevertheless, several differences in the expectations for the future can be inferred. Over 90 percent of the survey participants expect the employment trend to remain flat for institutional asset management and the trading business. For private banking, however, over 20 percent of the survey participants expect to see an increase in staff in the second half of 2018. The pessimistic and optimistic expectations are more or less balanced in the areas of logistics and operations.

Fig. 18

Employment trend in the second half of 2018

Total	Retail banking	Private banking	Institutional asset management	Trading business	Logistics and operations (back office)
→ ↗	→	→ ↗	→	→	→

→ About the same ↗ Higher

NB: Trends are derived from the responses weighted by numbers employed in Switzerland as at June 2018. Number of responses: between 81 and 94 depending on business activity. For "total", the number of responses is 138.

Source: SBA survey (2018)

28 The Employers Association of Banks in Switzerland regularly publishes the latest employment figures in its "Bankenmonitor online". The study entitled "Arbeitsmarkt-Outlook 2019", which examines the medium-term employment trend in the financial sector, will be published at the end of 2018/beginning of 2019. Due to the different methods for analysing the results and the varying 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.

Fall in the unemployment rate for the banking sector

According to SECO's monthly statistics, the unemployment rate for the banking sector in the first half of 2018 fell compared to December 2017 and was at 2.3 percent. The unemployment rate was therefore still slightly below the overall average for Switzerland, which was 2.4 percent in June.

6 In focus: asset management

Asset management, together with private banking, investment banking, and corporate and retail banking, is one of the main pillars of the Swiss financial centre and is of great economic significance. According to recent surveys and estimates, banks, fund management companies, securities dealers and asset managers in Switzerland managed assets of around CHF 3,400 bn at the end of 2017. This corresponds to growth of approximately 13 percent compared to the previous year. In 2017, around 9,600 people were directly employed by asset management firms in Switzerland. Around 44,500 people were indirectly employed in the wider scope of the industry.[29] An international comparison shows that as a hub for asset management, Switzerland's framework conditions are good; Zurich and Geneva ranked 4th and 8th in 2017.[30]

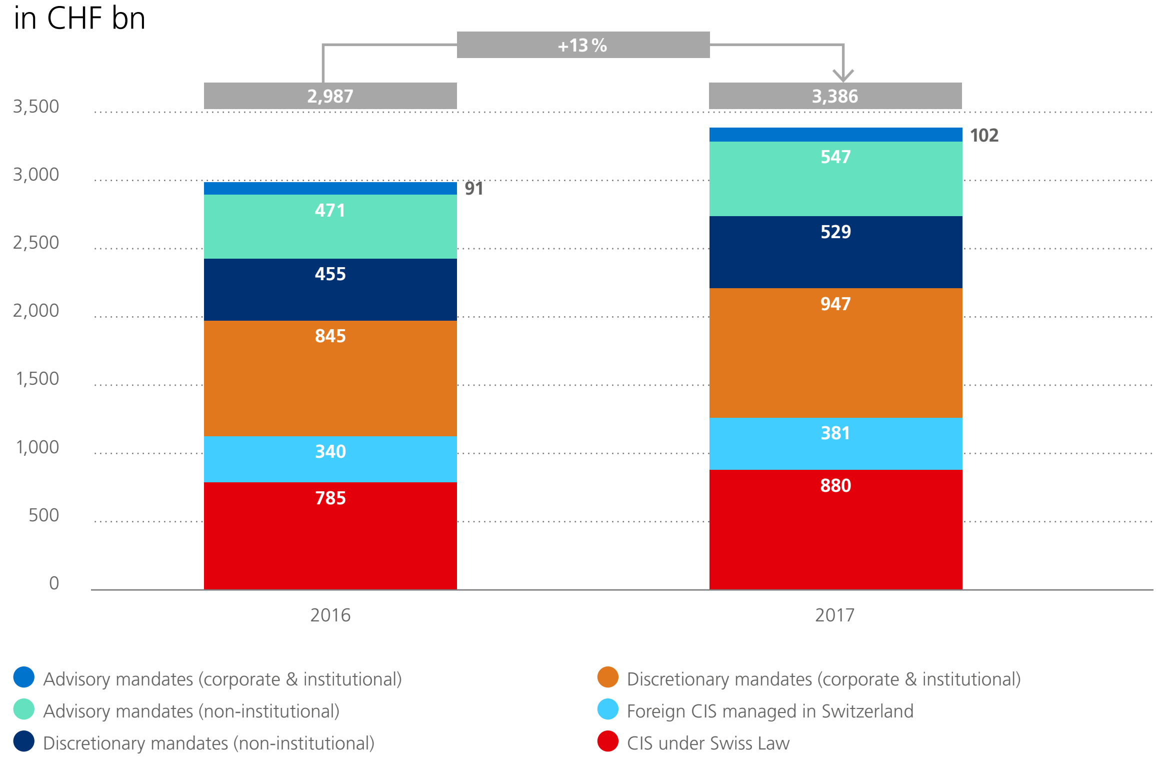
29 Institute of Financial Services Zug (IFZ) / Asset Management Platform Switzerland (AMP)
30 The IFZ/AMP ranking is based on political, legal, economic, social and technological indicators.

For the purposes of this chapter, asset management is defined as "the production and management of investment solutions in the form of collective investment schemes[31] and individual mandates". According to this definition, asset management comprises financial services both for institutional investors, e.g. pension funds and insurance companies, as well as non-institutional, private investors with substantial assets managed on a fiduciary basis.[32] This also includes discretionary portfolio management mandates[33] and advisory mandates,[34] but not self-directed business/custody-only services or cash accounts.

31 Collective investment schemes (CIS) are passively or actively managed funds under Swiss or foreign law on collective investment schemes. Exchange traded funds (ETFs) were not considered CIS' for the purposes of this survey.
32 Assets for which investment decisions are made in the interests of the beneficiaries on a fiduciary basis.
33 A mandate given by a customer to an institution to manage a portfolio of assets and execute orders at the institution's discretion in accordance with a pre-defined set of rules and principles. The mandate is constituted by a contract between the customer and the institution.
34 A mandate given by a customer to an institution to provide advice on a portfolio of assets, whereby only the client makes decisions regarding execution of the advice provided by the institution. The mandate is constituted by a contract between the customer and the institution.

Fig. 19

Institutionally managed assets in Switzerland
in CHF bn



Sources: SBA, IFZ/AMP and BCG

Institutionally managed assets in Switzerland growing

In 2017, assets in the Swiss asset management industry rose from CHF 2,987 bn to CHF 3,386 bn (+13 %). This is more than three times the total amount of pension fund assets in Switzerland and corresponds to around five times Switzerland's gross domestic product. Discretionary mandates accounted for around CHF 1,476 bn in 2017, and represented the largest share. CHF 947 bn thereof were managed for institutional customers, while CHF 529 bn were attributable to private investors. CHF 1,261 bn were managed as collective investment schemes, of which around two-thirds were collective investment schemes under Swiss law (CHF 880 bn). The remaining CHF 649 bn consisted of advisory mandates managed for institutional (CHF 102 bn) and non-institutional investors (CHF 547 bn).

Broken down according to customer segment, collective investment schemes as well as discretionary mandates for companies and institutionals[35] accounted for CHF 2,208 bn. Around CHF 1,178 bn were managed as mandates for private investors and advisory mandates for private and institutional investors.

Asset managers have key role as intermediaries

These figures underscore the significant economic contribution that asset management makes in Switzerland. Further to this, asset managers act as an important intermediary between lenders and borrowers.

This role as an intermediary fulfils a central function in the Swiss financial centre. With an efficient capital allocation characterised by rational and meritocratic investment decisions, strong value creation and attractive jobs, asset management makes an important contribution to the efficiency of the market and the stability of the financial system. It is also responsible for the professional management of pension assets, which contributes to general financial stability.

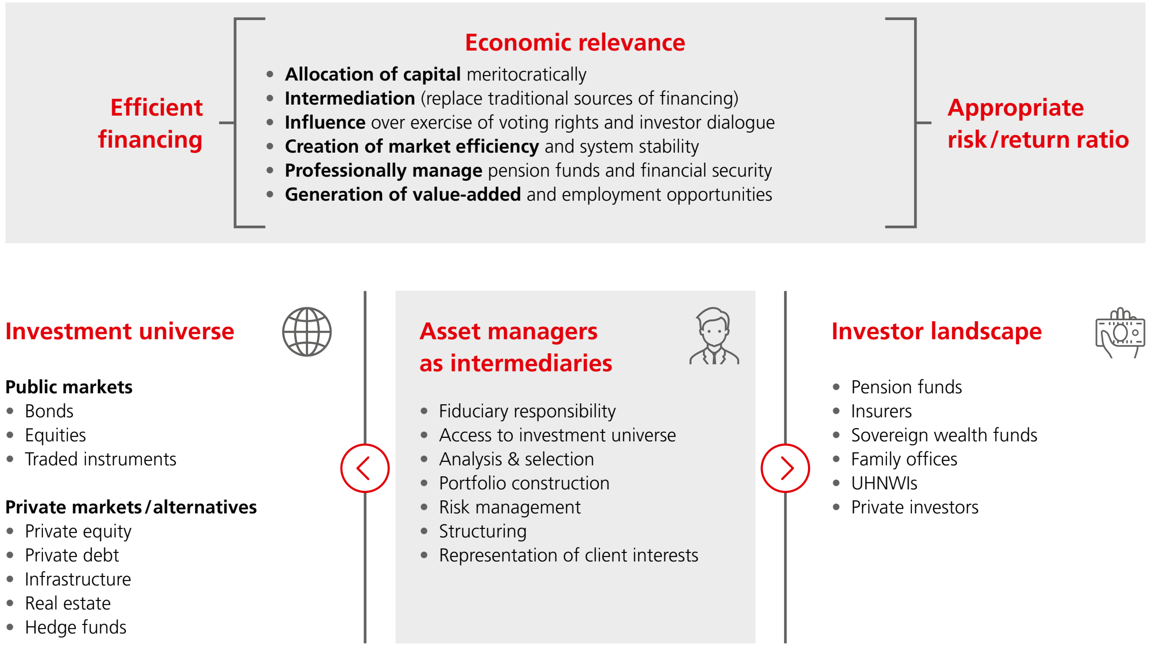
Asset management has strong potential for synergies

In the shadow of private and investment banking, asset management has developed into a strong, independent discipline in the Swiss financial centre with high domestic and international growth potential. As the importance of asset management increases, Switzerland's financial centre becomes more diversified, existing banking services are optimised and declining areas of business offset. For example, effective asset management (investment processes and performance culture) supports and strengthens private banking. In turn, asset management benefits from the financial strength and the innovativeness in private banking, making it possible to launch new products in the institutional environment.

35 This corresponds to the Asset Management Platform's definition of asset management and includes the production and management of investment solutions in the form of collective investment schemes and individual institutional mandates. Non-institutional private investors are not considered.

Fig. 20

Role and relevance of asset management



Sources: SBA and BCG

Pension funds must utilise entire investment universe

Swiss pension funds together with private mandate customers, insurance companies and sovereign wealth funds will remain the largest consumers of asset management services in the coming years. Accounting for over CHF 900 bn[36] or 133 percent[37] of gross domestic product, the assets of Swiss pension funds in international comparison are among the three largest fully-funded pension fund assets in the world.

The pension funds are, however, facing challenges in terms of returns. In the past, over one-third of pension assets were generated through investment returns, or the so-called 3rd contributor. The economic environment, and the low interest rate environment in particular, are making it more difficult for pension funds to continue to generate urgently-needed returns. Further to this, the continuous rise in life expectancy coupled with a retirement age that has remained unchanged is increasing the funding needs of pension funds. Pension funds are subject to regulatory limits in their asset allocation and may deviate from these only with sufficient justification. They invest mainly in publicly traded equities, bonds and domestic real estate. The limits of the investment guidelines, which were originally established in the 1970s, give a false sense of security that leads to a reluctance by pension funds to invest in alternative investments. The prudent investor rule, which was introduced later, is applied to a much lesser extent than the out of date limits. An exception are larger pension funds, who use the rule as a guideline.

In order to generate higher returns in the longer term, changes are required in two areas. First, pension fund boards and those responsible for asset allocation must change their way of thinking and take the entire investment universe into consideration (this includes greater consideration of alternative investments such as private equity, private placements, infrastructure and hedge funds). Second, investment guidelines should be adjusted in line with the prudent investor rule practised by institutionals and applied when expedient or requested by the customer.

In order to take this step towards a modern management of pension fund assets, joint action must be taken by the government, the authorities, pension funds and asset managers.

Performance also increasingly important for private investors

The demand for asset management services from private investors is driven by UHNWI (ultra-high-net-worth individuals) and other private customers, usually via the private banking business. Although location criteria remain important for customers, the elimination of bank-client confidentiality in Switzerland means that customers focus increasingly on performance. This includes attractive risk-adjusted returns and access to bespoke, complex investment solutions. The proven standard approaches to selecting assets in the institutional business are becoming more and more established for larger private customers. The conditions in Switzerland are outstanding in this area.

36 Swisscanto (2018)
37 Willis Towers Watson (2018)

Access to global growth business

Asset management is a global growth business. In order for Switzerland to be able to take advantage of this growth, competitive regulatory framework conditions must be established. In addition to delivering performance and services for customers, the industry must ensure that its investment products are internationally competitive and exportable.

Unbiased access to international growth markets and a level playing field where the same rules apply for both Swiss and international asset managers are necessary for competitive regulatory framework conditions. This will ensure both access to key customer segments as well as the opportunity to actively market products. Also important is an efficient trading centre, one that is characterised by equal opportunities or equivalence with other international financial centres. Among other things, this includes an efficient primary market for fixed income (bonds), in particular bonds with shorter maturities. It is also important that product-specific disadvantages relating to the taxation of investment instruments be eliminated. This pertains primarily to the abolition of stamp duties and a change to the withholding tax (see Chapter 1). The elimination of these disadvantages is the prerequisite for increased production and issuance of investment products in Switzerland. The perceived loss in tax revenues could be more than compensated for by attractive framework conditions and as a result, by greater general momentum in the sector. Estimates regarding the abolition of stamp duty and amendments to the withholding tax predict an annual contribution to tax revenues of several billion francs. This would strengthen Switzerland as a location for private banking and wealth management overall.

Asset management: an opportunity for the Swiss financial centre

Removing the structural disadvantages would have far-reaching positive effects. Value creation by existing asset managers in Switzerland could be increased by insourcing processes that are currently executed abroad. This would also have a positive impact on the active promotion of seminal developments in digitalisation, sustainable investments and at innovative start-ups (see Chapter 1), which would provide additional stimulus for Switzerland.

The prerequisites are in place for Switzerland to become a successful location for asset management. In addition to a stable economic and political environment as well as a modern infrastructure, the country has the necessary capital stock to make it attractive for asset management services. At the same time, the Swiss financial centre offers access to the best talents as well as having flexible and business-friendly labour laws. The generally attractive framework conditions for companies in Switzerland, such as the competitive tax system, are a further advantage.

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