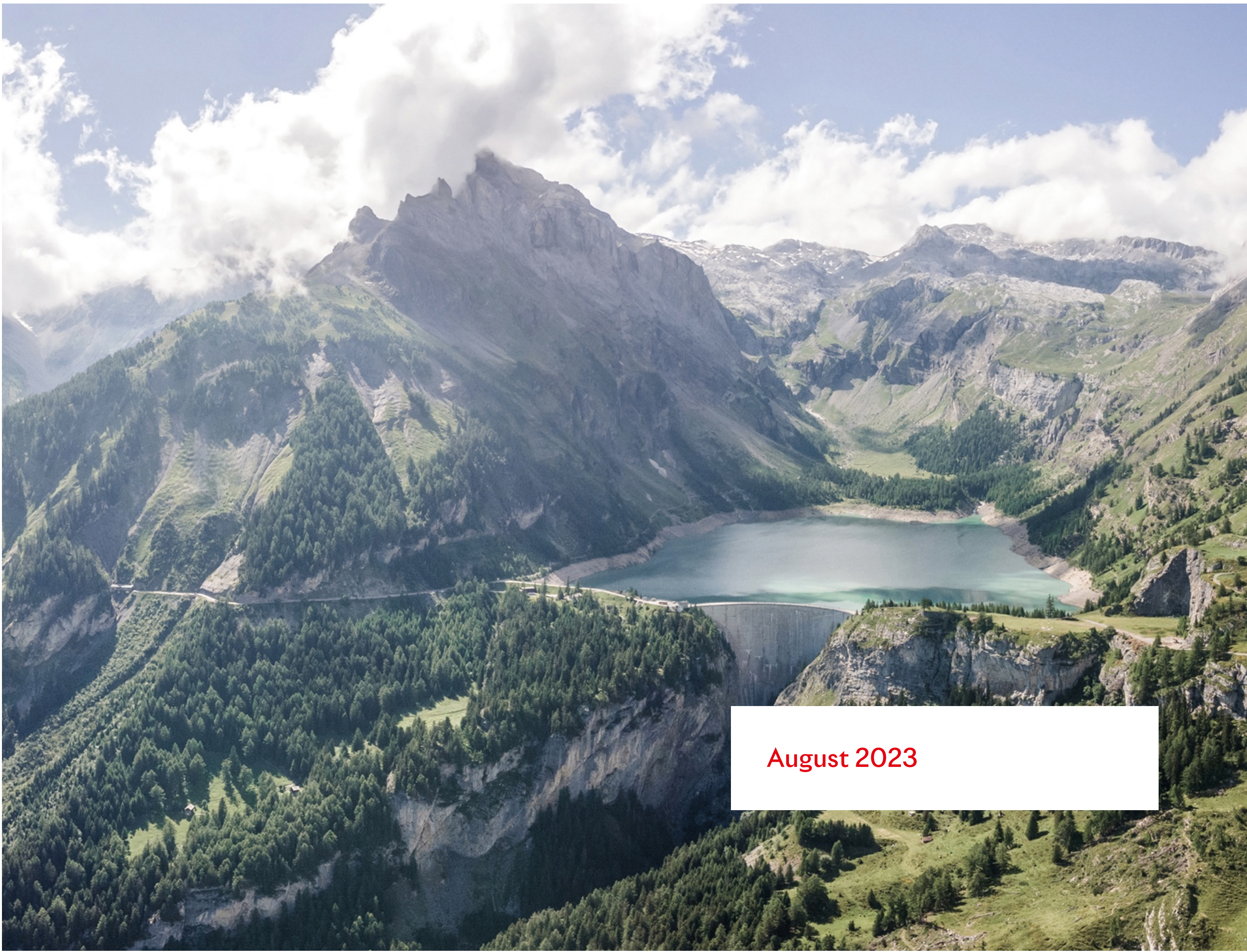
Swiss Banking

Banking Barometer 2023

Economic trends in the Swiss banking industry



August 2023

Swiss Banking

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Executive Summary

The banking sector makes a vital contribution to the success of Switzerland's economy and financial centre. The country is one of the world's leading financial centres and the number one in cross-border wealth management. The events leading up to the takeover of Credit Suisse by UBS caused shifts in customer funds. Overall, however, the banks in Switzerland put in a solid performance in 2022 despite the difficult environment, posting income that was almost stable year-on-year, and the figures for 2023 also bode well despite the challenges that still persist. The Swiss Banking Outlook, published for the first time this year, forecasts an increase in net income and identifies a number of opportunities from which the banks stand to profit.

Part I: The Swiss banking sector

Switzerland is one of the most competitive financial centres in the world and the leader in cross-border wealth management. Its first-class operating conditions and exemplary regulation are reflected in no small part in its innovative power and stability.

Cooling economy, robust job market

The economic trend in 2022 was driven mainly by the recovery from the COVID-19 pandemic, various geopolitical crises and rising inflation. Growth slowed markedly. The Swiss Banking Outlook forecasts growth of 0.9% in gross domestic product (GDP) for 2023. Meanwhile, the Swiss job market remains robust, with the unemployment rate in the banking industry well below pre-COVID levels and a high number of vacancies waiting to be filled.

Sharp rise in SNB policy rate in view of high inflation

The Swiss National Bank (SNB) put an end to its negative interest rate policy in view of high consumer price inflation and has hiked its headline rate several times since June 2022. In addition, it no longer considers the Swiss franc to be overvalued. Mortgage and savings interest rates have risen in parallel with the policy rate. While interest margins in new business are back at the levels seen before the negative interest phase, the average interest on the lending portfolio as a whole is only increasing gradually.

Decisive action safeguarding financial stability

The recovery in income from interest operations increased the financial system's overall resilience, but value adjustments resulting from the turnaround in interest rates caused several US banks with a poor grip on interest risks to become insolvent. This made things much harder for banks like Credit Suisse, which had already lost a lot of trust among its customers. The takeover of Credit Suisse by UBS, aided by the Swiss authorities, proved to be an expedient and effective means of ensuring system stability and maintaining trust in financial institutions. Overall, the Swiss banks are well placed to cope with the challenging macroeconomic environment and weather any crises that may occur going forward.

Work on digital Swiss franc and multibanking should strengthen Switzerland's position

A group of banks coordinated by the SBA has launched a project to introduce a digital Swiss franc based on tokenised deposits as a public good. Known as a deposit token, it will enable and facilitate trading and settlement of digital assets, payment transactions in "Industry 4.0", and peer-to-peer applications without intermediaries ("decentralised finance").[1] The sector's commitment is also an active step towards achieving the open finance objectives for the Swiss financial centre formulated by the Federal Council at the end of 2022. The memorandum of understanding signed by a number of commercial banks in early May 2023 enables the introduction of multibanking offerings for natural persons, with the banks providing the necessary interfaces.

Basel III reform package nearing completion

"Basel III Final" will see the last elements of the Basel III reform package – particularly the rules on capital adequacy – transposed into national law. The SBA supports the reform package in principle but sees a need for amendments, notably concerning regulation of the mortgage market. To avoid competitive disadvantages for Switzerland's financial centre and its economy as a whole, implementation in the key comparable financial centres should also be taken into account.

Swiss voters accept proposal to implement OECD minimum tax rate

The Swiss electorate has recently voted on three tax projects. Whereas the proposal to amend the Federal Act on Stamp Duties and the reform of withholding tax were unable to secure a majority in the spring and autumn of 2022 respectively, despite both being recommended by business leaders, the Federal Council's proposal for implementing the minimum tax rate planned by the Organisation for Economic Co-operation and Development (OECD) was adopted by a clear margin in June 2023. Starting in 2024, a minimum tax rate of 15% is to be applied to the profits of multinational enterprises worldwide. The Swiss implementation proposal is intended to ensure that the resulting additional tax revenues remain in Switzerland rather than flowing abroad.

Federal Council sets parameters for negotiating mandate with EU

Efforts to simplify market access in the European Union (EU) are continuing. The Federal Council set the parameters for a negotiating mandate with the EU in June 2023. It will endeavour to anchor institutional elements in the individual single market agreements using a vertical approach. The Federal Council is expected to adopt a mandate by the end of this year. An agreement between Switzerland and the UK on liberalising and expanding mutual market access in the area of financial services is also expected very soon.

[1] SBA (2023). The Deposit Token. New money for digital Switzerland. SBA white paper.

Part II: Consolidated trend in Switzerland's banks

Switzerland's banks faced considerable headwinds last year. Aggregate net income was down slightly, while the balance sheet total contracted significantly for the first time in a decade. Trends varied widely among the various bank categories.

Results from interest operations and trading activities gaining importance

The result from interest operations regained its place as the largest contributor to the banks' net income thanks to an increase of 2.8%, which was mainly due to the turnaround in interest rates. The result from trading activities was also sharply higher year-on-year, whereas the result from commission business and services declined. This was probably caused by the negative market trend in 2022, with the Swiss Market Index (SMI) shedding around 17%. Overall, aggregate net income posted a small drop of 0.9%. Annual profit was down 16.3% last year at CHF 6.5 bn. The banks paid corporate taxes totalling CHF 2.1 bn, in line with the long-term average.

Sharp fall in liquid assets, mortgage loans still largest asset item

The aggregate balance sheet total of all banks in Switzerland contracted by a hefty 6.9% to CHF 3,339.7 bn in 2022. The downturn among the big banks was especially large and probably driven mainly by shifts in customer funds at Credit Suisse. Liquid assets were sharply lower, while financial investments grew strongly. The banks' sight deposits at the SNB fell more sharply in 2022 than they had for ten years. This was prompted by the sale of foreign currencies by the SNB, the increased opportunity costs of holding liquidity as a result of the higher policy rate, and high liquidity requirements at Credit Suisse. Mortgage loans remain the largest asset item with a share of 35.2%, making up more than a third of the total for the first time.

Significant drop in sight deposits with some rotation into time deposits

On the liabilities side, amounts due in respect of customer deposits posted a significant fall of 8.5% in 2022 due to lower sight deposits and other customer deposit liabilities. There was a certain amount of rotation into time deposits, but a large share of the decrease was caused by shifts in customer funds at Credit Suisse in October 2022. Some of these probably ended up with other bank categories: the cantonal, Raiffeisen, regional and savings banks all recorded a rise in sight deposits in 2022, despite the higher opportunity costs.

Drop in assets under management reflects negative stock market trend

Assets under management showed a sharp drop of 11.2% in 2022. The assets of both Swiss-domiciled and foreign-domiciled customers were down as the negative market trend led to a marked decrease of 13.9% in securities holdings. The Swiss franc remained the dominant investment currency with a share of more than 50%. Looking back over the longer term, assets under management have posted strong growth overall since 2012 despite falling back to 2019/2020 levels in 2022.

Number of staff at banks in Switzerland rises for third year running

In 2022, the 235 Swiss banks recorded an increase in domestic headcount for the third period in a row, adding 1,429 full-time equivalents. This brings the number of staff back above the level recorded in 2017.

The big banks shed around 25 jobs in 2022, while banks in the remaining categories added a total of 1,453. According to the State Secretariat for Economic Affairs (SECO), the unemployment rate in the financial sector was 2.0% at the end of 2022, slightly lower than that of the overall economy.

The results of the SBA survey show that the Swiss banks' headcount reduced by almost 2% in the first half of 2023, although this was entirely due to developments outside Switzerland. Domestic headcount was up 0.3% in the same period. According to SECO, the unemployment rate in the financial sector was unchanged compared with the end of 2022 at 2%. The SBA survey reveals an uncertain outlook for the rest of the year. The banks surveyed were upbeat for the second half of 2023, although the big banks were not included in the poll. Just 5.7% of the banks surveyed expect their headcount to fall, whereas 37.7% expect it to rise. The majority – 56.6% – expect no change. According to the survey, retail banking, wealth management, and logistics and operations (back office) have the best prospects for employment growth in the second half of the year.

Figure 1

The structure of the Swiss banking sector at the end of 2022

Group of banks	2021	2022	Additions	Reclassifications	Removals
Cantonal banks	24	24	0	0	0
Big banks	4	4	0	0	0
Regional and savings banks	59	59	0	0	0
Raiffeisen banks	1	1	0	0	0
Foreign banks	93	86	3	–1	9
Private bankers	5	5	0	0	0
Stock exchange banks	36	38	2	0	0
Other banking institutions	17	18	0	1	0
Total	**239**	**235**	**5**	**0**	**9**

Table: Swiss Bankers Association · Source: Swiss National Bank

Challenging macroeconomic environment for banks

Following a weak trend in the second half of 2022, economic growth remained modest in the first half of 2023. Continued strong demand inside Switzerland was set against rising bankruptcies and higher corporate financing costs. Inflation has fallen slightly since the start of the year but remains high. The positive trend on the financial markets compared with last year is probably boosting banks' trading and commission business. The interest margin for new loans and mortgages is also back at the levels seen before the negative interest rate phase. The Swiss Banking Outlook thus forecasts a year-on-year increase in net income for 2023. Total assets were more or less flat in the first five months of 2023, rising by just 0.2%. Assets under management, meanwhile, added 5.5% in the first few months of the year, but this was only enough to recoup some of the heavy loss recorded in 2022.

Part III: Swiss Banking Outlook

The Swiss Banking Outlook is being published for the first time in 2023. It offers a valuable insight into the industry's outlook based on a survey of experienced financial market experts covering expected trends in key economic and financial market indicators as well as topics relevant to Swiss banking up to the end of 2024.

Weak economic growth and inflation above 2% expected for 2023

The Swiss Banking Outlook forecasts economic growth of 0.9% and an inflation rate of 2.4% for the year as a whole. A majority of the experts surveyed do not expect the SNB to hike interest rates beyond the current level of 1.75%. The macroeconomic picture looks somewhat more optimistic for 2024, with economic growth of 1.5%, lower inflation and a turnaround in interest rates expected.

Growth in net income in 2023 mainly driven by interest operations

The Swiss Banking Outlook predicts higher net income for the banks in Switzerland in 2023, once again driven mainly by a higher result from interest operations. As regards mortgages, meanwhile, the majority of the experts surveyed expect higher interest rates and modest economic growth to lead to a below-average increase for the year as a whole.

Digital customer experience and sustainable finance seen as major opportunities for Swiss banking

Besides rising interest rates, the Swiss Banking Outlook also suggests that the future earnings prospects of banks in Switzerland hinge on further improvements in the customer experience thanks to digital channels and on continued efforts to promote sustainable finance. Strong growth in volumes is anticipated for sustainable investments in 2023. Risks to Swiss banks' income are seen in particular in the high cost of updating IT systems and the increasing density of regulation.

Figure 2

Swiss banking sector: key figures

	2021	2022	Change YoY
No. of institutions	**239**	**235**	**−4**
Number of staff (full-time equivalents in Switzerland)	**90,590**	**92,019**	**1.6%**
in CHF bn			
Aggregate net income	**70.9**	**70.3**	**−0.9%**
Result from interest operations	23.8	24.5	2.8%
Result from commission business and services	25.5	23.3	−8.4%
Result from trading activities	7.7	9	17.5%
Other result from ordinary activities	13.9	13.4	−3.6%
Gross profit	**28.3**	**26.8**	**−5.1%**
Taxes paid on revenue and profits	**2.6**	**2.1**	**−17.7%**
Result of the period (annual profit/loss)	**7.8**	**6.5**	**−17.1%**
Annual profits	9	8.4	−7.1%
Annual losses	1.2	1.9	58.3%
Balance sheet total	**3,587.7**	**3,339.7**	**−6.9%**
Lending volume	**1,294.2**	**1,337.1**	**3.3%**
Assets under management in Switzerland	**8,830.3**	**7,846.8**	**−11.1%**
Cross-border assets under management for private customers	**2,395.3**	**2,249.3**	**−6.1%**

Note: Change from previous year due to unrounded figures.

Table: Swiss Bankers Association · Source: Swiss National Bank, Boston Consulting Group

The editorial deadline for the Banking Barometer 2023 was 14.8.2023.

1. Economic policy environment

Economic developments

After a 2022 dominated by sharply rising inflation and the impact of geopolitical crises, the Swiss economy picked up only slightly in the first half of 2023. The labour market was robust.

The first half of 2022 saw the Swiss economy recover from the COVID-19 pandemic, with private consumption growing strongly and a further fall in unemployment; but the period was also dominated by a series of geopolitical crises, as the war in Ukraine, the impact of international sanctions on Russia, a potential energy shortage, COVID-19-related lockdowns in China and rising inflation dampened economic performance.[2] In consequence, economic growth slowed markedly in the second half of the year. Overall, Swiss gross domestic product (GDP) grew by 2.1% in 2022.[3] The economy picked up slightly in the first quarter of 2023. Private consumption was upbeat, and exports of goods increased across a broad front, thanks to the normalisation of global supply chains and falling transport costs. The Swiss labour market remains robust and unemployment is significantly below pre-COVID levels, but there is an acute shortage of labour in many sectors. Overall, the employment indicators are markedly above their long-term average.[4] There are signs of a slowdown in economic momentum in the second quarter of 2023. While a range of indicators for the service sector continue to predict an expansion, Swiss industrial production is set to decline. The State Secretariat for Economic Affairs (SECO) expects Swiss GDP to grow by 1.1% over 2023 as a whole, and identifies numerous downside risks.[5]

In February 2022, consumer price inflation rose above the Swiss National Bank (SNB) upper limit of 2% for the first time since 2008, and stood at an average of 2.8% for the year as a whole.[6] While rising energy prices accounted for roughly half of inflation in the first six months of 2022, the upward pressure in the remainder of the year came from a much wider range of sources.[7] This prompted the SNB to raise its policy interest rate in June 2022, its first such move in 15 years signalling an interest rate turnaround. Consumer price inflation remained doggedly high in the first half of 2023: in January, core inflation (i.e. excluding food, energy and fuel) exceeded the SNB's target upper limit for the first time since May 2001. The price pressure is likely to increase further in the second half of the year, putting the brakes on household purchasing power. Following the benchmark interest rate hike, SECO expects rents to rise in October for around half of households. [8] However, price growth remains moderate in Switzerland compared with other countries, thanks in part to the appreciation of the Swiss franc, which has kept imported inflation in check.

[2] SECO (2022). Konjunkturtendenzen, summer and autumn 2022.
[3] SECO (2023). Konjunkturtendenzen, spring 2023.
[4] See e.g. SECO employment outlook, Adecco Group Swiss Job Market Index and the KOF Employment Indicator.
[5] SECO (2023). Konjunkturtendenzen, summer 2023.
[6] https://www.bfs.admin.ch/bfs/en/home/news/whats-new.assetdetail.23908202.html
[7] SECO (2022, 2023). Konjunkturtendenzen, autumn 2022 and spring 2023.
[8] SECO (2023). Konjunkturtendenzen, summer 2023.

Figure 3

Swiss real GDP, seasonally adjusted

Change compared to prior-year quarter in %

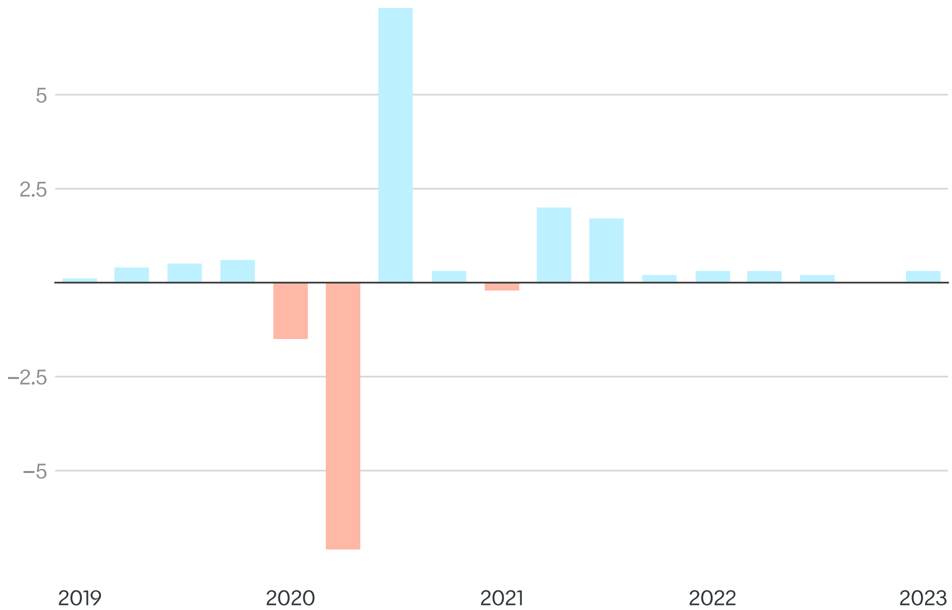

Chart: Swiss Bankers Association · Source: State Secretariat for Economic Affairs 2023

Figure 4

Unemployment rate, not seasonally adjusted

In %

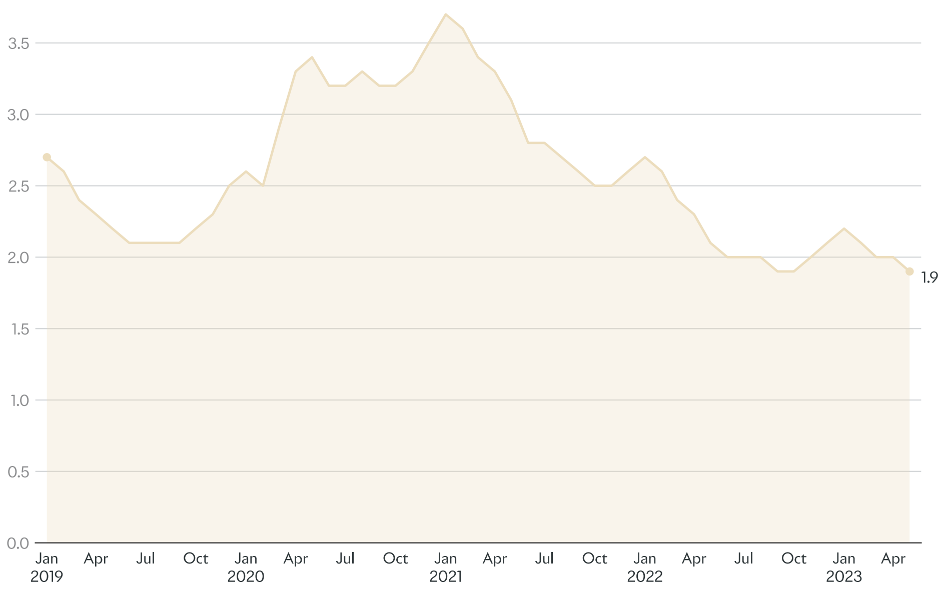

Chart: Swiss Bankers Association · Source: State Secretariat for Economic Affairs

Figure 5

SNB policy rate and inflation

In %

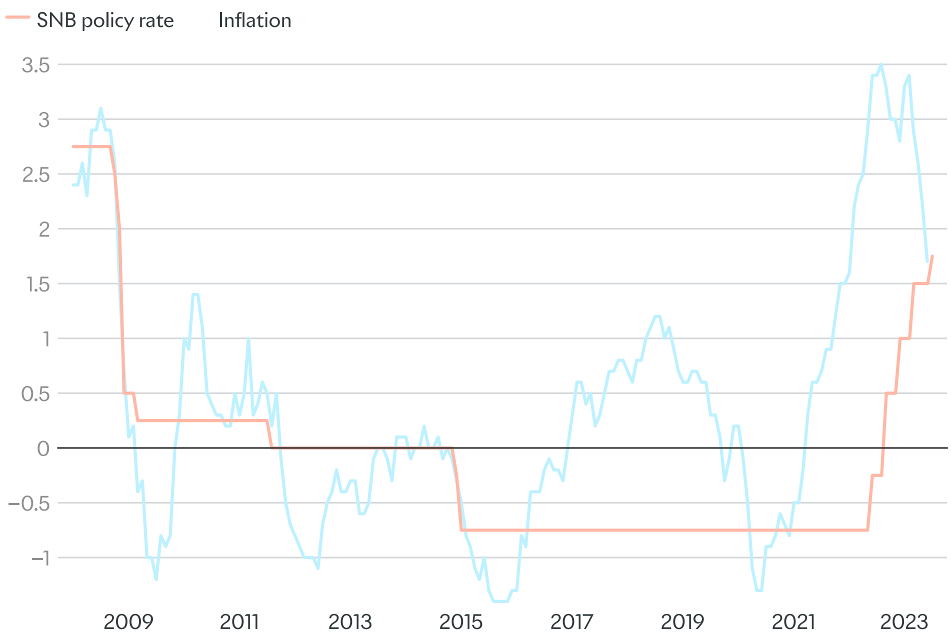

Chart: Swiss Bankers Association · Source: Swiss National Bank, Federal Statistical Office

Interest rate situation

In response to persistently high inflation, the SNB has raised its policy rate in a number of steps and indicated that further hikes may be on the way. The interest margin for new loans and mortgages is back to the levels seen before the negative interest rate phase. However, the rate rise harbours economic risks.

In June 2022, the SNB raised its policy rate by half a point to –0.25% in order to counteract mounting inflationary pressure, its first such move in 15 years. Since then, it has hiked its benchmark rate in a number of steps in response to persistently high consumer price inflation and increasingly widespread upward price pressure in the second half of 2022, finally bringing an end to its negative interest rate policy. Following its decision in June 2023, the SNB's policy rate stands at 1.75%. It is not ruling out further moves on interest rates.[9]

The end of the SNB's negative interest rate policy changes the impact of monetary policy on banks' sight deposits. Since September 2022, the SNB has been remunerating banks' sight deposits at the SNB policy rate, up to a specific threshold,[10] and at the rate less a discount of 0.5 percentage points on any deposits above that amount. Over recent quarters, the focus has once again shifted to selling foreign currency,[11] as the SNB no longer considers the Swiss franc to be overvalued.[12] Up to September 2022, the SNB had earned income of CHF 0.6 bn on the sight deposits of banks and other financial market participants. From September 2022 to the end of the year, by contrast, positive interest payments added up to an expense of CHF 0.8 bn.[13]

Mortgage interest rates have risen in parallel with the increase in the policy rate. For new business, the margin on banks' interest operations – a key element of their activities – is back at the levels seen before the negative interest rate phase. A majority of the experts who took part in the Swiss Banking Outlook survey expect growth to be below average in 2023, especially for mortgage loans. With the negative interest rate policy now at an end, savers too are once again earning interest on their deposits, though this is rising rather more slowly than the benchmark rate. The reason for this lag is that the current interest rates for new business are not the only factor relevant to the banks' margin operations: what matters is the average interest rate on the lending portfolio as a whole. An analysis conducted on behalf of the SBA shows that this will remain significantly below the benchmark interest rate for some time to come, limiting the banks' scope for paying interest on savings.[14] Nevertheless, faced with intense competition, banks have begun raising their interest rates on savings, and have announced further increases for savers following the SNB's interest rate decision in June 2023.

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9 SNB (2023). Monetary policy assessment of 22 June 2023.
10 For domestic banks, the threshold corresponds to the moving average of the minimum reserve requirements over the preceding 36 reference periods multiplied by the applicable threshold factor. (SNB, 2023, Instruction sheet governing interest on sight deposits). Since July 2022, this factor has been 28 (see https://www.snb.ch/en/iabout/stat/statrep/id/current_interest_exchange_rates#t2).
11 SNB (2023). Monetary policy assessment of 22 June 2023.
12 SNB (2022). Monetary policy assessment of 16 June 2022.
13 SNB (2023). Annual Report 2022.
14 Orbit36 Risk Finance Solutions AG (2023). Analysis of the trend in savings interest rates compared with mortgage interest rates at Swiss banks. Study commissioned by the SBA (in German).

Figure 6

Net interest margin – domestically oriented banks

In %

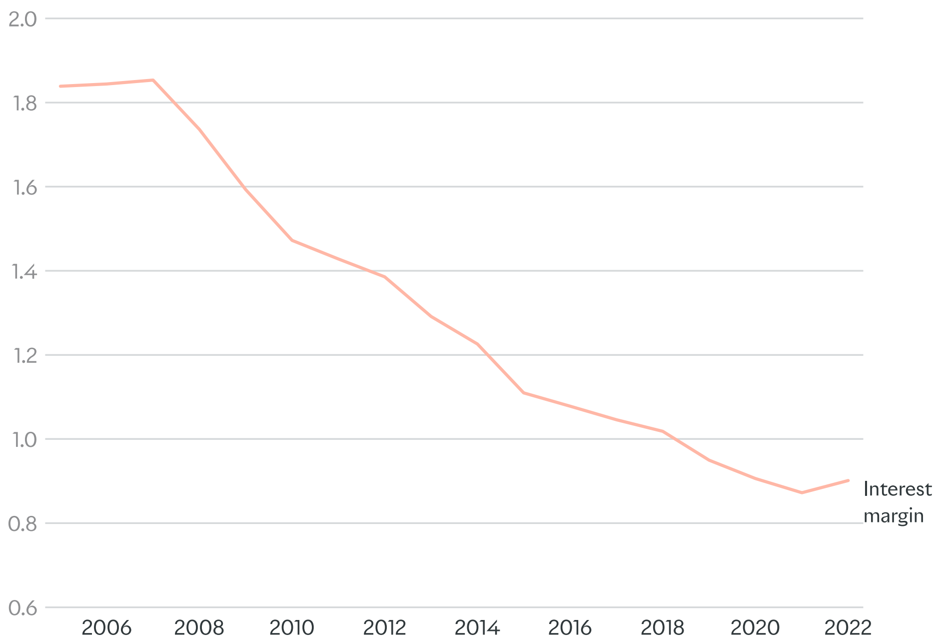

Chart: Swiss Bankers Association · Source: Swiss National Bank

Financial stability

The central banks' abandonment of years of low interest rate policy presents challenges for banks' risk management. Growing geopolitical tensions and financial fragmentation are also hindering cross-border capital transactions.

In view of doggedly high inflation rates, the US Federal Reserve (Fed), the European Central Bank (ECB) and other central banks have raised their benchmark interest rates in a number of steps. As at the end of July 2023, the federal funds rate range was 5.25% to 5.5%. The Fed also started scaling back its bond portfolio in June 2022.[15] Since August 2023, the ECB's main refinancing rate has stood at 4.25%. It is also in the process of reducing the portfolio it acquired as part of the Asset Purchase Programme (APP), with a view to reducing the money supply. Since March 2023, not all principal payments from maturing securities have been reinvested, and from August 2023 such reinvestments will cease entirely.[16]

The central banks' abandonment of years of low interest rate policy presents challenges for banks' risk management. During the low interest rate phase, when volatility was low and liquidity in plentiful supply, many market participants increased their risk exposure in terms of liquidity, maturity and credit defaults.

[15] Fed (2022/23). FOMC statement and Implementation Note issued on 15 June 2022 and 26 July 2023.
[16] ECB (2023). Monetary policy decisions, 4 May and 27 July 2023.

In the US, valuation corrections linked to the interest rate turnaround tipped a number of banks into insolvency.

In Switzerland, a series of developments led to the takeover of Credit Suisse by UBS.[17] Credit Suisse had reported big losses in recent years and experienced major withdrawals of customer funds as early as October 2022, and these rose sharply once again in the days leading up to the March 2023 takeover. The rapid dissemination of information via digital channels and customers' ability to withdraw their assets quickly online can substantially increase the risk and extent of a bank run, posing new challenges in terms of safeguarding financial stability.[18] The takeover, which was announced on 19 March 2023, and the additional measures taken by the authorities had the effect of immediately stabilising the situation at Credit Suisse and within the financial system as a whole. The right action was taken, and it succeeded in boosting trust in financial institutions. In its annual Financial Stability Report, the SNB emphasises that the macroeconomic environment in which the banks operate remains challenging. However, the four stress scenarios that it considers (interest rate shock, global recession, emerging markets crisis, protracted recession in the euro area) show that Swiss banks' high capital buffers mean they are well placed to cope with the challenges and weather any crises that may occur.[19]

Another challenge to the financial system comes in the form of heightened geopolitical tensions. Deteriorating relations between the US, China and Russia harbour the risk of deglobalisation or financial fragmentation. Any decline in cross-border capital transactions would exacerbate the risk of abrupt capital outflows while reducing the scope for risk diversification, with negative consequences for global financial market stability.[20]

Digital finance, innovation and cyber security

Technological advances are creating new opportunities for the Swiss financial sector to remain competitive and innovative. At the same time, it is especially important to increase resilience to cyber attacks.

Technology-driven advances in the financial services industry are opening up great opportunities for the Swiss financial centre. In February 2022, the Federal Council published a report setting out 12 strategic areas of action for Switzerland with regard to digital finance.[21] These indicate ways in which the framework conditions and location factors for the Swiss financial centre can be further optimised against the backdrop of technological developments. The measures envisaged are to involve close coordination between politicians, authorities, the private sector and academia. The SBA welcomes the Federal Council's initiative. It enables change processes, addresses risks, guarantees stability and integrity, secures international competitiveness, promotes sustainability, and networks the financial centre.

A group of banks coordinated by the SBA has launched a project to introduce a digital Swiss franc based on tokenised deposits as a public good. Operating on a public blockchain, the deposit token simplifies and enables trading and settlement of digital assets, payment transactions in "Industry 4.0", and peer-to-peer

17 IMF (2023). Global Financial Stability Report.
18 Finanz und Wirtschaft (2023). Flash Bank Runs.
19 SNB (2023). Financial Stability Report 2023.
20 IMF (2023). Global Financial Stability Report.
21 Federal Council (2022). Digital finance: areas of action 2022+. Federal Council report from 2 February 2022.

applications without intermediaries ("decentralised finance").[22] A digital Swiss franc issued by regulated banks is a transformative step towards the future of banking in Switzerland and is intended to make a key contribution to Switzerland's competitiveness and innovative power going forward.

A further forward-looking development is the market-based open finance approach. The memorandum of understanding signed under the auspices of the SBA in early May 2023 enables the introduction of multi-banking offerings for natural persons, with the commercial banks providing the necessary interfaces.[23] The sector's commitment is an active step towards achieving the open finance objectives for the Swiss financial centre formulated by the Federal Council at the end of 2022.

A potential success factor for both the deposit token and open finance is an e-ID, provided it is subject to the comprehensive state trust infrastructure envisaged. An e-ID would offer security and trustworthiness for online business relationships along with increased efficiency and enhanced protection against identity fraud in the payment process. From the SBA's perspective, swift and pragmatic implementation of the legal basis in practice is essential to its rapid take-up by the general public and broad acceptance by businesses and the authorities.[24] The e-ID is expected to become a reality in just a few years' time.

A further prerequisite for security in digital business transactions is an additional strengthening of the Swiss financial centre's cyber resilience. This prompted the establishment of the Swiss Financial Sector Cyber Security Centre (Swiss FS-CSC) in Zurich in April 2022. It already has more than 130 members, including banks, insurers and industry associations, and its goal is to enhance the financial sector's cyber resilience as well as promoting collaboration between financial institutions and the authorities.[25] Via a partnership with the Financial Services Information Sharing and Analysis Center (FS-ISAC), the FS-CSC gives its members access to threat reports and evaluations, planning and implementation of crisis responses, along with exercises and support in the event of cyber attacks.

Regulation and compliance

Regulation of the banks and financial markets plays a key role in the attractiveness and competitiveness of the Swiss financial centre, which is one of the best regulated of its kind in the world.

"Basel III Final" will see the last elements of the Basel III reform package transposed into national law. The changes relate primarily to the capital adequacy requirements for banks. The SBA supports the reform package in principle but sees a need for amendments, notably concerning regulation of the mortgage market. To avoid competitive disadvantages for the Swiss financial centre, implementation in the key comparable financial centres should also be taken into account.[26]

The Federal Council has amended the implementing provisions on insolvency and deposit insurance in the Banking Ordinance (BankO) to bring them into line with the revised Banking Act (BankA). With regard to

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[22] SBA (2023). The Deposit Token. New money for digital Switzerland. SBA white paper.
[23] SBA (2023). Memorandum of Understanding among Swiss Banks on the enablement and implementation of initial multibanking offerings for natural persons.
[24] SBA (2022). Response to the preliminary draft of the Federal Act on electronic proof of identity and other electronic credentials (VE-E-ID-Gesetz, BE-BGEID) (in German).
[25] https://fscsc.ch/
[26] SBA (2022). Basel III Final. SBA position paper.

deposit insurance, the SBA's proposal for an additional prefinancing option involving deposits with the SNB for banks in all supervisory categories has been adopted. This ensures that banks are not punished for improving deposit insurance in terms of capital and liquidity. The amendments to the BankA and BankO came into force on 1 January 2023.

The advance of digitalisation and developments in technology have led to increased risks in operations and data security. The Swiss Financial Market Supervisory Authority FINMA has clarified its supervisory practice in this area in its circular "Operational risks and resilience – banks", into which it has also incorporated key elements of the SBA's Recommendations for Business Continuity Management (BCM).[27] The circular comes into force on 1 January 2024, at which point the SBA's BCM recommendations will cease to apply.

In the wake of Russia's invasion of Ukraine in February 2022, Switzerland decided to adopt the EU sanctions against Russia and Belarus. Swiss banks are implementing the sanctions, but have encountered a number of policy issues, difficulties and ambiguities in practice. By June 2022, existing deposits held by Russian nationals as well as natural persons and legal entities in Russia totalling some CHF 46 bn had been reported to SECO. As of 25 November 2022, around CHF 7.5 bn of assets and 15 properties had been frozen.[28]

Overall, the Swiss financial centre is among the best regulated in the world, which is reflected in its consistently high ranking in the Global Financial Regulation, Transparency, and Compliance Index (GFRTCI). Regulation, transparency and compliance with financial rules are key aspects in analysing a financial centre's reputation and attractiveness.[29]

Taxation

An attractive tax environment and effective compliance rules are key locational advantages for the financial sector. Alongside taxation of banks' own activities, a major issue is regulations to ensure that customers comply with their own tax obligations.

The Organisation for Economic Co-operation and Development (OECD) has been working for some time on new rules intended to redistribute global corporate tax revenues. In a first step starting from 2024, an OECD minimum tax rate of 15% is to be applied to the profits of multinational enterprises worldwide. The Federal Council's proposal to implement the OECD guidelines, which was approved by the Swiss electorate in June 2023, envisages the introduction of a top-up tax at the federal level for such companies. This will be levied if the minimum tax rate is not reached in the cantons. Nothing will change for other, smaller companies. The majority of the income from the top-up tax will go to the cantons that have hitherto applied lower tax rates, and can be used by them to promote themselves as locations. This means that jobs and tax revenues will remain in Switzerland, and companies will not be taxed above the minimum requirement.

The market for virtual assets has expanded greatly over recent years. Virtual assets can be traded and held decentrally, without the involvement of regulated financial intermediaries. This potentially makes it

[27] See SBA (2013). Recommendations for Business Continuity Management (BCM).
[28] https://www.seco.admin.ch/seco/en/home/seco/nsb-news.msg-id-91994.html
[29] https://www.sfi.ch/en/about-us/news/gfrtci-2023

more difficult to assess the associated tax liabilities. Against this backdrop, in October 2022 the OECD presented the final text of the Crypto Asset Reporting Framework (CARF), an automatic exchange of information (AEOI) specifically for virtual assets.[30] The OECD decided it was not possible to integrate reporting of virtual assets into the existing regulations, so that CARF now takes its place alongside AEOI. Integrating CARF into AEOI would have avoided an unnecessary duplication for the banks. Nevertheless, the SBA is in favour of treating the crypto world and the traditional financial market equally with regard to tax transparency. According to the decision of the OECD Ministerial Council on 8 June 2023, CARF is a global minimum standard and implementation is quasi-mandatory for member states. It is not expected to be implemented in Switzerland before 2026.

A strong economy and financial centre depend on a properly functioning capital market. However, the Swiss capital, money and credit markets are still being held back by fiscal constraints such as withholding tax and stamp duty. The Federal Council and clear majorities within the National Council and the Council of States wished to correct one of these disadvantages by reforming withholding tax. The Swiss electorate narrowly rejected the reform in a vote held in September 2022.

Market access

After rejecting the institutional framework agreement with the European Union (EU), the Federal Council made it clear that it intended to continue with the bilateral approach. At the same time, negotiations on a financial services agreement between Switzerland and the United Kingdom (UK) are making progress.

Since opting not to sign the institutional framework agreement between Switzerland and the EU in May 2021, the Federal Council has repeatedly affirmed its resolve to continue with the bilateral approach. At its retreat dealing with European policy in February 2022, it adopted a set of guidelines for a negotiating package with the EU. It will endeavour to anchor institutional elements in the individual single market agreements using a vertical approach, and no longer sees the horizontal approach (in which all institutional issues are governed by one framework agreement) as an option. Exploratory talks with the EU have been conducted on this basis. In June 2023, the Federal Council decided on the parameters for a negotiating mandate with the EU.[31] The areas covered by the mandate and the overriding objectives stated essentially reflect the strategy laid down in February 2022. The specific objectives for each area are confidential. The Federal Council will continue negotiations with the EU on the basis of the defined parameters, and prepare for the adoption of a negotiating mandate by the end of the year.

The SBA welcomes the Federal Council's commitment to the bilateral approach and to further developing its European policy. It appreciates the Federal Council's acknowledgement of the EU's importance to the Swiss financial sector in its assessment of Swiss-EU relations adopted in June 2023, and its reference to the banks' proposed institution-specific approach as a solution to the challenges facing the financial services sector. As part of this approach, a licensing process has been developed which allows Swiss banks to provide cross-border services in the EU provided they individually comply with the relevant EU law.[32]

[30] https://www.oecd.org/tax/exchange-of-tax-information/crypto-asset-reporting-framework-and-amendments-to-the-common-reporting-standard.htm
[31] https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/newsuebersicht/2023/europa.html
[32] Federal Council (2023). Assessment of Swiss-EU relations. Federal Council Report dated 9 June 2023 (in German).

Since the Swiss and UK finance ministers signed their joint statement on 30 June 2020, intensive talks have been under way on liberalising and expanding mutual market access in the area of financial services.[33] The goal is to enshrine the essential elements in an international treaty. The agreement is to be based on the principle of mutual recognition of financial market regulation and the supervisory regime, which the sector regards as expedient. The Swiss banks see it as especially important for the agreement to cover cross-border securities services for high-net-worth individuals. The agreement is expected to be finalised very soon.

2. Net income

The banks in Switzerland posted a solid performance overall in 2022. Their aggregate net income fell slightly (by around 0.9% year-on-year), and annual profit came to CHF 6.5 bn.

The net income of all banks in Switzerland was CHF 70.3 bn in 2022, a decline of 0.9% year-on-year. This is due to the sharp drop in net income at the big banks[34] (down 5.2%) and stock exchange banks (down 5.6%). There were declines in the result from commission business and services (down 8.4%) and the other result from ordinary activities (down 3.7%), while the result from trading activities was up 17.8%, and the result from interest operations up 2.8%. The latter increased more sharply than in prior years, owing to the interest rate turnaround in 2022. The big banks' contribution to net income declined by 2.2 percentage points, while the proportion attributable to the cantonal and foreign banks showed the highest growth.

Statistical reporting levels

This publication is based on data provided by the Swiss National Bank (SNB) compiled from the individual financial statements of banks (parent companies) as required by law. In the case of the big banks and internationally active banks in particular, these statements deviate from the group financial statements. The SNB distinguishes between three perspectives in its published data: domestic office, parent company and group.

[33] https://www.newsd.admin.ch/newsd/message/attachments/61959.pdf

[34] According to the SNB, the "big banks" category comprises the following four entities: Credit Suisse (Switzerland) Ltd, Credit Suisse AG, UBS Inc. and UBS Switzerland AG.

2.1 Trends in 2022

Net income by banking activity

Aggregate net income comprises the results from interest operations, commission business and services, and trading activities as well as the other result from ordinary activities. The 0.9% fall in aggregate net income in 2022 was caused by a lower result from commission business and services offsetting higher results from interest operations and trading activities.

While the result from commission business and services accounted for the largest share of net income in 2021, in 2022 the result from interest operations resumed its place as the biggest contributor. It grew by 2.8% from CHF 23.8 bn to CHF 24.5 bn, and now accounts for 34.9% of total net income, mainly as a result of the turnaround in Swiss National Bank (SNB) interest rates in 2022. The higher result from interest operations was caused by a strong increase in interest income of CHF 13.5 bn and a slightly lower increase of CHF 12.8 bn in interest expense. The latter was due to banks' higher refinancing costs. Interest on the sight deposits of banks and other financial market participants generated income of CHF 0.6 bn for the SNB in 2022 before the negative rates were lifted, after which it led to an expense of CHF 0.8 bn.[35] In the previous year, under the negative interest rate regime in force at the time, it had earned income of CHF 1.3 bn[36] At the same time, there was an 8.4% decline in the result from commission business and services, attributable primarily to reduced commission income from securities and investment business. This was probably due to the negative market trend in 2022. The Swiss Market Index (SMI) fell by around 17% over the year.

[35] SNB (2023). Annual Report 2022.
[36] SNB (2022). Annual Report 2021.

Figure 7

Aggregate net income by banking activity

In CHF bn

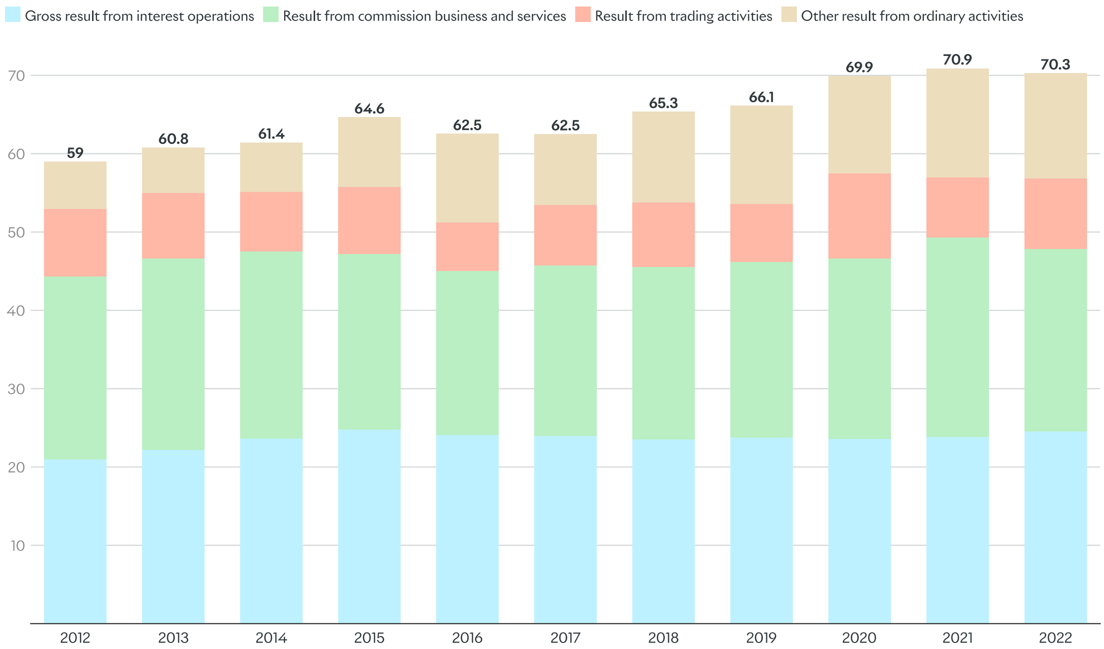


Chart: Swiss Bankers Association · Source: Swiss National Bank

Following a sharp fall in the result from trading activities in 2021, the trend was reversed in 2022, with a 17.8% year-on-year increase bringing the figure up to CHF 9 bn, above the level seen in the years before 2020. One reason for this is the increased market volatility seen in 2022. Sharply declining securities prices are generally linked to increased own-account trading by banks.

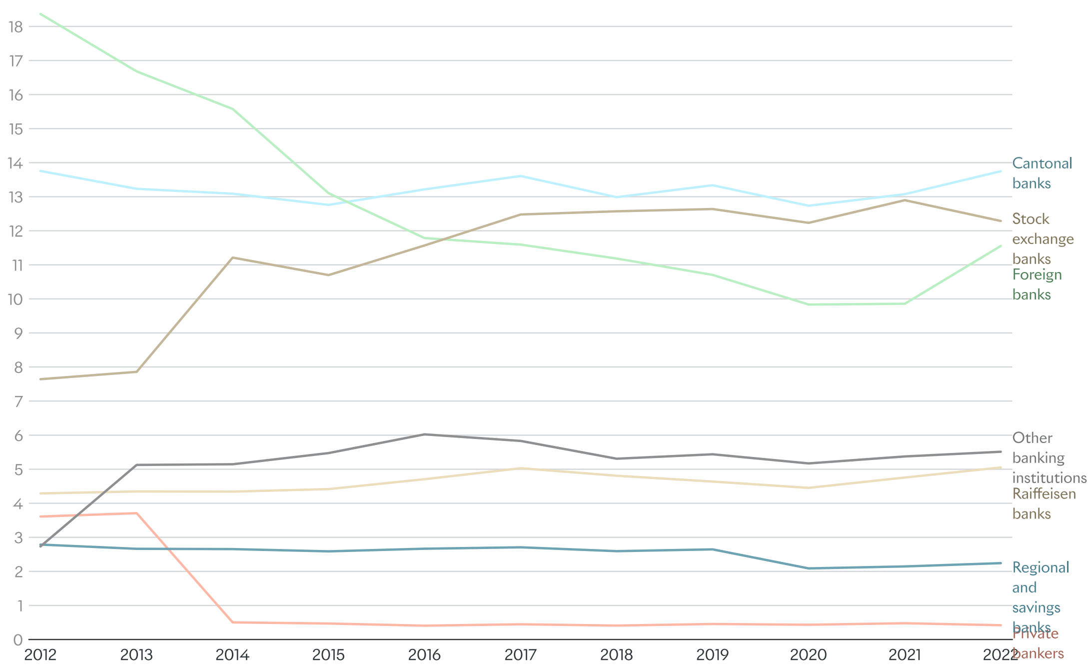
Net income by bank category

Stock exchange banks' net income fell in 2022 for the first time in a decade. The big banks contributed a smaller share of net income, whereas the share attributable to the cantonal and foreign banks in particular increased.

Figure 8

Net income (shares by bank category, excluding big banks)

In %



Note: The big banks contribute a much larger share of net income than the other categories – it has fluctuated between 46% and 53% since 2012. They have thus been omitted from this chart in order to provide a clearer picture of the trends among the other categories.
Chart: Swiss Bankers Association · Source: Swiss National Bank

The cantonal and foreign banks in particular recorded a year-on-year increase in their shares of net income. The cantonal banks, for example, saw their share grow by 0.7 of a percentage point to 13.7%, corresponding to an increase of CHF 391 mn. The foreign banks also grew their share and are now back at their 2017 level after a number of years of decline. They contributed 11.6% of net income in 2022, up 1.7 percentage points year-on-year, and also posted a sharp rise in absolute terms, up 16.2% to CHF 8,120.3 mn. The foreign banks saw only a relatively small decline in commission business and services, while recording marked rises in income in the other three areas, largely due to sharp growth in income from participations. The big banks and stock exchange banks both saw their shares of net income decline. For the stock exchange banks, the result from commission business and services accounts for around 60% of net income, and consequently they were harder hit by falling securities prices in 2022. The big banks (not shown) recorded an absolute fall in net income of CHF 1,885.4 mn, the largest for 10 years. They were also the only bank category to post a lower result from interest operations (down 13.1%). The big banks also experienced a disproportionately large fall in their result from commission business and services, causing their share of overall net income to slip back from 51.4% to 49.2%.

Statistical effects of allocation to bank categories

The SNB allocates individual banks to the various categories at its own discretion. The composition of the categories can change over time as a result of mergers, spin-offs, newly formed banks and other structural changes. In 2022, for example, the foreign-controlled bank Degroof Petercam Suisse SA was taken over by the stock exchange bank Gonet & Cie SA, so its business is now allocated to the category of stock exchange banks for statistical purposes rather than foreign banks. However, this change has no discernible effect on the shares accounted for by these categories. In addition, Neue Aargauer Bank (NAB) was merged with Credit Suisse (Switzerland) Ltd in 2020, leading to a fall in the figures for the regional banks. A large number of banks in the “private bankers” category changed their legal form in 2014 and now belong to the “stock exchange banks” and “other banking institutions” categories. At the time, this caused structural disruptions to the statistics for the “private bankers” and “stock exchange banks” categories.

In a multi-year comparison, the stock exchange banks’ share of total net income grew steadily between 2012 and 2021, before falling back for the first time in 2022, from 12.9% to 12.3%. The cantonal banks’ share has remained largely stable over the last decade. The private bankers’ contribution fell from 3.6% to 0.4% during the period, that of the foreign banks from 18.4% to 11.6%. The reduction among the foreign banks is partly due to the changed operating conditions in the wake of the financial crisis, which led to numerous branch closures in Switzerland. Some banks have also cut their international activities back to specific fields of business in recent years as part of restructuring programmes, which has in some cases led to shifts within a group or even the sale of entire business units. However, foreign banks’ share of net income has been rising again since 2021.

Annual profit and taxes

Gross operating profit fell by 5.1% year-on-year. After value adjustments and taxes, the annual profits of the banks in Switzerland totalled CHF 6.5 bn.

The slight (0.9%) decline in aggregate net income resulted in a gross operating profit of CHF 26.8 bn in 2022, CHF 1.4 bn (5.1%) lower than in 2021. Operating expenses, which are made up of personnel expenses and general and administrative expenses, rose by 1.9%. The growth in personnel expenses reflects the increase in banks’ headcount. After deduction of depreciation, amortisation, value adjustments and provisions, the Swiss banks’ net income stood at CHF 8.4 bn (down 7.0%). This decrease was largely due to renewed high depreciation, amortisation and provisions at the big banks, especially Credit

Suisse. The banks paid less tax in 2022 (CHF 2.1 bn, compared with CHF 2.6 bn in 2021). The resulting annual profit (result of the period) fell by 16.3%, from CHF 7.8 bn in 2021 to CHF 6.5 bn in 2022.

Figure 9

Breakdown of result of the period for banks in Switzerland as at end-2022

In CHF bn

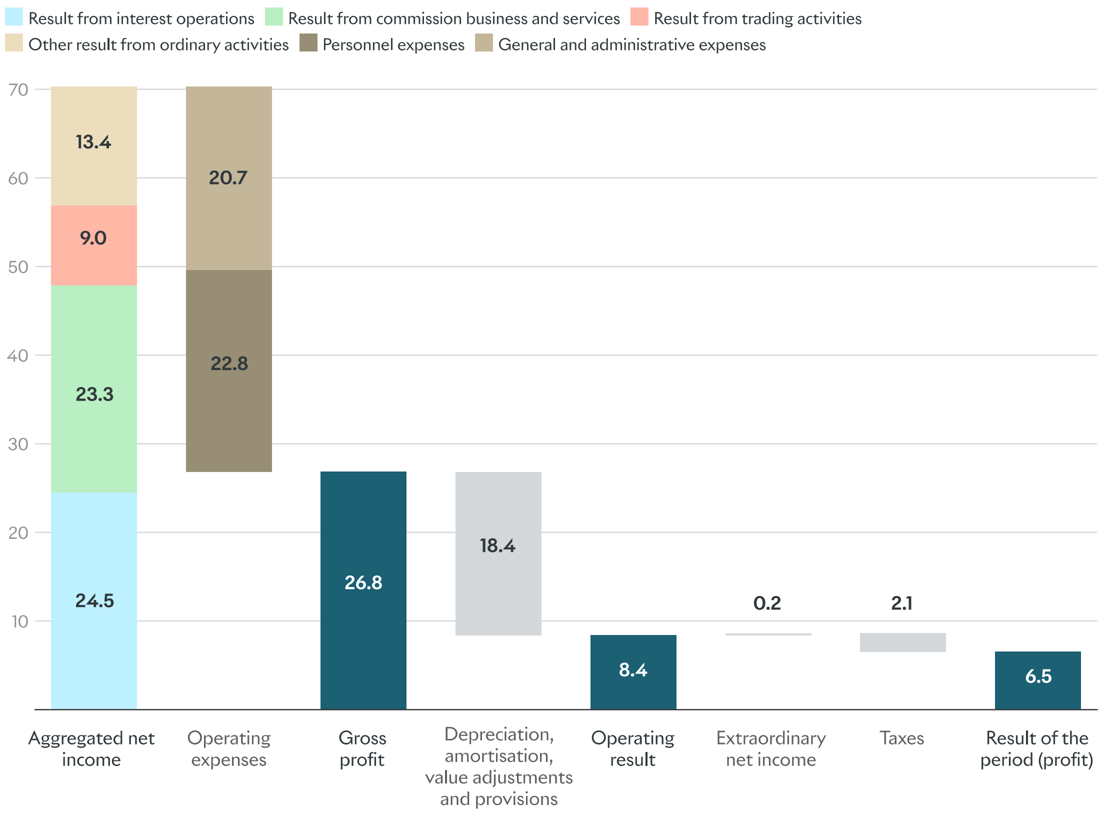


Chart: Swiss Bankers Association · Source: Swiss National Bank

2.2 Mixed economic environment in first half of 2023

The economic environment remains challenging for the banks in 2023. The Swiss Banking Outlook predicts below-average gross domestic product (GDP) growth of 0.9%. Inflation fell in the first half of the year, but is still high. The SNB has raised its policy rate in a number of steps to 1.75%.

The performance of economies around the world has been modest in the first half of 2023, due to a combination of rising interest rates, persistently high inflation and the war in Ukraine. Economic growth in the industrialised nations is slowing, and this is reflected in a moderate growth forecast of 1.3% for 2023.[37] For Switzerland, the Swiss Banking Outlook is predicting below-average GDP growth of 0.9%. The SNB has raised its policy rate further in response to doggedly high inflation: as of July 2023 it stood at 1.75%.[38] In March 2023, company bankruptcies in Switzerland reached their highest level for 20 years, while the number of new firms being set up is slowed significantly.[39] This trend is partly due to higher financing costs for companies and the ending of COVID-19 support measures. The number of bankruptcies is therefore likely to remain high in the second half of the year. Around CHF 7.5 bn of the approximately CHF 17 bn in COVID-19 credits granted by Swiss banks has been repaid in full to date.[40]

Growth in real estate prices slowed in the first half of 2023 in response to rising interest rates.[41] This is consistent with the Swiss Banking Outlook forecast of below-average growth in mortgage loans for 2023. Both the euro and the US dollar lost further ground against the Swiss franc in the first half of the year, with the EUR standing at CHF 0.95 and the USD at CHF 0.86 in July.

The Swiss Market Index (SMI) staged a marked recovery in the first half of 2023, but could still only recoup part of the losses sustained in 2022. At the end of July, the index stood at around 11,300 points, 5.4% higher than at the end of 2022. Looking ahead, the Swiss Banking Outlook is optimistic for the SMI, and is forecasting a rise of 8.8% for the whole of 2023. Exchanges abroad also posted positive numbers in the opening months of 2023, with the broad-based US S&P 500 index, for example, gaining around 20% by July. This performance is essentially due to highly successful tech stocks, as the majority of other stocks in the index posted little or no price rise. However, the strengthening franc partially cancelled out the gains on foreign stocks.

Despite the challenging economic environment, the Swiss Banking Outlook expects banks in Switzerland to record higher net income in 2023 than in 2022. The financial market experts see interest operations as the key driver, with margins set to rise following the interest rate turnaround. The prospects for commission business and services and trading activities, meanwhile, are less clear-cut. On the one hand, positive trends on the equity markets point to increased profits, but on the other, uncertainty regarding economic developments is weighing on profit forecasts. The latter, coupled with higher interest rates, are also being blamed for an expected flattening of mortgage loan growth over the remainder of the year.

[37] IMF (2023). World Economic Outlook.
[38] SNB (2023). Monetary policy assessment of 22 June 2023.
[39] KOF (2023). Significant increase in company bankruptcies.
[40] covid19.easygov.swiss, last accessed on 19 July 2023.
[41] SNB (2023). Financial Stability Report.

3. Balance sheet

The aggregate balance sheet total of all banks in Switzerland declined markedly (by 6.9%) in 2022, the first major fall in 10 years. The downturn among the big banks was especially large, and is probably attributable mainly to shifts in customer funds.

Banks in Switzerland recorded a sharp (6.9%) contraction in balance sheet total in 2022, down from CHF 3,587.7 bn to CHF 3,339.7 bn. On the assets side, mortgage loans remained the largest item by a considerable margin, while liquid assets dropped by a hefty 29.8%. Financial investments, meanwhile, climbed sharply and were up CHF 69.3 bn (29.8%). On the liabilities side, there was a substantial decrease of 15.6% in sight deposits last year, whereas time deposits rose sharply, up 31.1%. Despite a rotation out of sight deposits and into time deposits, amounts due in respect of customer deposits fell by 8.5% overall. There was a significant decline among the big banks, presumably due to large outflows of customer funds from Credit Suisse. The volume of domestic lending rose slightly once again, by 3.3%, thanks to a 3.7% increase in mortgage loans, which reached a new high of CHF 1,152.5 bn. Other loans, both secured and unsecured, inched up by 1.1%. As in 2021, the cantonal banks had the largest share of the domestic mortgage market (38.3%), followed by the big banks (26.1%).

3.1 Trends in 2022

Balance sheet trends by bank category

The aggregate balance sheet total of all banks in Switzerland fell by 6.9% in 2022. The big banks posted the largest year-on-year decrease in absolute terms, which was responsible for just under 80% of the total. With growth of 4.8%, the cantonal banks were one of the few categories to record an increase. The big banks once again had the largest share of the aggregate balance sheet total with 41.2% (2021: 44.0%; 2020: 45.2%).

Figure 10

Balance sheet total by bank category

In CHF bn

Group of banks	2021	2022	Change	Share
Cantonal banks	725.6	760.6	4.8%	22.8%
Big banks	1,578.1	1,376.0	–12.8%	41.2%
Regional and savings banks	118.0	120.2	1.9%	3.6%
Raiffeisen banks	284.5	280.6	–1.4%	8.4%
Foreign banks	370.5	315.1	–14.9%	9.4%
Private bankers	7.3	7.4	0.9%	0.2%
Stock exchange banks	269.7	250.1	–7.3%	7.5%
Other banking institutions	234.1	229.7	–1.9%	6.9%
Total	**3,587.7**	**3,339.7**	**–6.9%**	**100.0%**

Table: Swiss Bankers Association · Source: Swiss National Bank

Assets

Mortgage loans remain the largest asset item, making up 35.2% of the total. Liquid assets were down by a substantial CHF 226.5 bn in 2022, and thus played a key role in the overall decline. The biggest relative increase was recorded by financial investments (up 29.8%).

Domestic and foreign mortgage loans rose by CHF 39.6 bn, from CHF 1,134.9 bn in 2021 to CHF 1,174.5 bn in 2022. They thus remained the largest asset item for banks in Switzerland last year with a share of around 35.2%, making up more than a third of the total for the first time. The strong growth in mortgage loans is due to the fact that they were rising while balance sheets were being shortened as a result of a sharp (29.8%, CHF 226.5 bn) fall in liquid assets, which are now only the third most important asset item after amounts due from customers. The sharp drop in liquid assets corresponds to a marked (28.5%) decline in banks' sight deposits at the SNB, the biggest fall in a decade. It was prompted by the sale of foreign currencies by the SNB, the higher policy rate and the resulting increased opportunity costs of holding liquidity, along with increased liquidity requirements at Credit Suisse. Only the cantonal banks, which recorded large inflows of new money in 2022, kept their sight deposits at the SNB stable.[42] All other bank categories posted a sharp decline, with the stock exchange banks in particular cutting their sight deposits by almost half compared with the previous year.

Figure 11

Breakdown of assets

In CHF bn

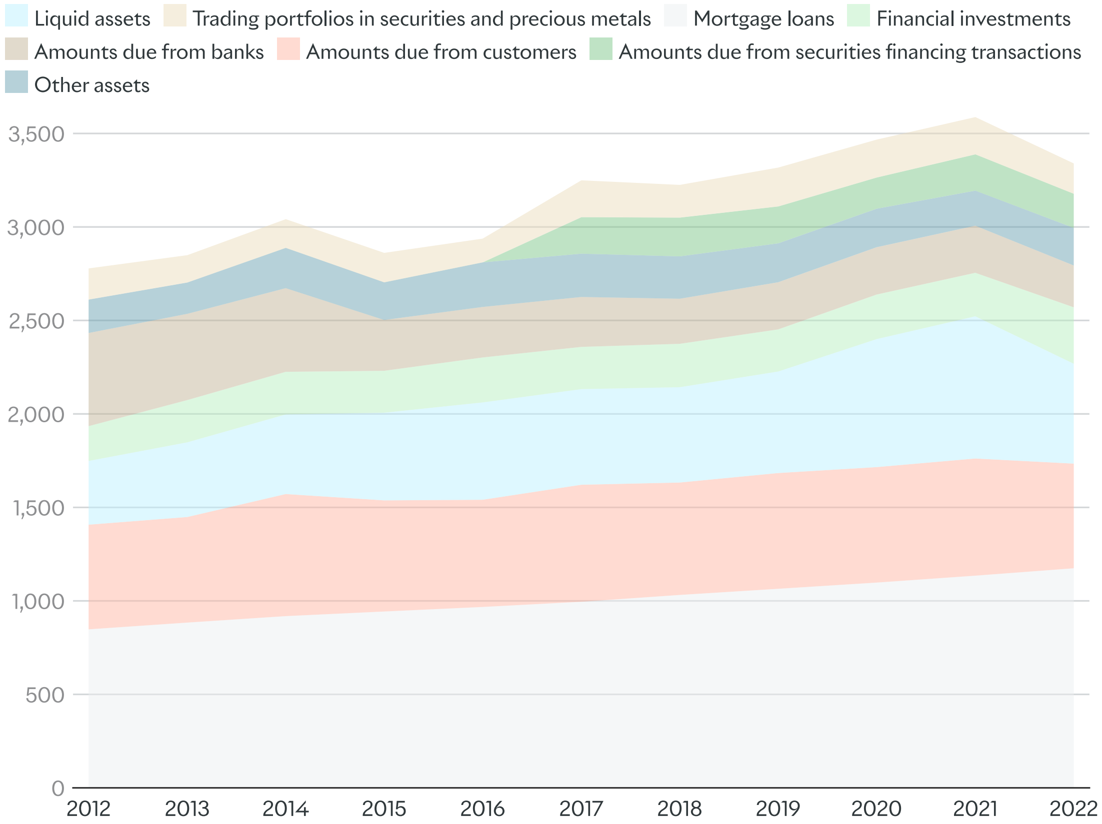


Chart: Swiss Bankers Association · Source: Swiss National Bank

[42] https://www.kantonalbank.ch/de-CH/News/2023/VSKB-Jahresabschluss-KB-2022?aliaspath=%2fNews%2f2023%2fVSKB-Jahresabschluss-KB-2022

Figure 12

Development of assets

In CHF bn

Position	2021	2022	Change	Share
Liquid assets	760.6	534.1	–29.8%	16.0%
Trading portfolios in securities and precious metals	199.5	162.3	–18.6%	4.9%
Mortgage loans	1,134.9	1,174.5	3.5%	35.2%
Financial investments	232.6	301.8	29.8%	9.0%
Amounts due from banks	251.9	223.9	–11.1%	6.7%
Amounts due from customers	626.6	559.7	–10.7%	16.8%
Amounts due from securities financing transactions	194.0	182.7	–5.8%	5.5%
Other assets	187.6	200.8	7.0%	6.0%
Balance sheet total	**3,587.7**	**3,339.7**	**–6.9%**	**100.0%**

Table: Swiss Bankers Association · Source: Swiss National Bank

Amounts due from customers fell by CHF 66.9 bn or 10.7% in 2022. One notable change is the decline in amounts due from customers abroad, which dropped by CHF 68.9 bn (15.5%). Making up 16.8% of total assets, amounts due from customers now constitute the second-largest asset item. Amounts due from other banks likewise fell sharply, by CHF 28 bn to CHF 223.9 bn, a decline of 11.1%. This was the result of a 27.5% drop in amounts due from foreign banks and a CHF 15.9 bn (17.4%) increase in amounts due from domestic banks. Amounts due from securities financing transactions declined by 5.8% in 2022, to CHF 182.7 bn. The biggest increase was in the "financial investments" asset item, up CHF 69.2 bn or 29.8% due to a big rise in domestic (up CHF 50.5 bn or 50%) and foreign financial investments (up CHF 18.7 bn or 14.2%).

Breakdown of assets over time

The breakdown of assets has changed markedly over the past decade. Liquid assets shot up from CHF 340.8 bn in 2012 to CHF 760.6 bn at the end of 2021 – despite negative interest rates. This was due to a number of factors: the SNB's interventions to counteract the Swiss franc's strength played a key role as the bank's purchases of foreign currencies caused counterparties' sight deposits denominated in Swiss francs to increase. Additionally, low interest rates made the opportunity cost of holding cash minimal, so the banks placed large quantities of it in sight deposits with the SNB. The year 2022 saw a turnaround, with the liquid assets item declining markedly for the first time.

Domestic and foreign mortgage loans also grew steadily between 2012 and 2022, from CHF 847.9 bn to CHF 1,174.5 bn), thereby climbing from 30.5% of total assets at the end of 2012 to 35.2% at the end of 2022. Many years of low interest rates have led to larger numbers of properties being sold at higher prices.

Amounts due from banks made up 17.9% of total assets in 2012, but by 2022 this figure had fallen to just 6.7%. One reason for this was the banks deliberately scaling back this asset item in order to reduce inter-dependencies with other institutions.

Domestic lending volume

The volume of domestic lending increased by around 3.3% in 2022. Mortgage loans, most of which are granted to private households, make up the bulk of the Swiss lending business with a share of 86.2%.

The volume of outstanding domestic loans came to CHF 1,337.1 bn in 2022, with CHF 184.6 bn attributable to secured and unsecured loans to customers (corporate, public-sector and consumer loans) and CHF 1,152.5 bn to mortgage loans. Overall domestic lending was up 3.3% over the year, a level of growth comparable to that of previous years. Total mortgage loans have increased by CHF 318.1 bn since 2012, with their share of domestic lending rising from 83.4% to 86.2%. While unsecured loans grew by CHF 3.2 bn in 2022, secured loans fell slightly by CHF 1.3 bn.

Figure 13

Domestic lending volume

In CHF bn

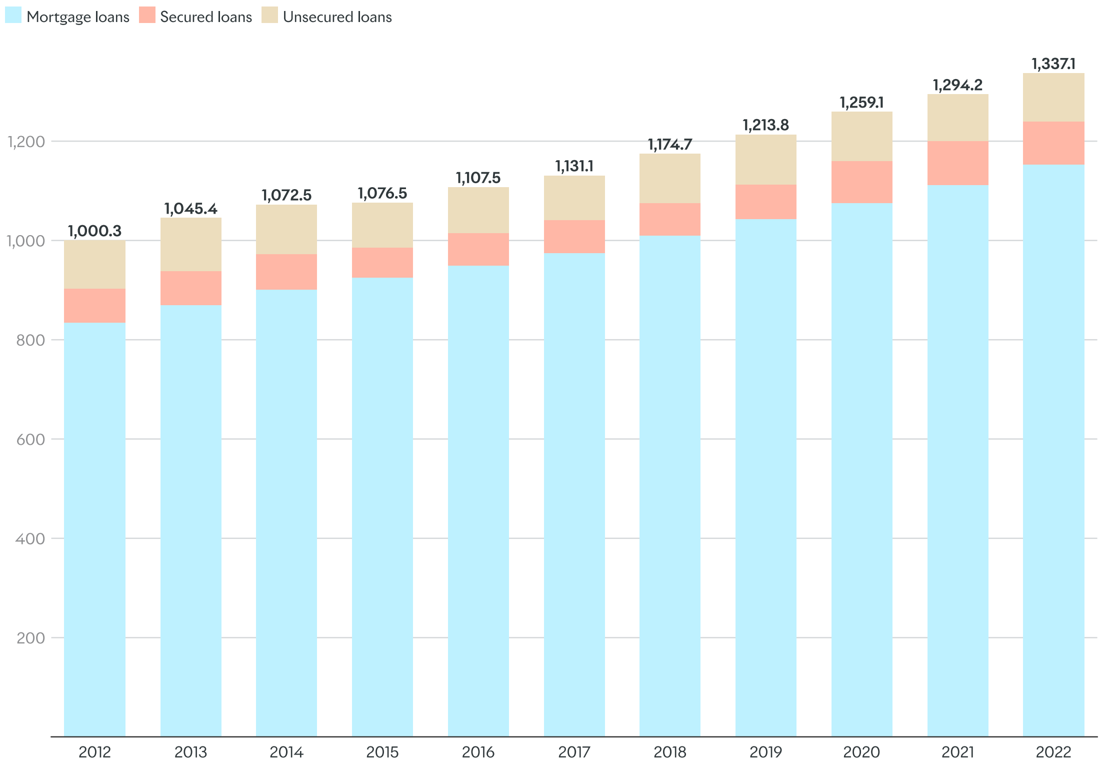


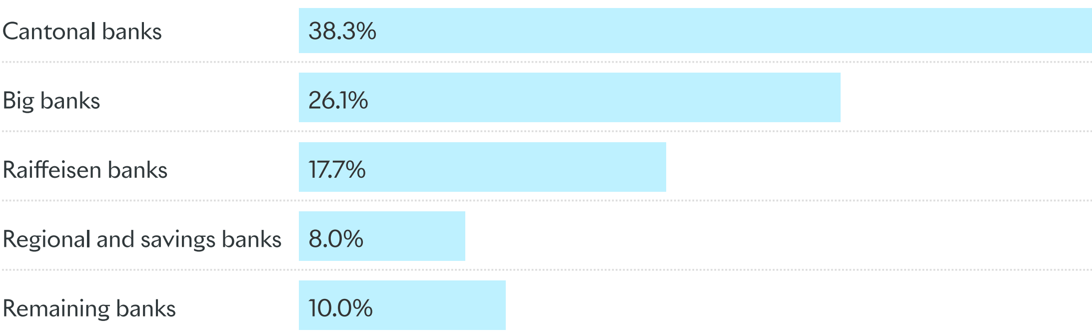
Chart: Swiss Bankers Association · Source: Swiss National Bank

Total outstanding mortgage loans increased by 3.5% in 2022, to CHF 1,174.5 bn. The vast majority of this (CHF 1,152.5 bn) was attributable to domestic customers. Fixed-rate mortgages accounted for 77.0%. The average interest rate on outstanding domestic mortgage loans has risen from 1.17% to 1.33% in 2022.[43] Mortgages with a term of more than five years have become more popular over time, their share rising from just 19.3% in 2012 to 27.1% by 2022. In terms of volume, 59.2% of all new mortgages were granted to private households at the end of 2022. In the fourth quarter of 2021 that figure stood at 66.7%. The decline in the proportion of new mortgages for owner-occupied properties in 2022 compared with 2021 is especially marked.

[43] https://www.bwo.admin.ch/bwo/de/home/mietrecht/referenzzinssatz/entwicklung-referenzzinssatz-und-durchschnittszinssatz.html

Figure 14

Shares of domestic bank mortgage market in 2022



Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss National Bank

The cantonal banks' overall share of the domestic mortgage loan market was 38.3% at the end of 2022, roughly in line with the year-back figure. They were followed by the big banks with 26.1%. In recent years, the cantonal and Raiffeisen banks in particular have increased their shares of the domestic mortgage loan market, whereas the big banks and the regional and savings banks have lost market share.

Broken down by lending group, 93% of domestic mortgage loans were categorised as senior in 2022. This group comprises mortgages covering up to two thirds of the property's market value. No relevant differences between the various bank categories were discernible. The high share of senior mortgages probably indicates that mortgage lenders are continuing to pursue cautious lending policies. The SBA revised its Guidelines on minimum requirements for mortgage loans in 2019, introducing stricter rules for investment properties.[44]

[44] https://www.swissbanking.ch/_Resources/Persistent/0/e/3/f/0e3fe72b0bdc557fef84893287ece62b37172e4c/SBVg_Richtlinien_betreffend_Mindestanforderungen_bei_Hypothekarfinanzierungen_DE.pdf

Figure 15

New mortgage loan originations

In CHF bn per quarter, loan size

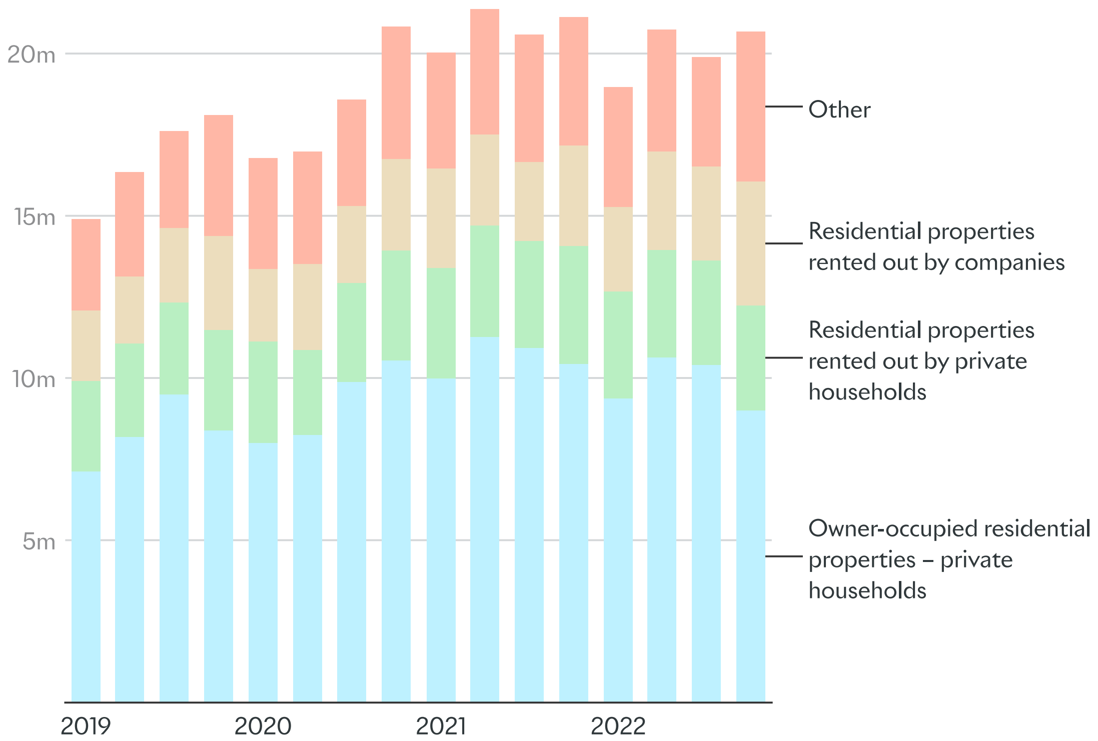


Chart: Swiss Bankers Association · Source: Swiss National Bank

Liabilities

In 2022, amounts due in respect of customer deposits accounted for more than half of all liabilities. There was an increase in time deposits compared with the previous year, while sight and other customer deposit and trading portfolio liabilities were lower.

The balance sheet item “amounts due in respect of customer deposits” – comprising sight deposits, time deposits and other customer deposit liabilities – fell by CHF 176.3 bn or 8.5% in 2022. This item made up 56.5% of the balance sheet total at the end of last year. The decline is due to a sharp drop in sight deposits (down 15.6%) and other customer deposit liabilities (down 10.1%), and the strong growth of CHF 78.1 bn (31.1%) in time deposits was not sufficient to cancel it out.

The fall in sight deposits is only partially attributable to a rotation into time deposits. Much of it was due to outflows of customer funds from Credit Suisse in October 2022. Some of these probably ended up with other bank categories: the cantonal, Raiffeisen, regional and savings banks all recorded a rise in sight deposits in 2022, despite the opportunity costs.

Figure 16

Breakdown of liabilities

In CHF bn

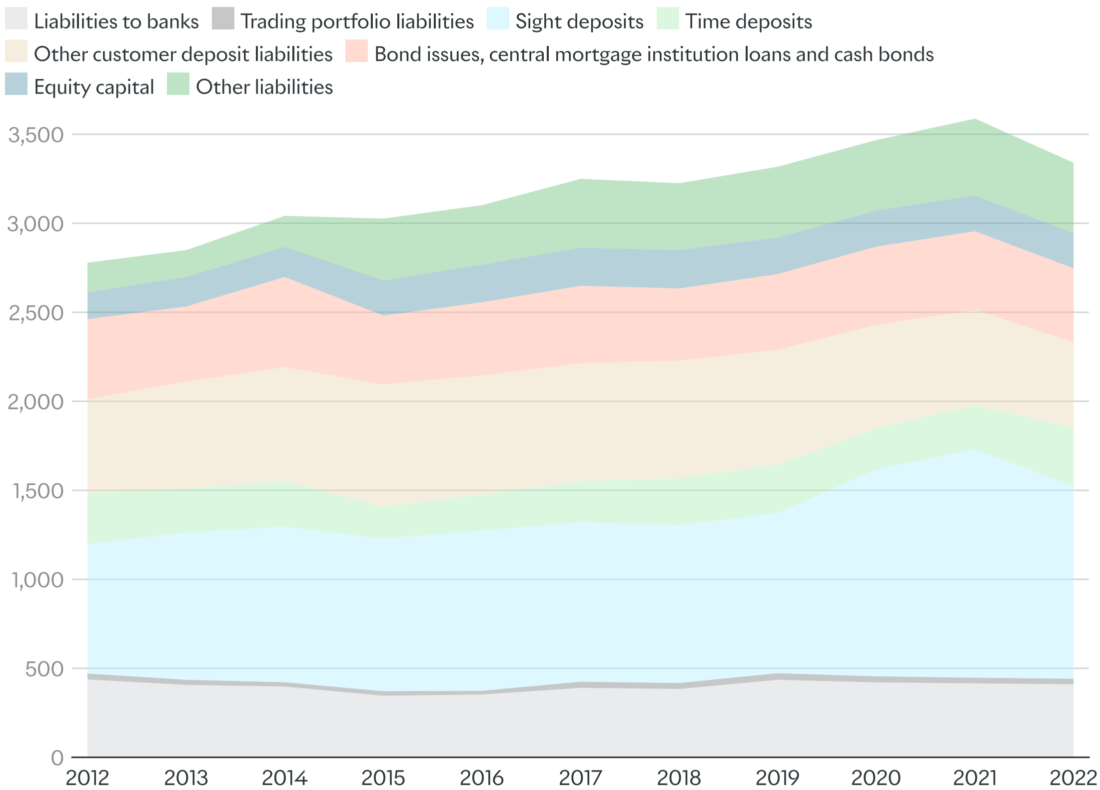


Chart: Swiss Bankers Association · Source: Swiss National Bank

Figure 17

Development of liabilities

In CHF bn

Position	2021	2022	Change	Share
Liabilities to banks	415.5	410.3	−1.2%	12.3%
Trading portfolio liabilities	32.0	31.2	−2.6%	0.9%
Sight deposits	1,281.1	1,080.7	−15.6%	32.4%
Time deposits	251.1	329.2	31.1%	9.9%
Other customer deposit liabilities	532.6	478.6	−10.1%	14.3%
Bond issues, central mortgage institution loans and cash bonds	442.7	416.9	−5.8%	12.5%
Equity capital	200.8	196.7	−2.0%	5.9%
Other liabilities	432.0	396.2	−8.3%	11.9%
Total liabilities	**3,587.7**	**3,339.7**	**−6.9%**	**100.0%**

Chart: Swiss Bankers Association · Source: Swiss National Bank

Amounts due to banks fell by CHF 5.2 bn in 2022, mainly due to a CHF 27.6 bn fall in amounts due to foreign banks. Amounts due to domestic banks grew by around CHF 22.4 bn. Trading portfolio liabilities were CHF 0.8 bn lower at CHF 31.2 bn, while bond issues, central mortgage institution loans and cash bonds were down by CHF 25.8 bn. The decline is primarily the result of a CHF 22.9 bn drop in bond issues and central mortgage institution loans abroad. Domestic bond issues and central mortgage institution loans fell by a much smaller CHF 3.0 bn, while the big banks were predominantly responsible for the drop in the foreign figure. Only the cantonal and big banks hold foreign bond issues and central mortgage institution loans.

Breakdown of liabilities over time

The proportion of liabilities accounted for by amounts due to banks fell from 15.8% in 2012 to 12.3% in 2022. As with the assets side, this shows that interbank business, particularly with banks in Switzerland, has declined over time. During the same period, sight deposits rose from CHF 725.8 bn to CHF 1,080.7 bn. They constituted the largest liability item by far at the end of 2022, with a 32.4% share. In 2022, time deposits accounted for 9.9%, a similar level to 2012, having been well below 10% for most of the intervening years. Low interest rates made time deposits less attractive than sight deposits, leading to a rotation out of the former and into the latter. The situation reversed in 2022 as a result of the interest rate turnaround, with funds flooding back into time deposits.

3.2 Balance sheet total remains unchanged in first half of 2023

The aggregate balance sheet total remained largely unchanged in the first months of 2023, rising just 0.2%. On the assets side, amounts due from customers along with trading portfolios in securities and precious metals declined, while liquid assets and amounts due from banks rose. On the liabilities side, there was an especially sharp fall in amounts due in respect of customer deposits, while amounts due to banks rose.

The aggregate balance sheet total of the banks in Switzerland remained essentially constant at CHF 3,471.8 bn in the first five months of 2023, an increase of just 0.2%.[45] The big banks' balance sheet totals fell, while those of the cantonal and Raiffeisen banks rose, most likely because of shifts in customer funds at Credit Suisse. In 2022, the decrease in the balance sheet total on the assets side was largely attributable to a sharp drop in liquid assets as well as amounts due from banks and customers, while financial investments grew strongly. Liquid assets (up CHF 31 bn or 5.7%) and amounts due from banks (up CHF 25 bn or 9.4%) rose in the first months of 2023. The growth in liquid assets is probably partly the result of higher liquidity requirements at Credit Suisse. Trading portfolios in securities and precious metals (down CHF 13 bn or 8.2%) and amounts due from customers (down CHF 25 bn or 4.4%) recorded sharp falls. Mortgage loans climbed once again in the first months of 2023, increasing by CHF 14 bn or 1.2%. Demand for real estate has dropped in response to higher interest rates, but shortage of supply and a very low level of construction activity are supporting prices.

The decrease on the liabilities side of the balance sheet is primarily attributable to amounts due in respect of customer deposits (down CHF 85 bn or 4.4%), and is a direct consequence of the shifts in customer funds at Credit Suisse, which left the big banks down CHF 67 bn or 10%. The foreign and stock exchange banks[46] also recorded falls. Amounts due to banks, meanwhile, were up CHF 96 bn or 20.2%. The trend seen in 2022, with sight deposits declining and time deposits climbing sharply on the back of positive interest rates, continued in the first half of 2023. Time deposits were up 14.4% (CHF 49 bn), while sight deposits were down a hefty 12.8% (CHF 140 bn).

4. Assets under management

Assets under management by banks in Switzerland fell sharply year-on-year, down 11.2% to CHF 7,846.8 bn at the end of 2022, reflecting the negative performance of the equity markets.

Assets under management for customers resident in Switzerland were down by CHF 445.3 bn, while assets under management for foreign-domiciled customers dropped by as much as CHF 541.1 bn. This translated into a sharp decline of 11.2% in total assets under management at Swiss banks, driven mainly by a marked decrease of 13.9% in securities holdings. Since the latter make up around 87% of total assets under management, the downward trends in fiduciary liabilities and amounts due to customers excluding sight deposits had no substantial impact on the overall result. The breakdown of custody account holdings

[45] Trend based on the SNB's monthly banking statistics.
[46] Sum of the categories "foreign banks", "foreign controlled banks", "branches of foreign banks" and "stock exchange banks".

by currency did not change relative to the prior year. The Swiss franc remained the dominant investment currency with a share of more than 50%. Assets under management had grown progressively overall since 2012, before dropping back in 2022.

4.1 Trends in 2022

Assets under management for domestic and foreign customers

Assets under management at banks in Switzerland fell substantially in 2022 to stand at CHF 7,846.8 bn, down 11.2%, leaving them back where they were in 2019/20. Assets of both domestic and foreign customers dropped, mainly as a result of a sharp decrease in securities holdings in customers' custody accounts at banks.

Figure 18

Assets under management in Switzerland by customer origin

In CHF bn

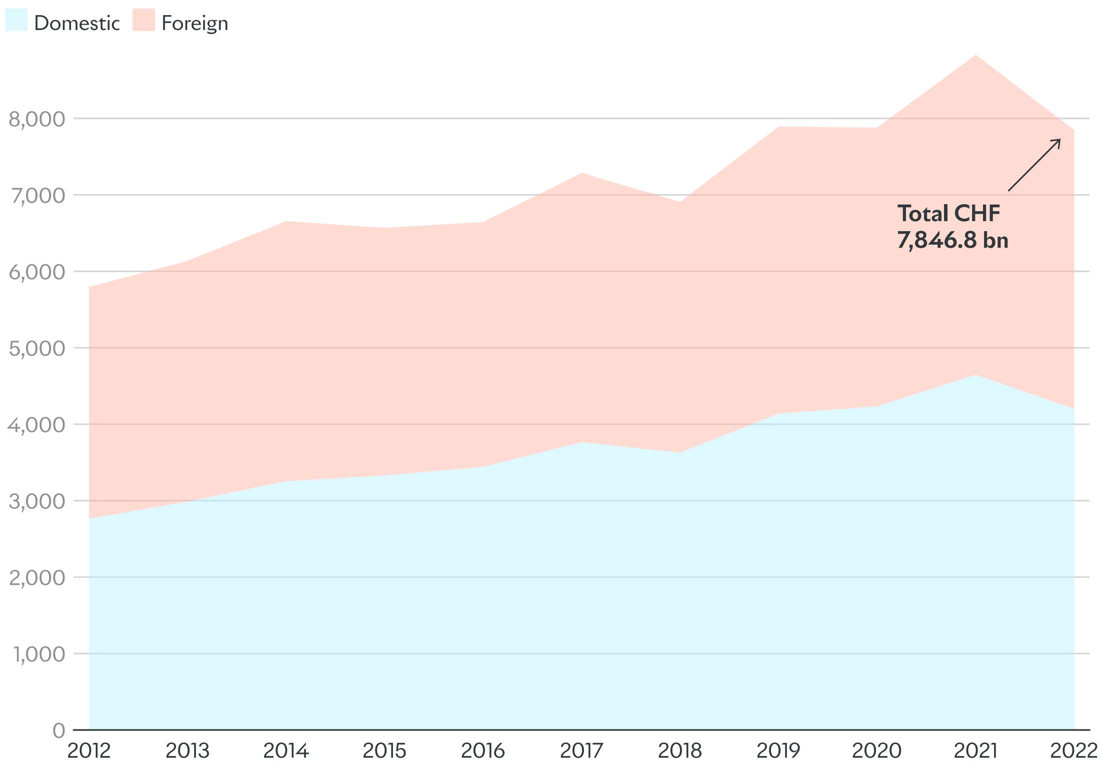


Chart: Swiss Bankers Association · Source: Swiss National Bank

Assets under management comprise securities holdings in bank custody accounts (CHF 6,837.1 bn), amounts due to customers excluding sight deposits (CHF 807.8 bn) and fiduciary liabilities (CHF 202 bn). Securities holdings were around CHF 1,100.8 bn lower year-on-year, largely as a result of the negative market performance. The Swiss Market Index (SMI) lost around 17% in 2022. Fiduciary liabilities, meanwhile, rose by 80.9%, and amounts due to customers excluding sight deposits were up 3.1%. Securities holdings account for the largest share of assets under management by far, so their sharp decline outweighed the positive trend in the other components.

Looking back over the longer term, assets under management at banks in Switzerland have grown substantially overall. When the financial and economic crisis broke out in 2008, it caused a slump in assets under management. Securities holdings in bank custody accounts suffered particularly heavy losses as share prices plummeted. Between 2012 and 2021, however, assets under management clawed their way back from CHF 5,795.4 bn to CHF 8,830.3 bn, before dropping to CHF 7,846.8 bn in 2022 as a consequence of the negative market performance.

The proportion of assets under management attributable to foreign customers fell from 52.3% in 2012 to 46.4% in 2022. There are a number of reasons for this, the main one being currency effects. Foreign customers hold a much higher proportion of their assets in euros and US dollars than domestic customers, but the percentages shown here are calculated in Swiss francs. The firming franc is causing assets held by foreign customers to lose value compared with those of their domestic counterparts. Despite their declining share, foreign customers' assets under management rose by CHF 612.1 bn or 20.2% in absolute terms over the same period.

Figure 19

Composition of assets under management at the end of 2022

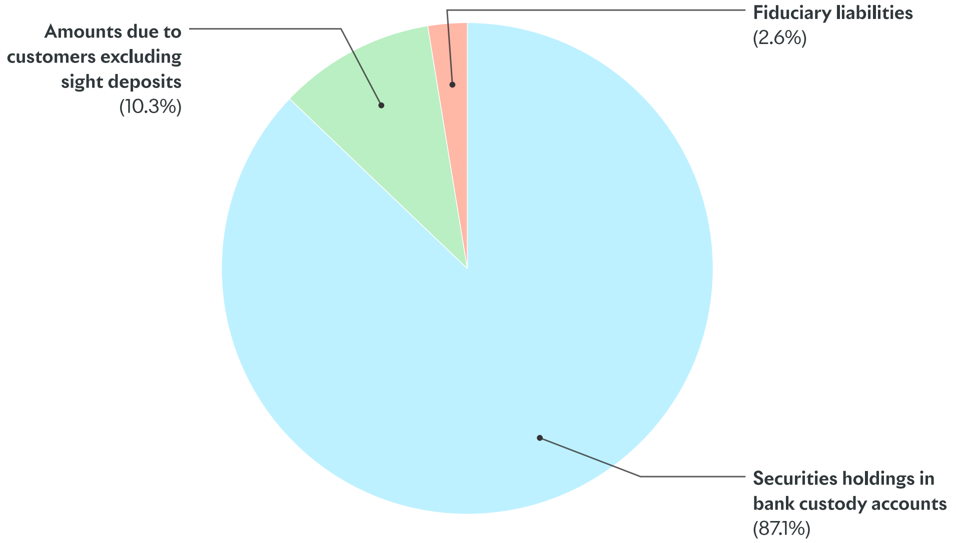


Chart: Swiss Bankers Association · Source: Swiss National Bank

Switzerland was still the world leader in cross-border wealth management for private clients in 2022, with holdings of CHF 2,249.3 bn, a decrease of 6.1% year-on-year.

Securities holdings

Securities holdings account for the largest share of assets under management. Geopolitical uncertainty and a more restrictive monetary policy on the part of central banks in response to higher inflation led to falling share prices in many parts of the world. This prompted a sharp drop of 13.9% in securities holdings.

Securities holdings in bank custody accounts fell sharply (by 13.9%) in 2022. The main reasons for the sharp year-on-year decline are likely to be the geopolitical insecurity surrounding the war in Ukraine, high inflation rates around the world, and the central banks' consequently more restrictive monetary policy. The SMI fell back by 2,100 points (16.7%) over the course of 2022, while the MSCI World Index shed 17.7%. As the year progressed, the franc gained 5.0% against the euro but lost approximately 1.5% against the US dollar.

Securities holdings are broken down into the categories "equities", "units in collective investment schemes", "bonds" and "other". Equities performed worst year-on-year, down 20.9%, followed by units in collective investment schemes, which lost 11.8%, and bonds, down 7.9%. Despite a sharp drop in 2022, securities holdings have recorded strong growth overall since 2012, increasing in value by 41.2%. Since bond holdings decreased during this time, the growth can be attributed to increased holdings of equities and units in collective investment schemes.

Figure 20

Securities holdings in bank custody accounts by category

In CHF bn

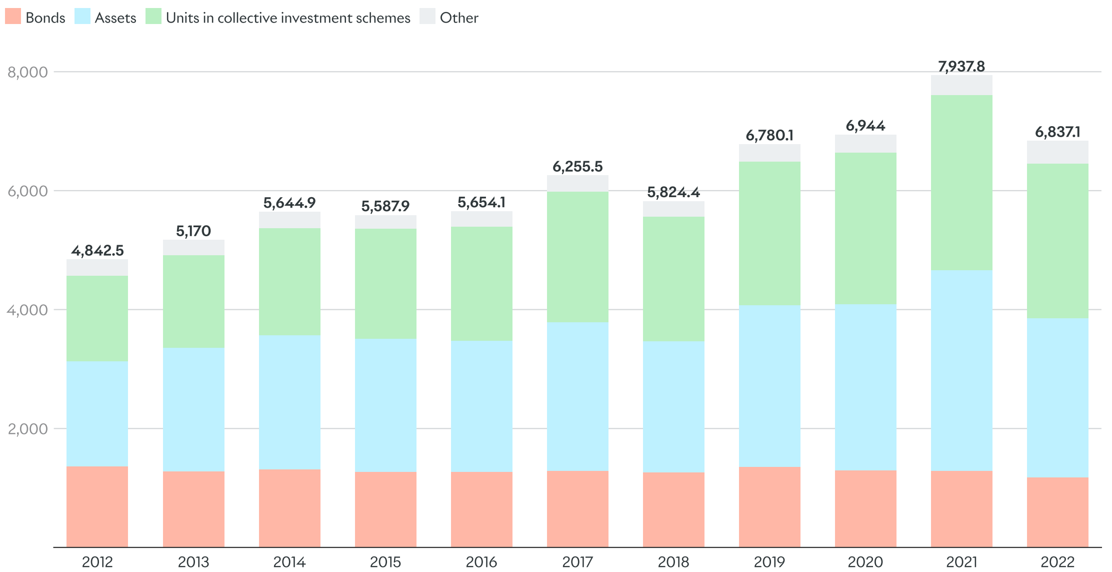


Chart: Swiss Bankers Association · Source: Swiss National Bank

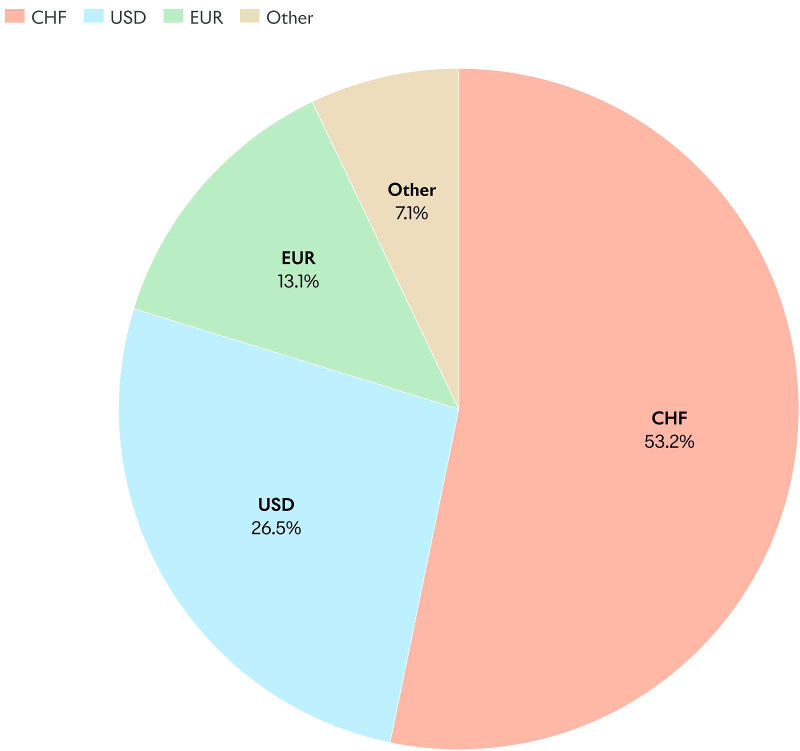
Custody account holdings by currency

The breakdown of custody account holdings by currency was stable relative to 2021, with more than half denominated in Swiss francs at the end of 2022. A quarter were in US dollars, with the remainder, just under a quarter, in euros and other currencies.

The proportion of holdings denominated in Swiss francs crept up from 53.0% to 53.2% in 2022, with the franc therefore remaining the leading investment currency in Switzerland. Only minor changes were observed in the other currencies. The proportion held in US dollars, for example, rose by 0.4 of a percentage point year-on-year, while the proportion held in euros decreased by 0.5 of a percentage point. Domestic custody account holders were responsible for around two thirds of holdings in Swiss francs but just one third of holdings in US dollars and euros, with foreign customers making up the remaining two thirds.

Figure 21

Custody account holdings by currency, end of 2022



Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss National Bank

4.2 Assets under management up after first half year

Following a sharp fall in 2022, assets under management rebounded by 5.5% in the first months of 2023 thanks to 5.3% growth in securities holdings, which was mainly prompted by the positive trend on the stock markets.

The slight improvement in the inflation outlook and the recovery of the equity markets in the first months of 2023 were also reflected in assets under management at banks in Switzerland, which stood at CHF 8,281 bn at the end of May, an increase of 5.5%. The assets of both Swiss-domiciled and foreign-domiciled customers grew thanks to the upbeat stock market trend and the resulting expansion of securities holdings, which rose by CHF 363 bn or 5.3%. Amounts due to customers excluding sight deposits were up CHF 56 bn or 6.7% in the first months of 2023. The increase was driven by domestic customers (up CHF 63 bn or 10.4%), while foreign customers were down CHF 8 bn or 3.6%. Fiduciary liabilities, meanwhile, rose by CHF 16 bn or 7.8%. Assets under management at Swiss banks have staged a marked recovery despite the collapse of Credit Suisse in March 2023. This reflects customers' continuing trust in the Swiss banking centre.

5. Number of staff at banks in Switzerland

At the end of 2022, the banks in Switzerland employed 92,019 people (full-time equivalents), 1,429 more than in 2021. The unemployment rate in the financial sector was slightly lower than that of the overall economy, at 2.0%, having declined compared with 2021.

5.1 Trends in 2022

The number of people employed in the banking sector rose for the third successive year (up 1.6%). The unemployment rate in the financial sector was slightly lower than that of the overall economy at 2.0%.

The banks employed 92,019 full-time equivalents in Switzerland in 2022, up 1,429 or 1.6% year-on-year. The number of staff in the banking sector thus increased for the third year in succession, surpassing the level seen in 2017, although that figure had been preceded by a gradual decline. According to the State Secretariat for Economic Affairs (SECO), the Swiss financial sector's average unemployment rate in December 2022 was 2.0%,[47] slightly lower than the figure of 2.1% for the overall economy. In total, 2,382 banking sector workers were registered unemployed at the end of the year, down 699 year-on-year. The big banks cut 25 jobs in 2022, while banks in the remaining categories added a total of 1,453. This confirms the positive forecast of last year's SBA employment survey of Swiss banks. The increase in headcount was accompanied by a CHF 355.8 mn year-on-year rise in personnel expenses. Looking at the gender split, the proportion of female bank staff remained stable at 38.3% (35,263 full-time equivalents).

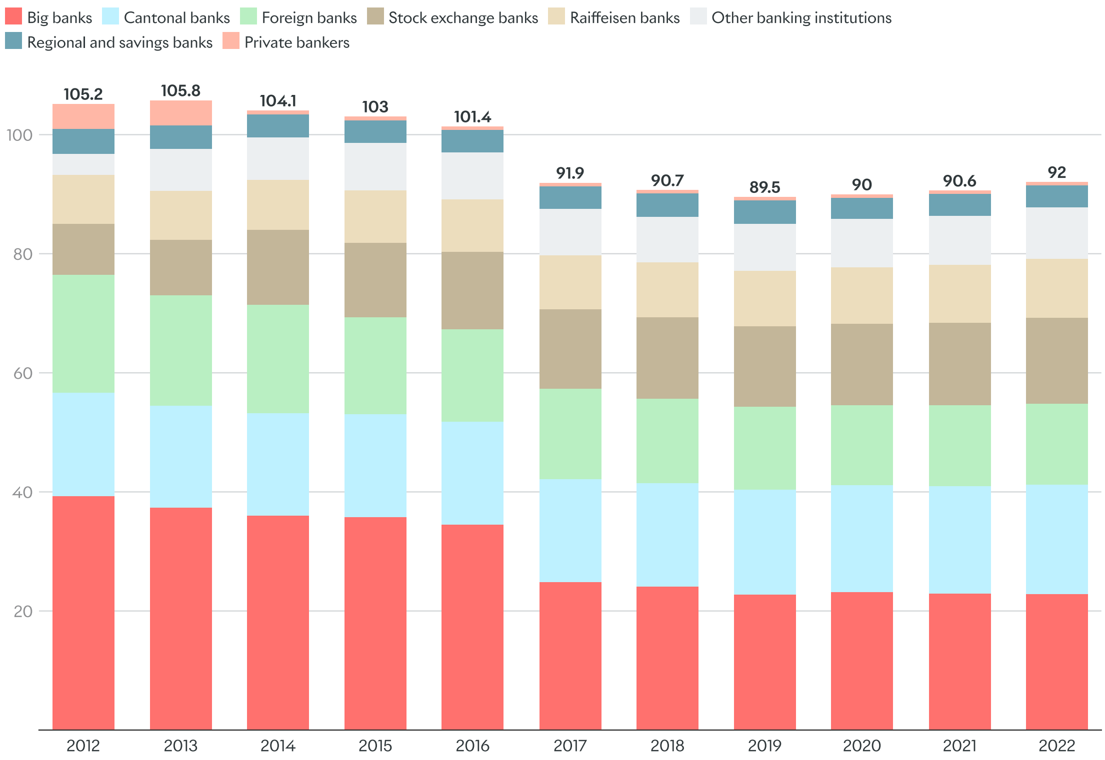
[47] SECO (2022). The situation on the job market in December 2022

As in prior years, the highest proportions of female staff were recorded at the Raiffeisen banks with 44.8% and the regional and savings banks with 44.5%.

Figure 22

Number of staff at banks in Switzerland (domestic)

In thousands of full-time equivalents



Note regarding 2017: one-off effect resulting from the reallocation of staff to a group service company within a big bank.

Chart: Swiss Bankers Association · Source: Swiss National Bank

Figure 23

Employment trends by bank category

In full-time equivalents

Bankengruppe	2021	2022	Veränderung
Kantonalbanken	18'091	18'325	234
Grossbanken	22'914	22'889	–25
Regionalbanken und Sparkassen	3'640	3'689	50
Raiffeisenbanken	9'729	9'901	172
Privatbankiers	553	564	11
Auslandbanken	13'555	13'564	9
Andere Banken	8'264	8'589	325
Börsenbanken	13'845	14'497	653
Total	**90'590**	**92'019**	**1'429**

Chart: Swiss Bankers Association · Source: Swiss National Bank

5.2 Headcount at Swiss banks robust prior to events at Credit Suisse

Headcount fell by almost 2% in the first half of the year, though this was entirely due to developments abroad. The number of staff in Switzerland actually rose slightly, by 0.3%. The outlook for the remainder of the year, though, is uncertain. The banks surveyed were upbeat for the second half of 2023, although the big banks were not included in the poll.

The annual SBA survey of headcount at banks in Switzerland showed a small rise of 297 full-time equivalents or 0.3% between the end of 2022 and June 2023. Foreign headcount, by contrast, declined sharply during the same period: 5,326 employees (FTEs) joined while 8,839 left, a net loss of 3.9%. Media reports indicate that the number of staff departing Credit Suisse outside Switzerland rose in the first half of the year. Swiss banks have always tended to recruit more staff for their foreign operations than for those in Switzerland over recent years, but now for the first time the number of staff abroad has slipped back markedly while the domestic figure has grown.

Figure 24

Number of staff: domestic and foreign

In full-time equivalents	As at 30. June 2023	Trend in the first half of 2023			
		Total change	Change in %	Joined	Left
Domestic	**86,209**	**297**	**0.3%**	**4,203**	**–3,906**
Foreign	86,898	–3,513	–3.9%	5,326	–8'839

Note: number of responses: 133; number of banks polled: 198. The headcount in the SBA survey does not match the SBA statistics. The difference is due in part to the SBA survey's response rate of two thirds overall, with many more responses from banks with a large headcount.

Chart: Swiss Bankers Association · Source: Swiss Bankers Association 2023 survey

Remainder of the year fraught with uncertainty

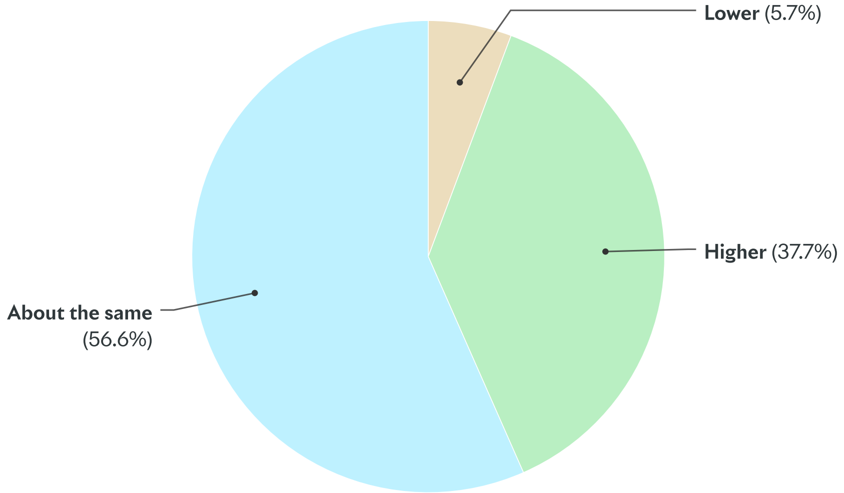
In the SBA survey, 122 of the 198 banks polled expressed a view on the employment outlook for the remainder of 2023: as in previous years, over half expect headcount to stay roughly the same, while a little over a third reckon it will rise. This assessment is consistent with the expectations that the banks surveyed expressed a year ago regarding the remainder of 2022. Its underlying optimism also confirms a trend that has been observable for some years now: since 2013, the proportion of banks expecting their own headcount to fall has steadily declined – with the exception of 2019. This has continued in 2023. Only 5.7% of the banks surveyed now expect a reduction in their headcount in the remainder of the year.

As regards employment in Switzerland, the results of this year's survey are subject to greater uncertainty than those of previous years, and must be interpreted with caution. This is because the views of the big banks were deliberately excluded from the forecast in anticipation of the changes of direction expected following the takeover of Credit Suisse by UBS. It is impossible at this point to gauge how far the takeover will impact headcount in Switzerland, and to what extent any job losses at the big banks can be compensated for by other Swiss banks.

Figure 25

Expected employment trend in second half of 2023

Percentages refer to all responses



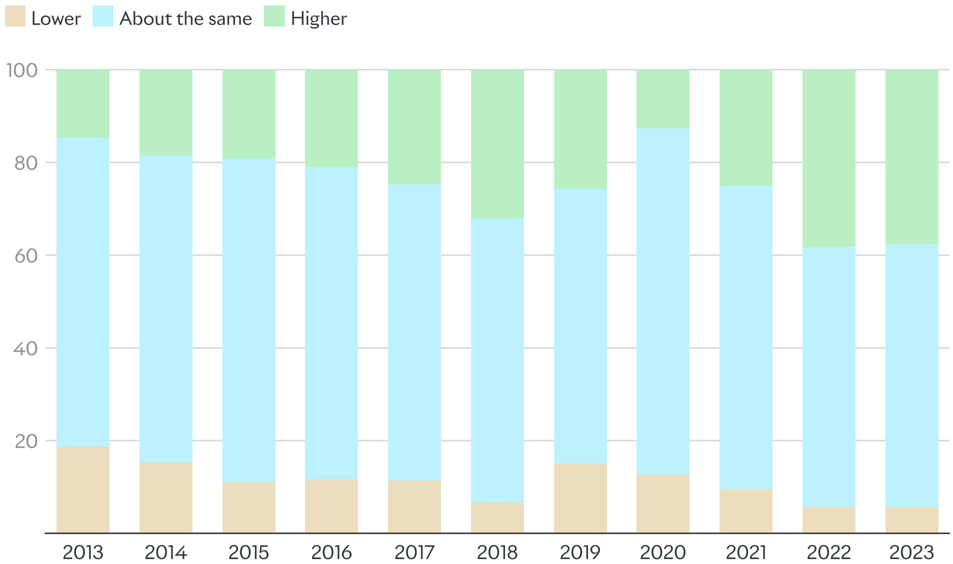
Note: number of responses: 133; number of banks polled: 198

Chart: Swiss Bankers Association · Source: Swiss Bankers Association 2023 survey

Figure 26

Survey results on employment expectations for second half of the year

Percentages refer to all responses



Note: number of responses: 122; number of banks polled: 198.

Chart: Swiss Bankers Association · Source: Swiss Bankers Association surveys

Employment expected to increase in several areas of business

In addition to the general trend, the banks were also asked about the expected employment trend in individual areas of business. An analysis of the responses reveals a generally positive assessment in retail banking and wealth management as well as, to a rather more limited extent, logistics. Meanwhile, the vast majority of respondents (around 90%) expect employment to remain stable in institutional asset management and securities trading. Essentially, therefore, expectations regarding employment in the individual business areas are in line with the previous year.

Figure 27

Employment trend in second half of 2023

Total	Retail Banking	Wealth Management	Institutionelles Asset Management	Trading Activities	Logistics + Operations (Back office)
→ ↗	→ ↗	→ ↗	→	→	→ (↗)

Note: number of responses: 122; number of banks polled: 198

Table: Swiss Bankers Association · Source: Swiss Bankers Association 2023 survey

Financial sector unemployment remains very low in first half of 2023

The unemployment rates for Switzerland as a whole (2.2%) and the financial sector (2.0%) at the end of 2022 were well below the high levels recorded in the pandemic-hit prior years. Over the course of 2023 so far, financial sector unemployment has remained unchanged, at 2.0% in June, while for Switzerland as a whole the labour market recovery has continued, with the jobless total dipping below 2% to stand at 1.9% at the end of June. Demand for skilled staff remains high. The BESTA employment statistics issued by the federal government recorded 6,600 vacancies across the financial sector as a whole in the first quarter of 2023.

6. Swiss Banking Outlook

Upbeat outlook for banks

In its new Swiss Banking Outlook, the SBA outlines the expected trends in selected macroeconomic and financial market indicators and discusses topics with relevance for Swiss banking. The publication is based on the results of a survey of recognised financial market experts from SBA member institutions.

The SBA carried out its first ever survey of financial market experts on economic trends at banks in Switzerland and their views on the current hot topics this year. The Swiss Banking Outlook offers a useful overview of the outlook for the industry in terms of macroeconomic and financial market indicators as well as its general prospects for the future.

It forecasts economic growth of 0.9% and an inflation rate of 2.4% for the year as a whole. A majority of the experts surveyed do not expect the Swiss National Bank (SNB) to hike interest rates beyond the current level of 1.75%. The picture looks more optimistic for 2024, with economic growth expected to reach 1.5% and falling inflation as well as a trend reversal in interest rates anticipated.

Swiss Banking Outlook methodology

In all, 16 seasoned financial market experts from SBA member institutions responded to the written survey on the short- and medium-term outlook for the banking industry. They include chief economists, chief investment officers and leading investment specialists. The participating institutions represent almost two thirds of the aggregate balance sheet total of all banks in Switzerland.

The Swiss Banking Outlook includes a consensus forecast for each of the main macro-economic and financial market indicators as well as expectations regarding opportunities and risks for the banking business in Switzerland and sustainable finance in particular. Its findings were arrived at by a combination of mathematical and discretionary interpretation of a series of statements. The experts' opinions refer in each case to the Swiss banking industry as a whole rather than the performance of their own institution.

The Swiss Banking Outlook survey was conducted for the first time in May 2023 and will be repeated peri-odically.

Following a drop in the Swiss banks' net income in 2022, the Swiss Banking Outlook predicts an increase for this year, driven mainly by a higher result from interest operations. As regards mortgages, meanwhile, the majority of the experts surveyed expect higher interest rates and modest economic growth to lead to a below-average increase in 2023.

Besides rising interest rates, the Swiss Banking Outlook also suggests that the future prospects of banks in Switzerland hinge on further improvements in the customer experience thanks to digital channels and on sustainable finance. Strong growth in volumes is anticipated for sustainable investments in 2023. Risks to Swiss banks' income are seen in particular in the high cost of updating IT systems, the increasing density of regulation and the potential fallout from damage to the Swiss financial centre's reputation.

Economic outlook slowly improving

The Swiss Banking Outlook forecasts economic growth of 0.9% and an inflation rate of 2.4% for 2023, followed by economic growth of 1.5% and a trend reversal in interest rates in 2024.

The Swiss Banking Outlook forecasts growth of 0.9% in Switzerland's GDP for this year. Almost two thirds of respondents expect GDP to grow by between 0.6% and 1.0% in 2023. The rest are split evenly between expectations of slightly higher (1.1–1.5%) and slightly lower (0–0.5%) growth. Respondents estimate that their forecasts are at the upper end of the potential range, meaning that the consensus figure is subject to downside risks.

The survey offers a more optimistic view of 2024, with economic growth of 1.5% predicted. Over 80% of respondents expect GDP to grow by more than 1%, although individual forecasts vary considerably. This reflects the high level of uncertainty with regard to the economic trend and the various risks that could detract from growth, such as the increasing loss of purchasing power and geopolitical instability.

According to the Swiss Banking Outlook, the inflation rate for 2023 will be 2.4%. Three quarters of those surveyed expect inflation to rise to 2.1–2.5% for the year as a whole. The consensus figure for next year is 1.6%. Energy and fuel prices in particular should fall further, whereas rents (based on the reference interest rate) are expected to rise. Overall, however, inflation is set to be lower compared with this year.

At the time of the survey, the SNB's move on 22 June 2023 to hike its headline interest rate by 25 basis points to 1.75% had already been priced in. Fewer than half of respondents were expecting a further hike to 2% or even 2.25% before the end of this year. A similar proportion expect the rate to fall back to 1.5% or 1.25% in 2024, while a third see it remaining at 1.75% at the end of the year. On the whole, however, the financial market experts surveyed share the view that the interest rate curve will flatten in 2024 as inflation eases.

In terms of exchange rates, the Swiss Banking Outlook forecasts continued firming of the Swiss franc, albeit to a lesser extent against the euro than against the US dollar. The forecasts are 0.97 for EUR/CHF and 0.88 for USD/CHF at the end of the year, with practically no change next year.

The Swiss Banking Outlook is optimistic when it comes to the stock market trend. It predicts a level of 11,670 points for the Swiss Market Index (SMI) at the end of the year, which equates to an 8.8% gain across 2023 as a whole. The individual forecasts range from 11,200 (+4.4%) to 12,300 (+14.6%). The moderately positive trend in share prices is likely to continue into next year but will probably lose some momentum. The survey predicts a gain of 5% to 12,258 points by the end of 2024. The SMI has added 6% a year on average since 2017.

Figure 28

Consensus forecasts for economic and financial market indicators

	GDP change in %	Inflation in %	CHF/EUR exchange rate	CHF/USD exchange rate	SMI at year-end
2023	0.9	2.4	0.97	0.88	11,671
2024	1.5	1.6	0.97	0.87	12,258

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 29

Change in GDP

In %

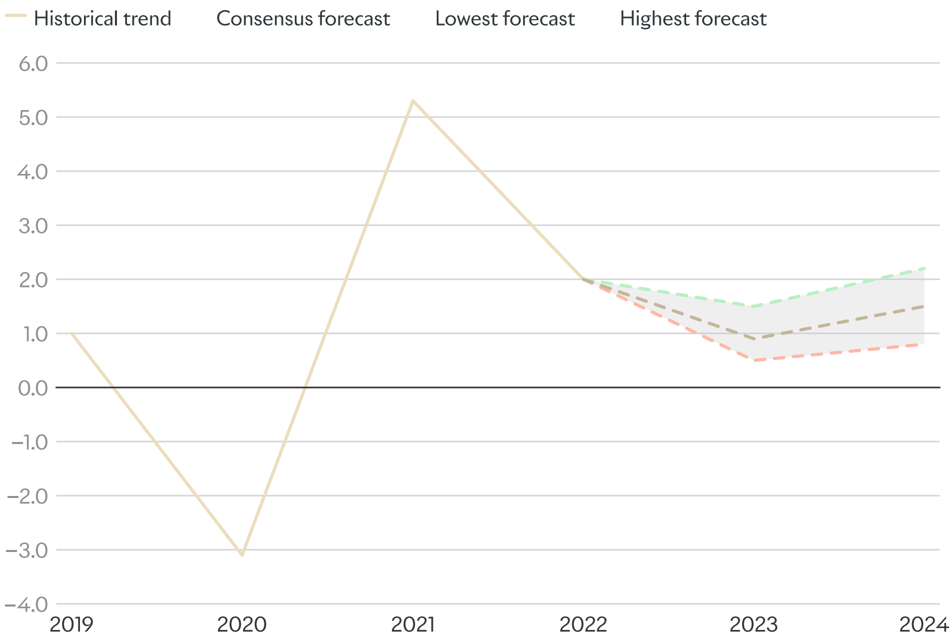


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook, State Secretariat for Economic Affairs

Figure 30

Inflation

In %

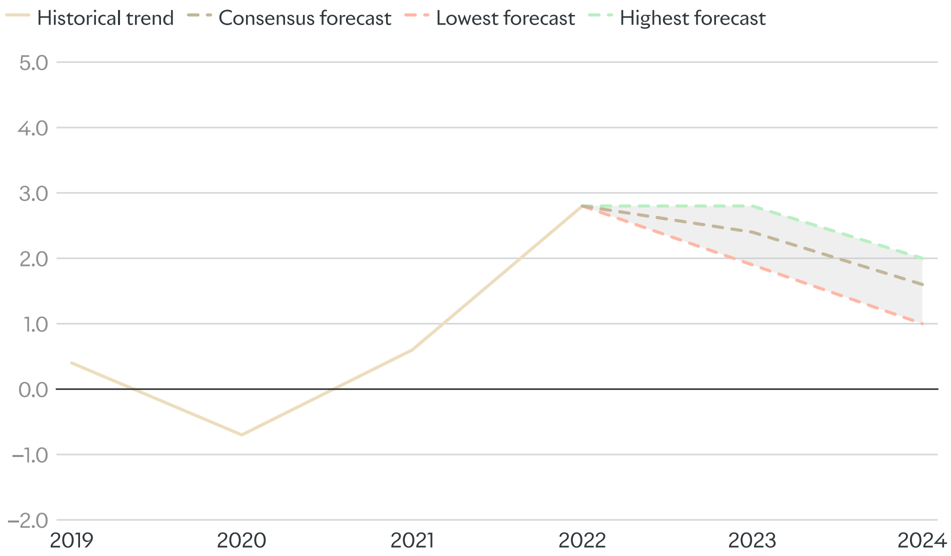


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook, State Secretariat for Economic Affairs

Figure 31

Expected SNB policy rate at year-end

Number of responses

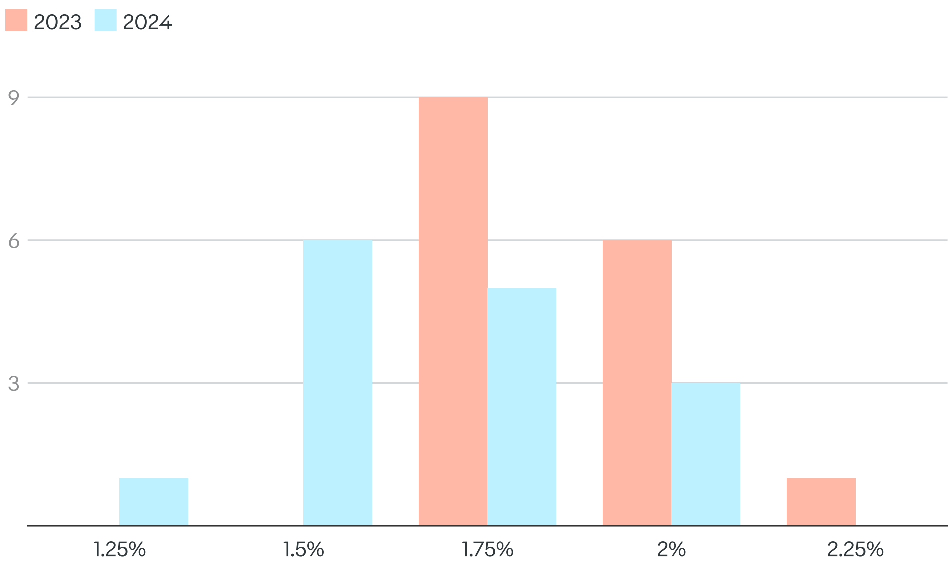


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 32

Swiss Market Index (SMI)

Index level at year-end

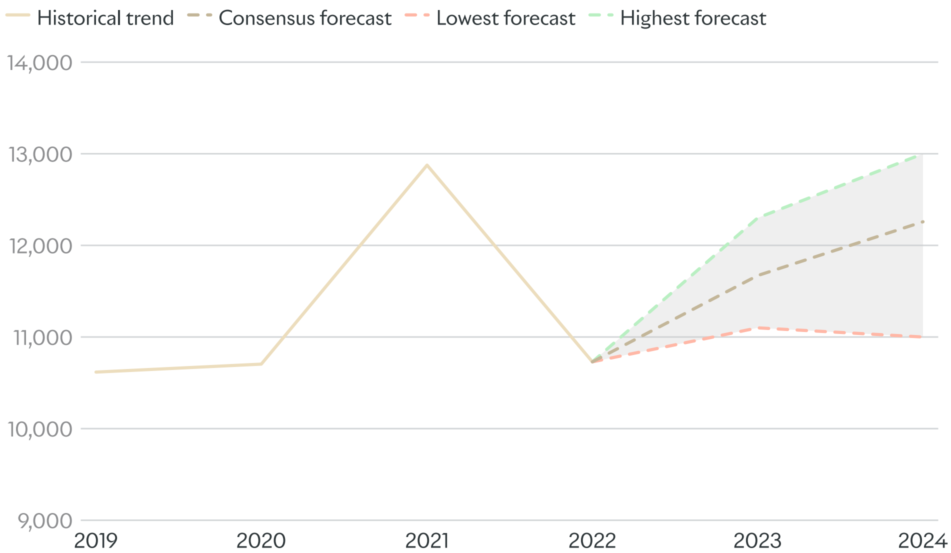


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook, SIX Swiss Exchange

Successful interest operations driving net income

The Swiss Banking Outlook forecasts a year-on-year increase in net income in 2023, driven mainly by a strong result from interest operations. Mortgages, meanwhile, are set to show below-average growth this year.

Following a slight fall in the aggregate net income of the banks in Switzerland in 2022, the Swiss Banking Outlook points to an increase in 2023. A fifth of the financial market experts surveyed expect net income to remain stable, while the same proportion actually expect it to fall. The variance in opinions with regard to net income in 2023 might be due to the considerable uncertainty over the performance of the big banks.

The main driver of the expected increase in net income for this year is thought to be an improved result from interest operations. One explanation for this is the turnaround in interest rates, which has lent a fresh boost to banks' income from their vital interest margin business. The result from interest operations already increased by a small amount year-on-year in 2022, even though negative interest rates persisted for part of the year.

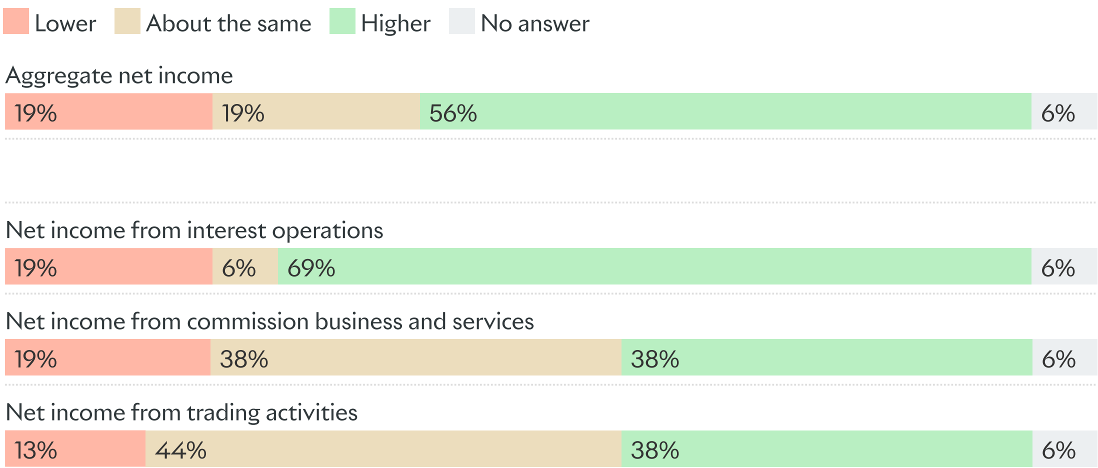
The survey does not show a clear trend in the result from commission business and services or the result from trading activities. Around 40% of respondents expect both to be higher than last year in 2023, while the same proportion expect them to be more or less unchanged. Positive factors cited include more bullish stock markets in the first half of the year and economic growth proving to be somewhat more robust than had been expected before the year began. Negative factors include doggedly high uncertainty over market and economic trends, which is causing customers to take a cautious approach.

The Swiss Banking Outlook forecasts lending growth below the average level from the last five years, particularly for mortgages. The experts blame this on higher interest rates and a modest overall outlook for the economy in 2023. The survey is also restrained with regard to non-mortgage lending, although expectations are more varied here. More than half of respondents anticipate below-average growth, whereas a quarter expect growth to be average. They note that non-mortgage loans are less price-sensitive and that higher demand for corporate loans to secure liquidity is counteracting the fall in demand for consumer and investment loans.

The survey does not provide an unequivocal forecast for assets under management. A quarter of respondents expect a net inflow of new money in 2023, a quarter expect a net outflow, and a third think that inflows and outflows will cancel each other out. The negative opinions are motivated primarily by uncertainty over the impact UBS's takeover of Credit Suisse will have on the asset management business. The survey participants who expect a net inflow of new money, meanwhile, stress that global financial assets are on the increase.

Figure 33

Expected year-on-year trend in net income in 2023



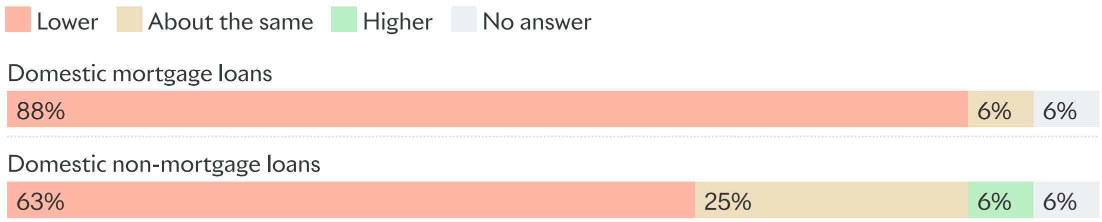
Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 34

Expected growth in lending in 2023

Growth compared with the average from the past five years



Note: The average growth rates between 2018 and 2022 were 3.34% for domestic mortgage loans and 3.26% for domestic non-mortgage loans.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 35

Expected trend in net new money from abroad in 2023

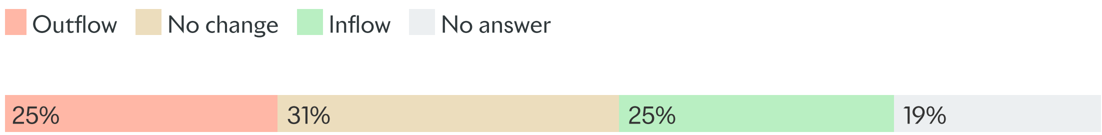


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Digital customer experience and sustainable finance seen as key opportunities

According to the Swiss Banking Outlook, opportunities for Swiss banking over the next 12 months include the digital customer experience, sustainable finance and rising interest rates. Income risks, on the other hand, include the high cost of updating IT systems, the increasing density of regulation and potential damage to the Swiss financial centre's reputation.

The Swiss Banking Outlook cites further improvements in the customer experience thanks to digital channels as well as the expansion of sustainable finance offerings as key income opportunities for the banks in Switzerland. Increased use of digital channels is making access to financial services easier and thus opening up new customer segments to banks. At the same time, customers are increasingly demanding that ESG[48] criteria be factored into investment decisions.

[48] The term "sustainable finance" refers to the practice of factoring environmental, social and governance (ESG) criteria into business or investment decisions. See https://www.swissbanking.ch/en/topics/sustainable-finance.

The survey also shows that rising interest rates and banks' interest margins bottoming out will lead to higher interest income. Another substantial opportunity for banks to increase their income lies in the rotation of investments into securities, which is gaining pace due to high inflation rates. A narrow majority of the experts surveyed additionally believe that the prevailing global uncertainty is making high-margin products more attractive. In an environment fraught with risks, the advice banks provide takes on added importance. On the negative side, changes in valuation as a result of higher interest rates could lead to rotations or contractions in investment portfolios, which would reduce income from commission business and services. Higher interest rates are also depressing growth in lending. The vast majority of survey respondents therefore view monetary tightening and a resulting economic downturn as a risk to income.

According to the Swiss Banking Outlook, the mainstreaming of crypto assets is seen as a negligible earnings opportunity for the banks in Switzerland over the next 12 months. This cautious view can be explained by the hefty losses suffered by various cryptocurrencies in 2022 and the US Securities and Exchange Commission's stricter scrutiny of the leading crypto exchanges Binance and Coinbase.

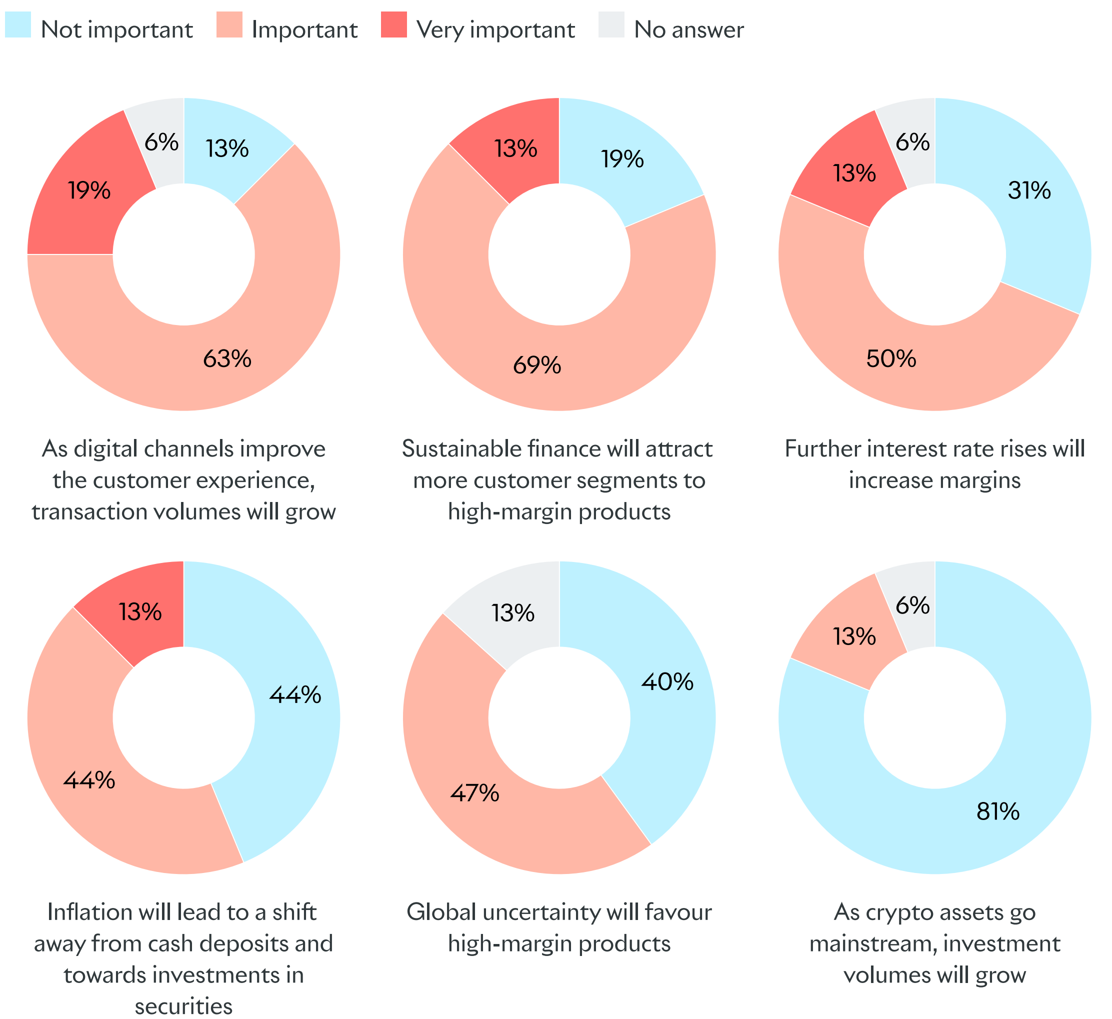
The income opportunities presented by an enhanced customer experience are also reflected to some extent in income risks. The financial market experts view the high cost of updating IT systems as a major risk. Besides expanding digital offerings, strengthening cyber defences and increased use of cloud services are also likely to affect IT spending.

The increasing density of regulation is another significant cost risk for the banks. The experts believe that it is endangering Swiss banks' competitiveness. In sustainable finance, meanwhile, there is a risk that we are seeing a paradigm shift away from a market-driven approach based on self-regulation. On top of this, the collapse of Credit Suisse and its takeover by UBS have raised questions about potential damage to the Swiss banking industry's reputation. The Swiss Banking Outlook confirms that this is seen as a risk.

From a short-term perspective, the view expressed in the Swiss Banking Outlook is that the risks posed by "discount" banks and the increasing number of technology firms gaining a foothold in the financial market are limited. Discount banks do away with conventional relationship banking and in some cases serve different customer segments, so they are not seen as much of a threat to the earning base of traditional banks. As regards technology firms entering the market, the focus to date has been on payment apps. Since these still require a bank account, the banks remain part of the value chain – often serving to guarantee trust, in fact.

Figure 36

Opinions on selected opportunities for the Swiss banking industry

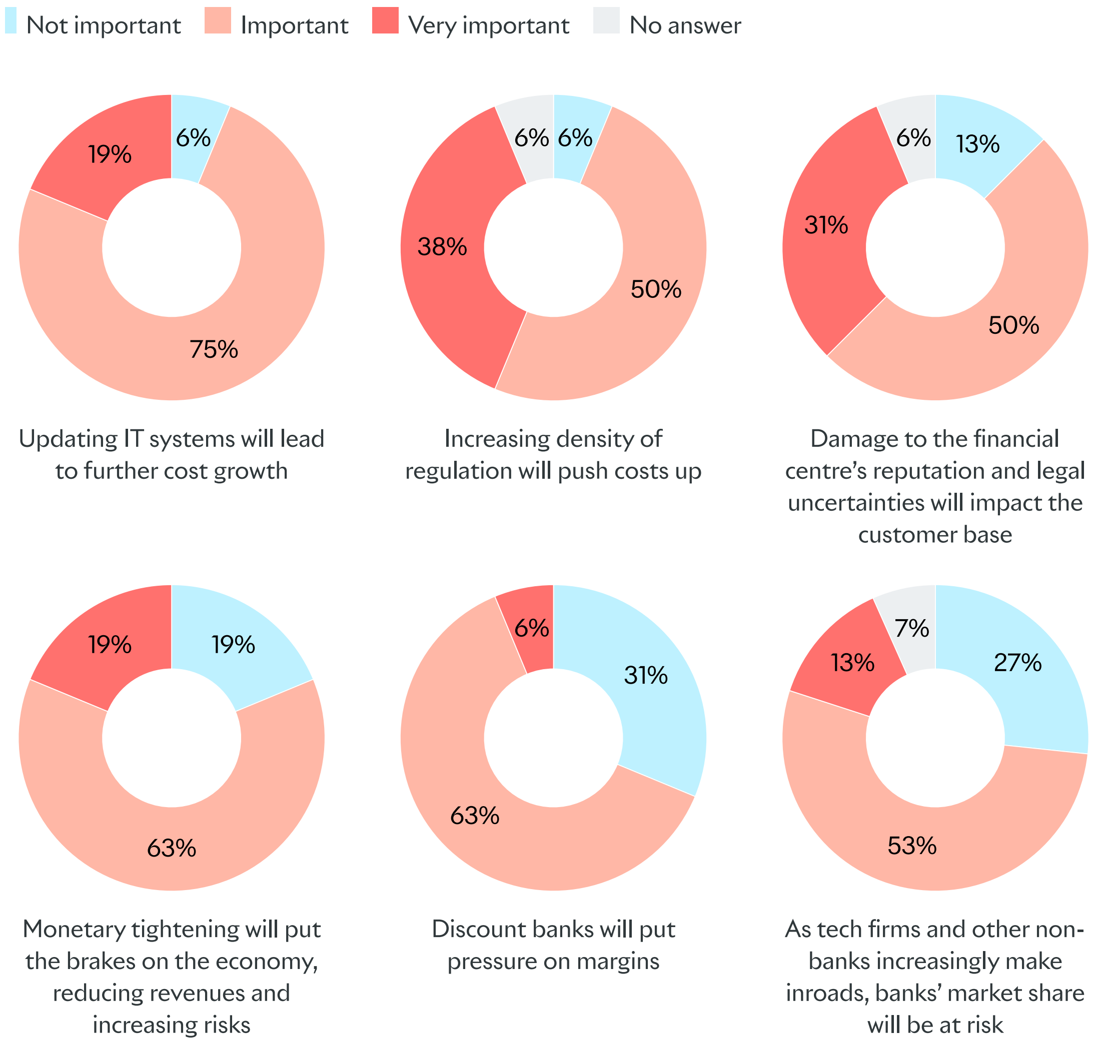


Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 37

Opinions on selected risks for the Swiss banking industry



Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Growth in sustainable finance continuing

Growth in sustainable finance is continuing at a strong pace. Following a temporary setback in 2022, the Swiss Banking Outlook forecasts a return to the long-term trend of high growth rates in sustainable investment volumes, driven by customer demand.

The total volume of sustainable investments in Switzerland fell by 19% from around CHF 1,983 bn in 2021 to just under CHF 1,610 bn in 2022. This was mainly due to the negative market trend. In the wider context, however, the overarching trend is clear: the total volume grew by some 44% a year on average between 2011 and 2022.[49] The Swiss Banking Outlook sees this trend continuing in 2023. Half of the experts surveyed estimate the growth rate at 0–24%, while the other half expect an increase of 25–49%.

In addition to the positive trend on the markets, this growth is being fuelled by persistently high demand for sustainable investments. The survey shows that customers' preferences are responsible for the volume growth, but 75% of the experts also note that changing investment rules and institutional investors considering their reputation are additionally boosting demand. They predict that more and more pension funds, foundations and other institutional investors will become ESG-compliant going forward. They have a key role to play in this trend in view of their huge investment volumes. According to the survey, customers' sustainability requirements are not driven primarily by expected short-term returns but by longer-term concerns about the environment and climate change.

The Swiss Banking Outlook also attributes the growth in part to the reclassification of companies. Around 40% of respondents stated that previously conventional companies moving into ESG-compliant categories – either on the strength of their own efforts or due to changed definitions – are bolstering sustainable investment volumes.

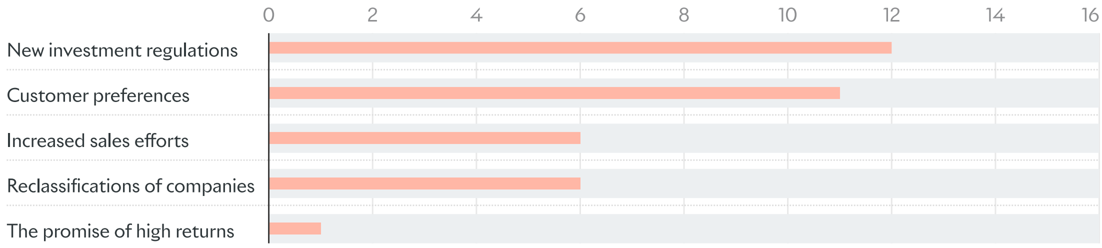
The Swiss financial sector is vital to the federal government's climate and sustainability goals. The banks help their customers to invest more sustainably through advice and innovative products. The strong growth in sustainable investment volumes to date, which is expected to continue, shows that the banks' considerable efforts in terms of systematically recording and responding to customers' ESG preferences are bearing fruit. The self-regulation for financial service providers on integrating ESG preferences and risks into the advisory process, published by the SBA in June 2022, aids the industry by providing minimum standards for accommodating customers' sustainability requirements.[50] Last but not least, the Swiss Banking Outlook shows that growth in ESG products has a positive impact on financial institutions' margins. Demand for sustainable investments is thus in the interests of all stakeholders. It is underpinning growth and helping the Swiss financial centre to build on its reputation as a leading international hub for sustainable finance.

[49] Swiss Sustainable Finance (2023). Swiss Sustainable Investment Market Study 2023.
[50] https://www.swissbanking.ch/en/topics/sustainable-finance/self-regulation-in-sustainable-finance

Figure 38

Drivers of sustainable finance

Number of responses



Note: 16 responses, multiple responses are possible.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

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