SwissBanking

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Banking Barometer 2020

Economic trends in the Swiss banking industry

Content

Executive Summary

The COVID-19 loan programme has provided a clear illustration of the contribution banks make to Switzerland's prosperity. The country is one of the world's leading financial centres and the No. 1 in cross-border wealth management. In 2019 the banks posted a solid performance in a challenging environment. At the end of the year, there were 246 banks operating in Switzerland.

The economic environment in which banks in Switzerland operate continues to present substantial challenges: persistently negative interest rates, restrictions on market access and the economic downturn triggered by the COVID-19 pandemic. Swiss banks have significantly increased their capital and liquidity buffers over recent years, and they are well equipped to handle the current uncertainty.

Part I: The Swiss banking sector

The Swiss financial centre is one of the most competitive in the world and the global leader in the cross-border wealth management business. It also offers a first-class environment for digital innovation, while its regulatory system is recognised internationally as exemplary.

Banks provide COVID-19 loans to bridge liquidity squeezes

The first half of 2020 was dominated by the COVID-19 pandemic and the associated economic downturn. The International Monetary Fund (IMF) is forecasting a 4.9 % contraction in global GDP during 2020. The Federal Council adopted a number of measures to mitigate the economic impact, in which the Swiss banks have a special role to play. Together with the federal government and the authorities, they put together a programme to grant loans backed by joint and several guarantees with a total volume of CHF 40 bn that allowed companies to overcome liquidity squeezes due to COVID-19 quickly and with a minimum of formalities, thus preventing bankruptcies.

Increasing risks associated with negative interest rates

Negative interest rates once again dominated the monetary policy environment last year. At the end of 2019, CHF 187 bn in sight deposits were subject to negative interest rates in Switzerland. The economic policy effectiveness of negative interest rates is increasingly waning, while the risks associated with them are growing. On the property market in particular, there is a risk of bubbles forming, and there is a powerful incentive for the state, companies and households to take on higher levels of debt. The low interest rate environment also poses a significant stability risk for pensions. The Swiss National Bank (SNB) has reduced the direct burden of negative interest rates on the banks by raising the exemption thresholds.

No progress on framework agreement, declaration of intent with UK

Cross-border wealth management for private clients based in the European Union (EU) is a key export sector for Switzerland. However, restrictions on market access are increasingly hampering foreign-oriented banks' efforts to meet legitimate client needs and keep value creation, jobs and tax income in Switzerland. The development of practicable and sustainable market access solutions is closely bound up with the conclusion of an institutional agreement (InstA) with the EU. Negotiations are more or less on hold, though, until the vote on the popular initiative on moderate immigration takes place on 27 September 2020.

Meanwhile, progress has been made on the new arrangements governing relations between Switzerland and the United Kingdom (UK). In a joint declaration of intent, the two nations reaffirmed the goal of an ambitious liberalisation and expansion of mutual market access in the area of financial services. The two nations are planning an initial stock-take on the state of negotiations towards the end of the year. Luxembourg has also recognised the equivalence of the Swiss regulatory framework. These are initial milestones towards unblocking the unresolved equivalence recognition process at EU level.

Swiss financial centre an international hub for sustainable finance

The Swiss financial centre is a pioneer in sustainable finance and on course to become a premier international hub for sustainable financial flows and services. An increasing number of banks are taking part in international transparency initiatives on the risks associated with ESG (environmental, social and governance) factors and expanding their offering of services that take account of ESG criteria as well as green bonds, sustainability bonds and other ESG instruments. Around 30 % of the assets in Swiss investment management are invested sustainably in line with ESG criteria, compared with a global average of 15 %. ESG criteria are also increasingly incorporated into lending processes. In response to customers' need for ESG-compliant investments, the SBA has put together a guideline for the integration of ESG considerations into the advisory process for private clients.

Switzerland is an ideal location for digital innovation

Switzerland offers outstanding locational advantages for fintech firms and has evolved into one of the world's leading fintech centres as regards the blockchain. Zurich and Geneva have retained second and third place in the global fintech hub ranking. There are currently 382 fintech companies in Switzerland, 132 of which are involved in distributed ledger technology (DLT). The Federal Council is working constantly to improve the environment for digital innovation and limiting itself to regulating only where necessary.

It is becoming increasingly rare for customers to obtain their financial products from a single provider: they now shop around to find the best possible combination. This means there is great potential in opening up interfaces to collaboration between banks and fintechs. It is essential that customer solutions continue to be offered jointly and on a market basis, and not be forced on institutions by regulation that bypasses the market.

Switzerland implementing international standards

According to the Swiss Finance Institute's Global Financial Regulation, Transparency, and Compliance Index, the regulation of Switzerland's financial centre is exemplary by international standards.

Switzerland implements international standards, such as the automatic exchange of information (AEOI) that came into force on 1 January 2017, and successfully exchanged tax data with 75 partner states in September 2019. It has now signed AEOI agreements with its most important economic partners and the world's leading financial centres.

The Financial Services Act (FinSA), Financial Institutions Act (FinIA) and the associated ordinances have also come into force. As a result, Switzerland now has a balanced and up-to-date overall framework for investor protection. Revision of the Anti-Money Laundering Act, however, remains up in the air, as Parliament sent the Federal Council's proposal back to the Administration for reworking. The complete revision of the outdated data protection legislation has been divided up into two stages, and the first of these has been successfully completed, ensuring that Switzerland will continue to receive data from European law enforcement agencies in an efficient manner. The second, which involves alignment with the EU's General Data Protection Regulation, is currently being debated in Parliament.

Stamp duty and withholding tax are a major locational disadvantage for the Swiss capital market

Switzerland's stamp duties and withholding tax, which are not replicated anywhere else, are a serious competitive disadvantage for the country's financial centre. In April 2020 the Federal Council opened the consultation on a proposal to reform withholding tax. However, it involves a disproportionately large burden on resources and in some cases, notably for foreign debt securities, will be impossible to implement due to lack of information. The SBA has put together a solution involving a paying agent tax on interest on investments issued in Switzerland that reduces the burden on smaller and medium-sized banks in particular.

Part II: Consolidated trend in Switzerland's banks

Banks in Switzerland recorded a solid business performance in 2019. Mortgage loans and customer deposits grew further, while balance sheet totals rose. Banks managed to increase their net income despite the ongoing burden of negative interest rates. The supply of credit was guaranteed at all times, even in the face of the COVID-19 pandemic. The employment effects of restructurings decreased.

Net income up despite negative interest rates

The net income of the banks in Switzerland rose by 1.1 % year-on-year to CHF 66.1 bn. The result from interest operations grew by 1.0 %, accounting for the bulk of net income despite the low interest rate environment. Banks in Switzerland paid around CHF 1.9 bn in negative interest last year – a similar amount to the previous year, despite the exemption threshold being raised in November 2019. The result from commission business and services is the second-largest contributor to the overall result and rose by 1.7 % year-on-year. Commission income and expense both increased, the former more than the latter. The result from trading activities was down by 9.4 % in 2019. One reason for this is the decline in market volatility in 2019 compared with 2018, which is normally associated with reduced trading activity. The other result from ordinary activities rose by 7.8 %. This positive development is due to an increase in income from participations.

The banks' gross operating profit rose by 4.5 % in 2019. They paid income and profit taxes amounting to CHF 2.2 bn.

Mortgage loans the largest asset item; strong growth in trading portfolio assets

The aggregate balance sheet total of all banks in Switzerland grew by 2.9 % in 2019 to CHF 3,317.6 bn. Mortgage loans rose by 3.2 % year-on-year and were the largest asset item, accounting for 32.1 % of the total. Amounts due from customers rose by 3.0 % in 2019, while amounts due from other banks increased by 4.6 %. Liquid assets grew by 6.5 % year-on-year, mainly due to banks holding higher sight deposits with the SNB.

Trading portfolio assets rose by 18.8 % year-on-year, as a result of the positive trend on the equity market. Switzerland's blue-chip index, the SMI, gained 26 % in 2019, in line with many other leading indices. Financial investments were down 2.9 % year-on-year, largely owing to the revaluation of subsidiaries.

Further slight increase in customer deposits

On the liability side, amounts due in respect of customer deposits rose by 0.3 % and accounted for the majority of liabilities (54.7 %). Sight deposits and time deposits grew by 1.4 % and 3.4 % respectively, while other customer deposits were down 2.6 %. Amounts due to banks were up 13.3 % in 2019, while banks' equity declined by 4.9 %. The banks remain very well capitalised. Trading portfolio liabilities increased by 11.5 %, mainly because of the big banks, whose foreign liabilities rose. Bond issues, central mortgage institution loans and cash bonds were also up by 5.1 %.

Balance sheet totals rising since start of 2020, marked decline in trading
In the first five months of 2020, the aggregate balance sheet total of all banks in Switzerland rose by 6.4 %. Between January and May, liquid assets grew by 20.6 % and amounts due from banks by 15.1 %. Amounts due from customers, amounts due from securities financing transactions and mortgage loans all grew less strongly, by 2.7 %, 4.8 % and 0.8 % respectively. Trading activities, by contrast, fell by a substantial 15.0 %. The sharpest market corrections in liquid assets and trading activities took place between March and May, both being impacted by the SNB launching its COVID-19 refinancing facility and raising the threshold factor, and by the economic developments resulting from the COVID-19 pandemic.

On the liabilities side, amounts due in respect of customer deposits rose by 5.8 %. Sight deposits were up no less than 15.9 %, while time deposits fell by 7.6 %. The main reason for this divergence is probably the impact of the COVID-19 pandemic and the associated SNB measures to supply the banks with more liquidity. Presumably, investors are also holding more of their portfolios in liquid investments because of the interest rate situation and the economic trend.

Amounts due to banks rose by 9.1 % in the first five months of 2020, and equity by 3.6 %. This suggests that banks are building up their reserves so as to be even better prepared for the potential fallout from the pandemic. Trading portfolio liabilities also increased by 7.1 %. This item comprises short positions associated with trading activities, and indicates that investors were banking on falling prices on the exchanges. Bond issues, central mortgage institution loans and cash bonds were likewise up, by 3.4 %, and other liabilities by 9.6 %. This is mainly attributable to a rise in amounts due from securities financing transactions, and also suggests that investors were building up their short positions.

Supply of credit ensured during the COVID-19 pandemic
Banks’ lending business is a key pillar of Switzerland’s economic performance. The supply of loans to companies and individuals in Switzerland remains intact. Overall domestic lending rose by 3.3 % in 2019, to CHF 1,213.8 bn. This figure was made up of CHF 171.1 bn in secured and unsecured loans to customers and CHF 1,042.6 bn in mortgage loans. The latter account for the bulk of loan volume. Secured and unsecured loans grew by 7.6 % and 1.6 % respectively.

Between January and May 2020 mortgage loans rose by 1.3 %. Secured and unsecured loans also grew, by 20.2 % and 5.0 % respectively. This substantial increase is probably attributable to the COVID-19 bridging loans made available by the federal government and banks.

Switzerland the global leader in cross-border wealth management

Despite increasingly strict regulation, Switzerland is the world leader in global cross-border wealth management, with a market share of around one quarter. Total assets under management in Switzerland grew by 13.8 % in 2019, to CHF 7,893.4 bn.

As at the end of May 2020, they had fallen by 5.5 %, mainly because of developments on the exchanges and the associated uncertainty. The SMI plummeted from over 11,000 points to around 8,160 in March, but has since bucked the economic trend by staging a gradual recovery, and broke through the 10,000-point barrier at the end of June.

Employment effects of restructurings declining

At the end of 2019, the banks in Switzerland employed a total of 89,531 people (domestic full-time equivalents), 1.2 % fewer than in 2018. Some of this decrease was due to jobs being transferred to group entities not covered by the banking statistics. However, the effect was smaller than in previous years.

A survey conducted by the SBA showed that headcount was also up slightly in the first half of 2020. Around three quarters of the banks surveyed expect their headcount to remain unchanged in the second half of the year.

Part III: Developments in selected areas of business

At the end of 2019, assets totalling CHF 7.9 tn were under management at banks in Switzerland, a year-on-year increase of 13.8 % mainly attributable to the dynamic market trend. They consist of CHF 1.4 tn of domestic private assets, CHF 2.3 tn of private assets in cross-border customer relationships, and CHF 4.2 tn of assets belonging to companies and institutional customers. Around 30 % of the assets in Swiss investment management are invested sustainably in line with ESG criteria, compared with a global average of 15 %. Corporate banking is essential for a functioning economy, providing companies with financing, transaction services and access to capital markets.

Switzerland is the largest global centre for cross-border wealth management

Wealth management is the jewel in the Swiss financial sector's crown, providing a full range of financial services for private individuals and their wealth. In 2019, banks in Switzerland managed a total of CHF 3.7 tn of private wealth, some 62 % of it held by beneficial owners domiciled abroad. Switzerland is the global market leader in cross-border wealth management worldwide, with a market share of approximately 25 %. Geographically, it does not share borders with the most important wealth management growth markets, and therefore benefits less than other financial centres from the automatic advantages of such proximity. For this reason, Singapore and Hong Kong in particular have seen much stronger growth in assets under management over recent years. Swiss banks have therefore been active at those locations for some time, and are among the leading providers there.

Investment management an important export sector for Switzerland

In recent years, investment management, i.e. professional management of institutional and private assets, has in turn established itself as a mainstay and hallmark of Swiss finance. In 2019, investments totalling CHF 3.9 tn were managed in Switzerland. This is roughly five and a half times the country's GDP. Around a third of this total is managed on behalf of customers abroad. Investment management adds a great deal of value for both the financial sector and the real economy by allocating capital efficiently and ensuring efficient markets and professional management of institutional and non-institutional assets. As a provider of services for other bank segments it is closely linked to wealth management, and forms part of the comprehensive array of services the Swiss financial centre supplies to customers both in Switzerland and abroad. Around 30 % of the assets in Swiss investment management are invested sustainably in line with ESG criteria, compared with a global average of 15 %.

Corporate banking: providing essential services for the Swiss economy
Corporate finance, financial transactions and capital markets are of vital importance for the Swiss economy. Corporate banking is therefore a key component of Swiss banks' business models. This has been demonstrated during the COVID-19 pandemic. The established "house bank model", the SME loan programme and access to the financial markets have ensured that firms are provided with sufficient liquidity and therefore helped to weather the economic turbulence.

Corporate lending volume growing 3.5 times faster than GDP
In 2019, banks in Switzerland granted loans totalling CHF 607 bn to companies in the country and abroad, more than half of that figure to micro-companies with up to 9 employees. Over the last decade, the volume of corporate loans has grown around 3.5 times faster than the Swiss economy. Unlike other countries, Switzerland was not confronted with a credit crunch, either in the midst of the financial crisis or in the current COVID-19 pandemic.

Trading and exporting companies depend on transaction banking
Transaction banking is a key pillar of the globally networked Swiss economy, which is heavily dependent on foreign trade. Banks handle the financial aspects of the flows of goods and services. These may involve everything from simple mass transactions such as credit card payments to bespoke solutions for complex business transactions. For example, domestic companies can use letters of credit supplied by banks to reduce their risks when trading goods globally. In 2019, banks in Switzerland took on liabilities from documentary letters of credit totalling CHF 20.3 bn. For export-oriented companies, trading firms and others, access to such specific bank services is a crucial locational factor motivating them to centre their financing activities here. The difference in interest rates between Switzerland and other markets is also a cost advantage for the country.

Capital market sees high demand owing to COVID-19 pandemic
Whereas SMEs are financed mainly by bank loans and private transactions, larger companies are focused on the capital markets, where they can secure larger volumes, mostly on more favourable terms. In the previous decade, net demand peaked at CHF 11.5 bn per quarter. This has changed recently because uncertainty caused by the COVID-19 pandemic has led to increased demand for financing in both the public and private sectors. In the second quarter of 2020, new CHF bond issues from domestic borrowers amounted to CHF 20.4 bn, with net market demand standing at CHF 13.9 bn. Issuance was thus around twice the historical average, which shows that the Swiss capital market is fulfilling its role as a provider of liquidity, alongside bank loans, even in this challenging situation and thus contributing to the prosperity of Switzerland’s economy. At the same time, however, its role in financing companies remains small by international standards, partly as a result of regulatory disadvantages.

Fig. 1

Swiss banking sector: key figures

	2018	2019	Change YoY
No. of institutions	**248**	**246**	**–2**
Number of staff (full-time equivalents in Switzerland)	**90,660**	**89,531**	**–1.2 %**
in CHF bn			
Aggregate net income	**65.3**	**66.1**	**1.1 %**
Result from interest operations	23.5	23.8	1.0 %
Result from commission business and services	22.0	22.4	1.7 %
Result from trading activities	8.2	7.4	–9.4 %
Other result from ordinary activities	11.6	12.5	7.8 %
Gross profit	**22.2**	**23.2**	**4.5 %**
Taxes paid on revenue and profits	**1.5**	**2.2**	**52.8 %**
Result of the period (annual profit/loss)	**11.5**	**0.8**	**n/a**
Annual profits	12.8	13.1	2.3 %
Annual losses	1.3	12.3	n/a
Balance sheet total	**3,225.0**	**3,317.6**	**2.9 %**
Lending volume	**1,174.7**	**1,213.8**	**3.3 %**
Assets under management in Switzerland	**6,933.6**	**7,893.4**	**13.8 %**
Cross-border assets under management for private customers	**2,277.9**	**2,337.4**	**2.6 %**
Assets under management in investment management	**3,344.2**	**3,896.4**	**16.5 %**
Institutional investors (discretionary mandates and collective investment schemes)	2,161	2,518	16.5 %
Private investors (discretionary and advisory mandates) and advisory mandates for institutional investors	1,183	1,378	16.5 %

Note: The increase in annual losses and the much lower result of the period are mainly attributable to high value adjustments by a big bank following a change in the principles used to value its parent company's participations. The SNB notes that, without this effect, the banks in Switzerland would have posted a profit similar to that recorded in the previous year. For this reason, the changes in the result of the period and annual losses are not shown here. Further details can be found in the box on page 53.

Sources: SNB, SBA, IFZ/Asset Management Association Switzerland, BCG

I. The Swiss banking sector

The banking sector makes a significant contribution to the success of the Swiss financial centre, which is one of the most competitive in the world and is the global leader in the cross-border wealth management business.[1] It also offers a first-class environment for digital innovation,[2] while its regulatory system is recognised internationally as exemplary.[3] Two Swiss cities – Geneva and Zurich – rank 9th and 14th respectively in the Global Financial Centres Index 2020.[4]

At the end of 2019, there were 246 banks operating in Switzerland, two fewer than at the end of 2018. Banks in Switzerland are classified into eight categories: cantonal banks, big banks, regional and savings banks, Raiffeisen banks, foreign banks, private bankers, stock exchange banks and "other banking institutions".

1 BCG (2020). Global Wealth 2020, The Future of Wealth Management – A CEO Agenda
2 Institute of Financial Services Zug (2020). FinTech Study 2020 – An Overview of Swiss FinTech.
3 Mettler A., Ongena S., Basten C., Bürgi, M. P. H. & M. Mishra (2020). Global Financial Regulation, Transparency, and Compliance Index (GFRTCI). SFI Public Discussion Note.
4 Wardle, M., Morris, H. & Mainelli, M. (2020). The Global Financial Centres Index 27.

Fig. 2

The structure of the Swiss banking sector at the end of 2019

	No. of banks 2018	No. of banks 2019	Additions	Reclassifi-cations	Removals
Cantonal banks	24	24			
Big banks	4	4			
Regional and savings banks	60	60			
Raiffeisen banks	1	1			
Foreign banks	97	94		–1	2
Private bankers	5	5			
Stock exchange banks	43	42		+1	2
Other banking institutions	14	16	2		
Total	**248**	**246**	**2**		**4**

Note: Additions are institutions that are either newly established or have obtained a banking licence for the first time. Reclassifications are existing banks that have been reallocated to another bank category. Removals are banks that are no longer included in the bank statistics owing to mergers or other events.

Source: SNB

I. 1 The economic impact of COVID-19

The first half of 2020 was dominated by the consequences of the COVID-19 pandemic. From January onwards, the spread of the coronavirus increasingly became the focus of attention among politicians and the public at large, and at the end of the month the World Health Organization (WHO) declared it a Public Health Emergency of International Concern. In February, the Swiss Federal Council declared a "special situation" in accordance with the Epidemics Act, upgrading this on 16 March to an "exceptional situation". For the first time since the Second World War, the Federal Council governed the country for an extended period and with wide-ranging measures under emergency legislation.[5] The Federal Council formally ended the exceptional situation on 19 June.

5 Federal Council (2020). Coronavirus: Federal Council declares 'extraordinary situation' and introduces more stringent measures. Media release, 16 March 2020.

Restrictions lead to slump in economic activity
The lockdown, involving restrictions on travel, a ban on large gatherings, the closure of schools as well as publicly accessible facilities such as shops, restaurants, hairdressers, ski resorts, etc., led to a marked slowdown in economic activity. Around the world, countries enacted measures that were similar and in some cases even more far-reaching. Since all the major industrialised nations were affected, along with the manufacturing industries in East Asia, this initially resulted in disruption to global supply chains and a protracted worldwide demand shock. The International Monetary Fund (IMF) is therefore forecasting a 4.9 % contraction in global GDP during 2020 – the sharpest economic decline worldwide since the Second World War. For Switzerland, the State Secretariat for Economic Affairs (SECO) is expecting GDP to fall by 6.2 % in 2020, the strongest economic downturn since 1975, but is predicting a moderate recovery in 2021.

SECO also reported a 2.6 % decline in Swiss GDP in the first quarter of 2020, with the service sector hit especially hard owing to the closure of businesses. It saw historic declines in trade (– 4.4 %), accommodation and food services (– 23.4 %), transport and communications (– 5.1 %) and the healthcare sector (– 3.9 %). Employment fell by 0.2 % in the first quarter of 2020, the first drop since 2017.

Many companies applied for short-time work because of the corona crisis. The Federal Council expanded the range of individuals eligible for short-time work compensation and extended the validity of authorisations. The number of applications reached a record high in April 2020, pointing to greater turmoil on the labour market than is evidenced by the current unemployment statistics.

Banks and state support the economy
To mitigate the economic impact, in March 2020 the Federal Council adopted a package of measures to bridge liquidity squeezes resulting from the corona crisis. These include interest-free loans of up to CHF 500,000 that are 100 % guaranteed by the federal government. Loans above this amount are 85 % guaranteed by the federal government, up to a maximum of CHF 20 mn per company.

This programme of loans backed by joint and several guarantees with a total volume of CHF 40 bn was developed by the authorities, banks and the Swiss Bankers Association (SBA) working together. It enables the companies affected to access loans quickly and with a minimum of formalities.

The Swiss National Bank (SNB) supports the programme and introduced the temporary standing SNB COVID-19 refinancing facility (CRF). This allows banks to draw liquidity as a covered loan against credit claims arising out of COVID-19 loans. The SNB also increased the threshold factor, which is used to calculate the portion of sight deposit account balances exempted from the negative interest rate, from 25 to 30. Following a request from the SNB, the Federal Council lowered the countercyclical capital buffer (a component of the Basel III regulatory framework) to 0 %, thereby relaxing the capital requirements for mortgage loans. The Swiss Financial Market Supervisory Authority (FINMA) also lowered the requirements for the leverage ratio by temporarily excluding central bank reserves from the calculation of the ratio.

Banks in Switzerland have significantly strengthened their capital and liquidity buffers since the financial crisis and are well prepared for the disruption prompted by the corona crisis. The support measures adopted by the SNB and FINMA are making a valuable contribution to ensuring that the banks can continue to perform in full their important function of supplying credit to the economy, even in these economically challenging times.

At the end of the application period by end of July 2020, a total of 136,142 COVID-19 bridging loans amounting to some CHF 16.8 bn had been granted.[6] That is a considerable service provided by the banking sector to the Swiss economy. Almost half of the loans have been granted to micro-companies with up to nine employees. A further third have gone to small firms with between 10 and 49 members of staff. More than eight francs in ten of the entire loan programme have therefore benefited enterprises in the micro- to small business sector.

6 For further information on COVID-19 loans, see Chapter III.4.4. Data status: 28 August 2020.

These and other federal government support programmes, coupled with an increased financial burden on social services and the economic recession, are leading to an increase in government debt. At the same time, income from taxation is likely to decline owing to weaker economic activity. The Federal Department of Finance (FDF) is forecasting a federal deficit of CHF 30 bn to CHF 40 bn in 2020. Although Switzerland was better placed than other countries from a financial policy perspective going into the COVID-19 crisis, these developments will constitute a major challenge in the coming years.

I. 2 Economic policy environment

Developments in the economic and monetary policy environment have a direct impact on banks' business performance and the dynamics of the financial markets, both of which were already very challenging last year.

Monetary policy and economic environment: extraordinary measures remain in place

Negative interest rates and other exceptional measures in Switzerland and abroad once again dominated the monetary policy environment in 2019. The result was a degree of stabilisation on the markets and in the economy. They did not achieve an actual trend reversal in terms of reaching the inflation target and bolstering the economy, but they did lead to increased risks and a problematic narrowing of the monetary policy leeway.

Since 31 July 2019 the US Federal Reserve (Fed) has reduced the target range for the federal funds rate in a number of steps to 0.25 %. While the focus in 2019 was mainly on the impact of the trade dispute with China on the US economy, the substantial rate cuts in 2020 are a response to the economic downturn associated with the COVID-19 pandemic. As well as reducing interest rates, the Fed has also announced that it will be making unlimited asset purchases and has granted temporary emergency loans to banks. As a result, its balance sheet has grown from USD 4.2 tn in January 2020 to USD 7.2 tn in June. The European Central Bank (ECB) has kept its key refinancing rate unchanged at 0 %. However, in the wake of the COVID-19 crisis it is temporarily offering banks additional subsidised loans, and plans to further improve the conditions of an existing programme of long-term funding for commercial banks at very attractive terms (“targeted longer-term refinancing operations”). It also plans to make additional asset purchases amounting to EUR 120 bn by the end of 2020. It is unlikely that the low interest rate policy will change in the near future.

Furthermore, central bank interventions are likely to result in distortions to the pricing mechanisms on the asset markets, while the liquidity support for companies (corporate bond purchases) will contribute to higher corporate debt levels. Finally, the European Union (EU) faces a further test when it comes to discussions on funding the increased sovereign debt levels of its member states. This will also heighten concerns over the independence of central banks, as they are likely to move towards focusing on fiscal rather than monetary policy objectives. The economy, financial markets and politicians will therefore be dealing with the fallout from the COVID-19 pandemic and seeking to clarify the role of a central bank for some time to come.

In view of the continued upward pressure on the Swiss franc and the negative inflation outlook, the SNB plans to keep negative interest rates in place.[7] However, in the wake of the COVID-19 crisis it has refrained from cutting rates further. The SNB had already announced back in September 2019 that it was planning to adjust the basis for charging the negative interest rate at the start of November 2019. The exemption threshold is now calculated on the basis of the average minimum reserves over the last three years. The calculation is updated monthly. As of 1 November 2019, the threshold was raised to 25 times the minimum reserves, as against 20 times previously. This move by the SNB took account of the persistently low interest rate environment worldwide, and the risks it entails for the banks. In April 2020, in response to the COVID-19 crisis, it raised the threshold factor used to calculate the portion of sight deposit account balances exempt from the negative interest rate further from 25 to 30. At the end of 2019, around CHF 187 bn in sight deposits attributable to the banks and other financial market participants were subject to negative interest rates in Switzerland.[8]

7 SNB (2020). Monetary policy assessment of 18 June 2020.
8 SNB (2020). Annual Report 2019.

The effectiveness of the extraordinary monetary policy interventions to steer the economic trend is waning while the risks of the negative interest rate policy are growing. The SNB is faced with a monetary policy “trilemma”, in which only two of the three objectives – stable exchange rates, free movement of capital, and autonomous monetary policy – can be achieved at the same time. The fact that the SNB has refrained from cutting interest rates further in the current crisis indicates that it regards the effectiveness of such a move as minimal when set against the risks involved. Two recently published studies conclude that an early exit from the interest rate policy would cause the franc to appreciate by between 3 % and 7 %.[9] Raising the inflation target is also cited as an effective alternative to negative interest rates,[10] but there could hardly be a worse time to normalise monetary policy than the current COVID-19 crisis.

Stability risks: financial market regulator focusing on six main areas
In 2019 FINMA published its first Risk Monitor,[11] highlighting what it sees as the most significant risks to the Swiss financial centre and the institutions that FINMA supervises over the next three years. It identifies six principal risks: the low interest rate environment, possible corrections on the real estate and mortgage market, cyberattacks, a disorderly abolition of LIBOR (London Interbank Offered Rate) benchmark interest rates, money laundering, and increased impediments to cross-border market access. FINMA is also monitoring other longer-term trends and risks, specifically climate risks, an ageing society, the increasing individualisation of insurance based on big data, and risks for wealth management in a market with falling values of financial instruments.

9 Fink, F., Frei, L., Griesse, C. Maag, T. & Zehnder, T. (2020). Die Reaktion des Schweizer Frankens auf Zinsänderungen der Nationalbank.
10 Kaufmann, D. (2020). Wie weiter mit der Tiefzinspolitik? Szenarien und Alternativen.
11 FINMA (2020). FINMA Risk Monitor 2019.

There are additional macroeconomic risks for banks arising out of the COVID-19 pandemic. First, the volume of credit defaults is likely to rise. Second, the value of assets under management is declining and increased uncertainty on the markets could dampen customer demand for capital market transactions. Income from wealth management and investment banking is likely to decrease.[12] Banks in Switzerland have substantially increased their capital and liquidity buffers over recent years; they are in sound condition and well equipped to weather the current crisis.[13]

The persistent low interest rate environment is squeezing interest margins and, with them, banks' profitability. This increases the risk of bubbles forming, especially on the property market, and places a fundamental question mark over certain business models. Interest margin business and life insurance with long-term guarantees are now almost impossible to operate profitably. In November 2019, only 21 % of banks were ruling out passing on negative interest rates, compared with around 70 % back in 2015.[14] It is unclear what the reaction would be to the imposition of negative interest rates on the broad customer base of commercial banks.

Negative interest rates punish savers and create powerful incentives for the state, companies and households to take on higher levels of debt. Indebtedness has risen sharply in almost all industrialised nations in the wake of the financial crisis, and will increase further following the COVID-19 pandemic. Government and corporate debt in particular have grown markedly over recent years. Very high debt levels make an exit from the expansionary monetary policy difficult, because of the recession it would lead to. To avoid the damaging impact of sovereign defaults, there is a strong incentive for central banks to maintain negative interest rates.[15]

12 SNB (2020). Financial Stability Report 2020.
13 FINMA (2020). Corona crisis: FINMA sees banks well prepared, operationally and financially. Media release dated 19 March 2020.
14 Ernst & Young (2020). EY Banking Barometer – In the Grip of Monetary Policy.
15 SBA (2019). Negative interest rates: from emergency measure to the "new normal" – and back? A study by the SBA on the effectiveness and consequences of the negative interest rate policy.

The low interest rate environment also poses a significant stability risk for pensions. Pension benefits for occupational pension plans by far exceed the current contributions and returns generated. The existing imbalance between pension benefits for contributors and new retirees will therefore increase. Moreover, despite unattractive interest rates, the expectation of low pensions leads the working population to increase their savings, which reduces the effectiveness of the central bank's interest rate instrument.

Negative interest rates increase the risk of price corrections, especially on the property market. Investors are increasingly prepared to accept lower yields. Record vacancy rates for rental apartments in certain regions point to an oversupply. The banks can absorb the consequences of even a substantial correction. However, it would cause massive fluctuations in the tied assets of insurance companies and therefore the coverage of underwriting liabilities.

Cyberattacks could impair the availability of critical services and functions, which would not only have repercussions for the financial institution concerned but also severely curtail the functioning of the Swiss financial centre as a whole. The reputational damage consequent on a successful cyberattack would also be considerable. The Swiss financial centre must therefore demonstrate that it is not only an especially attractive location for digital finance, but also a secure one.

Cyber security also opens up opportunities for Switzerland. With its innovation-friendly regulation of fintech and outstanding education and training system, it is well placed to establish itself as an education and research hub for fintech and cyber security.[16] At the end of May 2020, the Federal Council adopted the Ordinance on Protecting against Cyber-Risks in the Federal Administration, which came into force on 1 July 2020, thus creating the legal basis for the establishment and expansion of the National Cyber Security Centre (NCSC).

16 Advisory board for the future of the Swiss financial centre (2019). Roadmap Finanzplatz Schweiz 2020+.

Climate change also constitutes a risk to the stability of the financial sector over the medium term, in two ways: physical risks related to a growing number of climate-related claims, with the prospect of significant losses for insurers and reinsurers in particular; and transition risks linked to climate policy measures as well as disruptive technological developments leading to sudden changes in the prices of assets that have not been adequately factored in by the markets. The resulting losses can weigh heavily on the profitability of banks, asset managers and insurers.[17]

Sustainable finance in Switzerland: from pioneer to a premier international hub

The Swiss financial centre is a pioneer in sustainable finance and on course to become a premier international hub for sustainable investments. The term "sustainable finance" refers to financial services that incorporate ESG (environmental, social and governance) criteria into their business and investment decisions for the benefit of clients and society as a whole. Banks' initiatives in this area can be divided into four categories: transparency, investment, credit and financing, and capital market and issuance of financial instruments.[18]

A steadily growing number of banks are participating in international transparency initiatives on risks resulting from ESG factors. Many have also expanded their service offering to take account of ESG factors and aligned their business activities with the principles of international initiatives. A number have integrated ESG criteria into their lending practices; they are also participating in voluntary climate compatibility tests and aligning their business practices with corresponding international initiatives. Finally, Swiss financial institutions have expanded their offering of green bonds, sustainability bonds and other ESG instruments.

17 Bolton, P., Despres, M., Pereira da Silva, L. A., Samama, F. & Svartzman R. (2020). The green swan – Central banking and financial stability in the age of climate change.
18 SBA (2020). Sustainable finance in Switzerland: from pioneer to a premier international hub.

The SBA has put together a guideline for the integration of ESG considerations into the advisory process for private clients.[19] It sets out six principles that will make it easier for financial service providers to meet clients' growing need for ESG-compliant investments and deliver genuine added value for them. In addition to the banks' own initiatives, there is also a need for a political framework that allows the Swiss financial centre to leverage its competitive advantage in sustainable finance. Rules on transparency regarding the risks resulting from ESG factors must be internationally coordinated and principles-based. They must include the entire economy and be commensurate with the size of the financial institution.

To promote the uptake of sustainable investments, the financial centre is reliant on market access, up-to-date investment rules for institutional investors, and tax relief on trading operations. In lending business, there must be no interference between ESG criteria and capital adequacy requirements, nor should there be bans on the financing of activities that are perfectly legal. Finally, the issuance of financial instruments should be granted tax relief to enhance the attractiveness of the Swiss financial centre.

Relations between Switzerland and the EU: ongoing issues around market access and equivalence

According to the Federal Council, the consultation on the framework agreement with the EU (Institutional Agreement, InstA) revealed a need for clarification regarding the provisions on wage and employee protection, state aid and the Citizens' Rights Directive. If a satisfactory solution can be found in these areas, the Federal Council is prepared to sign the agreement. Although the European Commission has signalled that it is prepared to provide clarifications in supplementary declarations, it has ruled out a renegotiation of the framework agreement. However, no progress can be expected until the vote on the popular initiative on moderate immigration has taken place. This "limitation initiative" calls for an end to the free movement agreement with the European Union (EU). It contains a guillotine clause that would also result in the cancellation of all the bilateral agreements from 1999. The SBA is firmly opposed to this initiative.

19 SBA (2020). Guideline for the integration of ESG considerations into the advisory process for private clients.

The framework agreement contains many elements that are advantageous to Switzerland and sustainably strengthens bilateral relations with the EU. Not only will legal certainty be consolidated thanks to reliable and clearly defined processes, but a framework agreement is also needed to maintain – and bring about the urgently needed improvement in – market access for banks in Switzerland.

Cross-border wealth management for private clients based in the EU is a key export sector for Switzerland: the country's banks manage assets totalling around CHF 1,000 bn belonging to clients from the EU, generating tax income of around CHF 1.5 bn per year and employing some 20,000 people in Switzerland.[20] However, restrictions on market access are increasingly hampering foreign-oriented banks' efforts to meet legitimate client needs and keep value creation, jobs and tax income in Switzerland.

The development of practicable and sustainable market access solutions is closely bound up with the conclusion of an institutional agreement with the EU. This was also emphasised in the roadmap for the Swiss financial centre post-2020 that was submitted to the Federal Council. That report also recommends working towards a fundamental improvement in the equivalence recognition regime in terms of more transparent and reliable processes, and conducting a more in-depth analysis of the possibility of an institution-based approach to EU market access.[21]

Owing to the European Commission's view that too little progress had been made on the framework agreement, recognition of Swiss stock exchange equivalence was not extended beyond 1 July 2019. In order to protect the Swiss stock exchange infrastructure, the Federal Council has in turn decreed that trading venues domiciled in the EU can no longer trade in certain equity securities of companies domiciled in Switzerland. This ensures that the Swiss stock exchange remains the reference market for Swiss equities. As a result, the trading volume on the SIX Swiss Exchange rose markedly in the second half of 2019. However, recognition of stock exchange equivalence without a time limit remains key for the Swiss financial centre. The current solution is only second-best and is not beneficial for the Swiss capital market.

20 SBA (2019). Market access for Swiss banks: importance and outlook. SBA background paper.
21 Advisory board for the future of the Swiss financial centre (2019). Roadmap Finanzplatz Schweiz 2020+.

Brexit: UK and Switzerland aiming for mutual market access
The United Kingdom (UK) left the EU on 31 January 2020. There is a transition period until 31 December 2020, during which economic relations between the UK and EU are to be renegotiated. So far, no significant progress has been made in the negotiations. The UK did not take up the option to extend the transition period beyond the end of 2020, which was open to it until the end of June 2020. The risk of a hard Brexit therefore still remains.

As part of its "Mind the gap" strategy, Switzerland moved at an early stage to conclude new agreements with the UK on trade, migration, insurance, and road and air transport. The focus is on securing existing rights and obligations. A second stage ("Mind the gap Plus") will involve efforts to expand collaboration in financial services. With this in mind, the umbrella associations economiesuisse and TheCityUK have published a joint position paper on behalf of over 30 sector associations and organisations from the UK and Switzerland setting out specific concerns regarding the future shape of relations in various key areas.[22] It proposes opening up the markets on the basis of mutual recognition of the relevant financial market regulations and supervisory frameworks.

On 30 June, the UK's Chancellor of the Exchequer Rishi Sunak and Federal Councillor Ueli Maurer signed the "Joint Statement between the Federal Department of Finance and Her Majesty's Treasury on deepening cooperation in financial services",[23,24] which addresses some of those concerns. This forms the basis for ambitious plans to liberalise and expand mutual market access in the area of financial services, including banking services. The goal is to enshrine the essential elements of this in an international treaty within a reasonable timeframe. The declaration of intent also refers to the principle of mutual recognition, which the sector regards as expedient. The two nations are planning an initial stock-take on the state of negotiations towards the end of the year.

22 economiesuisse & TheCityUK (2020). Future-proofing the UK-Swiss financial and related professional services relationship.
23 Federal Department of Finance FDF (2020). Joint Statement between the Federal Department of Finance and Her Majesty's Treasury on deepening cooperation in financial services. https://www.newsd.admin.ch/newsd/message/attachments/61959.pdf
24 Federal Department of Finance FDF (2020) Switzerland and United Kingdom seek closer cooperation on financial services. Media release, 30.6.2020. https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-79678.html

Banking union in Europe faltering – big banks important to Switzerland

Since the financial crisis, banks in the US and China have grown sharply, while in Europe they have shrunk significantly. The differences between the US and Europe are mainly attributable to the former's successful handling of the financial crisis. In contrast, a number of European banks remain in bad shape, and that may well be why efforts to develop an EU banking union are still on hold. The sharp decline in interest margins associated with the continuing low interest rate policy poses major profitability problems for European banks, which are still heavily involved in the interest rate business.[25] The economic downturn linked to the COVID-19 pandemic will likewise do nothing to improve the situation of Europe's banks. Yet without an EU banking union, it will be impossible to create a large pan-European bank.

Switzerland's big banks have also repositioned themselves since the financial crisis and reduced their balance sheets in recent years. However, in the absence of Swiss big banks that provide investment banking services, access for larger companies to the international capital markets depends entirely on foreign countries. This can lead to less attractive financing conditions and a financing risk in times of crisis. Big banks with international reach can also diversify their activities more easily and therefore absorb financial risks. Controlled growth of Switzerland's big banks is therefore central to the Swiss economy. It will allow the banks to fulfil their role in the domestic economy and reinforce the global importance of the Swiss financial centre.[26]

Returns of Swiss pension funds relatively low

The consultancy firm McKinsey compiled a study examining for the first time the investment performance of Swiss pension funds.[27] It shows that their returns are very low by international standards. Between 2008 and 2018, the annual real-terms return of Swiss pension funds averaged 2.4 %, compared with fully 4.1 % for their Canadian counterparts. The performance gap is partly due to exogenous developments specific to Switzerland such as the exchange rate and interest rates, and partly due to Swiss pension funds' size and investment strategy. Despite negative

25 International Monetary Fund (2020). Global Financial Stability Report. Markets in the Time of COVID-19.
26 SBA (2019). Does Switzerland need big banks? Banks in international comparison.
27 McKinsey Switzerland (2020). Making up lost ground – How Switzerland's second-pillar pension funds can improve their investment performance.

interest rates, they invest a large proportion of their portfolio in bonds, while their equity allocation is below the international average. The Swiss pension fund market is also highly fragmented, with over 1,500 active funds, making it impossible for them to capture economies of scale. Further professionalisation of pension funds and adjustments to their investment guidelines would therefore be desirable.

I. 3 Structural change

In common with other sectors, banks find themselves in a constant state of structural change, as their business models, processes and structures adapt to new economic and technological realities as well as changing customer needs. Creative destruction causes outmoded practices to disappear and be replaced by new solutions that boost the sector's productivity and competitiveness.

Switzerland's value added: one franc in ten comes from the financial sector
Despite challenges such as negative interest rates, ever-increasing regulation, digitalisation and greater demands in terms of its competitiveness, the financial sector makes an important contribution to Swiss economic output. In 2018 it generated 9.4 % of Switzerland's gross value added,[28] while at 5.3 %, the sector's growth in value added was above the Swiss average. In addition to this, banks and insurers trigger additional value added in other sectors through their purchase of goods and services and as a result of their employees' consumption. Every franc of value added in the financial sector thus gives rise to around 31 cents of value added in other sectors. The financial sector also generated 12 % of the tax revenues of the Confederation, cantons and communes in 2018.[29] Having been forced by regulatory requirements to adapt their organisational structures, they have transferred staff into group service companies without a banking licence.

28 BAK Economics (2019). Die volkswirtschaftliche Bedeutung des Schweizer Finanzsektors. (Executive summary available in English)
29 BAK Economics (2019). Die volkswirtschaftliche Bedeutung des Schweizer Finanzsektors. (Executive summary available in English)

The banks' direct value added therefore appears to be lower than it actually is.[30, 31] Issues of differentiation also exist, for example in the case of digital platforms (crowdfunding, payment transactions), which are not operated directly by traditional financial institutions – and therefore are not classified as part of the sector's value added – but are very closely linked to it.

Number of employees in the financial sector stable – shifts in demand for specific skills

The trend of transferring staff into group service companies without a banking licence referred to earlier continued, but weakened in 2019. These employees are no longer counted within the banking sector in the statistics, but are instead allocated to the supply sectors. The banking sector's input ratio, in other words the proportion of production value supplied to banks by third-party companies, accordingly rose from 41 % to 51 % between 2011 and 2018.[32] The number of people employed in the banking sector declined by 1.2 % (1,130 full-time equivalent positions) in 2019. Such transfers are likely to continue, making the employment statistics for the banking sector less meaningful.

The new digital technologies are leading to changes in the skills required within the banking sector, with more demand for expertise in IT, credit and risk management, research and product development. In particular, digitalisation is giving rise to a change in the type of skilled labour required and the demands placed on staff in the sector. Basic transversal competencies are becoming much more sought after than specialist skills that are quickly outdated.[33] Competencies related to sustainability issues are also becoming more important, a change that the SBA, as an organisation representing numerous professional profiles, is supporting with a range of measures.

30 See also https://www.swissbanking.org/en/services/blog/a-sector-undergoing-structural-change-and-the-pitfalls-of-statistics?set_language=en

31 Additionally, the value added does not include the consumer surplus. Digitalisation and the intensified competition it brings with it can result in lower prices and therefore lower value added, even though the consumer surplus increases as a result. Qualitative improvements in products and the ensuing greater customer benefit at unchanged prices are likewise not reflected in value added.

32 BAK Economics (2019). Die volkswirtschaftliche Bedeutung des Schweizer Finanzsektors. (Executive summary available in English)

33 Brassel & Partner Consulting (2020). Impact of digitalisation on the employment market in banking. See also Sigg, A., Umbricht, R, Grimm, S. & Kley C. (2017). Zukunftsstudie Bankfachspezialisten 2030. Eine interdisziplinäre Studie der Abteilung Banking, Finance, Insurance und General Management.

In autumn 2019, Employers in Banking, the Swiss Bank Employees Association and the Association of Commercial Employees launched "skillaware", a campaign to encourage bank staff to review their basic competencies and test their employability. Over 9,300 people had taken part by the end of July 2020.[34] The social partners involved in the project want to raise awareness of life-long learning and help bank employees achieve their full potential.

The evolving demands on bank staff also necessitate changes to their basic professional training. With this in mind, the Swiss Conference of Commercial Training and Examination Branches (SKKAB) launched the "Kaufleute 2022" project back in 2018. It examines the impact of an increasingly flexible labour market and digitalisation on the training of commercial employees and draws up a new vocational education and training (VET) ordinance and VET plan based on its findings. The new VET plan is scheduled for implementation from summer 2022. The SBA is liaising closely with the SKKAB on the operational instruments to implement this reform and the shape it will take within the banking sector.

COVID-19 accelerating digitalisation in the Swiss financial industry
Swiss banks adapted their structures and processes swiftly and flexibility in response to the COVID-19 pandemic and were able to supply the economy with liquidity quickly and efficiently via the SME loan programme. They were in a position to do this thanks to continual investments in their own digital capabilities and infrastructure. The crisis has thus underscored just how important digitalisation is for the Swiss financial industry and is likely to accelerate various developments in this area. Six key trends can be identified.[35]

34 Arbeitgeber Banken (2020). https://www.arbeitgeber-banken.ch/aktuell/erste-schweizweite-kampagne-zu-grundkompetenzen-sozialpartner-der-bankenbranche-ziehen-positives-fazit
35 SBA (2020). How does the COVID-19 pandemic accelerate digitalisation? SBA discussion paper.

First, the banks are likely to further increase their speed and scope with regard to developing digital processes without media discontinuity. This requires the increased utilisation of qualified electronic signatures and a state-recognised electronic identity (see Chapter I.4). Second, customer demand for financial products and services via digital channels will further increase. This will require the optimum interplay of personal and digital relationship management. Third, payment transactions will become even more diverse and complex, with established forms of payment being increasingly complemented by innovative payment types. Fourth, the trend towards smart working solutions will intensify, thanks to the success of allowing people to work from home during the lockdown. Fifth, the progressive digitalisation of the economy will require increasing investments in a first-class and secure digital infrastructure. Finally, government agencies are likely to step up their efforts to achieve end-to-end e-capability, in order to maintain Switzerland's competitiveness as a business location.

Banks and a vibrant fintech ecosystem complement and cross-pollinate each other

Switzerland is a leading global centre for fintech companies. Its outstanding education, training and research facilities, receptiveness to innovation, relatively liberal labour market, high quality of life and generally business-friendly environment make it an ideal location for these activities. The Federal Council is committed to creating the best possible conditions for the establishment and further development of fintech and distributed ledger technology (DLT) companies. Switzerland's successful positioning in fintech is also reflected in the latest fintech hub ranking compiled by the Institute of Financial Services Zug (IFZ), in which Zurich and Geneva once again occupy the second and third places. In all, 26 new fintech companies commenced operations in Switzerland in 2019, bringing the total at the end of the year to 382. Of these, 132 were in the DLT segment.[36] In August 2019, the first two blockchain service providers were granted banking and securities dealer licences by FINMA.[37]

36 IFZ (2020). FinTech Study 2020 – An Overview of Swiss FinTech.
37 FINMA (2019). FINMA guidance: stringent approach to combating money laundering on the blockchain. Media release, 26 August 2019.

Collaboration between fintech companies and banks has proven to be a winning strategy. Start-ups offer an ideal platform for developing and swiftly implementing new business ideas. The banks, for their part, have the necessary expertise in terms of regulation and the safekeeping of assets and data. As a result, they enjoy a high level of trust and have an advantage when it comes to customer acquisition. Collaboration between fintech companies and banks allows both parties to benefit from the other's strengths.

Digital assets ("token economy"): regulation only where necessary
Opening corporate accounts for DLT companies poses a range of challenges for Swiss banks, because certain DLT applications are associated with money laundering and fraud risks. Banks must comply with Swiss duties of due diligence at all times. The SBA has revised its 2018 guidelines on this topic, with new terminology and content. The guidelines are intended to assist member banks in their dialogue with DLT companies and also support risk management in business transactions. The FDF and FINMA have welcomed the publication of the guidelines, which were updated with additional input from the Crypto Valley Association (CVA).[38]

In November 2019 the Federal Council adopted the dispatch on the further improvement of the framework conditions for DLT companies. In line with the recommendations contained in the report by the blockchain/ICO working group, it limits itself to regulating only where necessary, and has decided not to draft a separate DLT law. The focus is on increasing legal certainty regarding the transfer of DLT-based assets and creating a new authorisation category of "DLT trading facilities" in the financial market infrastructure legislation. The SBA welcomes the fact that the Federal Council has acknowledged the need expressed during the consultation for further clarification of certain terms and a more consistent alignment with existing legislation.

The favourable conditions for digital assets in Switzerland are also manifested in the creation of a globally oriented infrastructure for the trading, settlement and custody of digital assets by SIX.

38 FINMA. https://finma.ch/en/authorisation/fintech/

Big tech: ambitions in financial services offer opportunities and harbour risks

Technology firms such as Alibaba, Amazon, Apple, Facebook and Google have grown strongly in recent years and are increasingly making inroads into the financial services market, notably via payment apps, financial and asset management, insurance and credit. The Facebook spinoff Libra has established a base in Geneva, underscoring the attractiveness of the Swiss environment. Libra has applied for a licence from FINMA and aims to launch "retail tokens" for end customers, coupled to a currency (euro-Libra, dollar-Libra, etc.).

From the perspective of the financial centre and customers, technology firms' entry into the financial market harbours both opportunities and risks. With their broad customer base and an offering that, in general, is easily scalable, tech firms can potentially also reach customers without access to a bank. The data available to them will make it easier to risk-check potential borrowers. In certain areas though, such as payment transactions, there is a risk of tech firms becoming systemically important.[39] From a regulatory perspective it is therefore vital that financial stability ceases to be equated solely with the stability of the banking sector.[40] Furthermore, big tech products that are similar to financial services but are not classified as such should be subject to equivalent regulation.

Open banking: market solutions offer the greatest added value

It is becoming increasingly rare for customers to obtain their financial products from a single provider: they now shop around to find the best possible combination. Their needs include not just simple, personalised financial products but also security, trust and protection for their personal data. Banks in Switzerland are ideally placed to offer these. There is great potential in opening up interfaces to collaboration between banks and fintechs. The key issue is that working together on the basis of market solutions generates added value for customers. Regulation and forcing banks to open up will not lead to sustainable collaboration and are the wrong approach to advancing cooperation in this area.

39 Bank for International Settlements BIS (2019). BIS Annual Economic Report, III. Big tech in finance: opportunities and risks.
40 SBA (2019). Financial market stability: are only the banks system-relevant? SBA discussion paper.

The SBA, together with a working group comprising representatives of the banks, has published an overview of open banking in Switzerland.[41] It identifies three points that are key to a continuing positive development. First, each institute must establish a clear strategic positioning regarding its own offering and define its own role in developing that offering. This will create a sound basis for the subsequent selection of specific partners and services. Second, the legal and regulatory requirements will depend on the nature of the collaboration. In particular, a distinction needs to be made between outsourcing and open banking. In the latter case, it is important to remember that when a bank works closely with a third-party provider, the customer will assume that the bank has audited the provider and takes a degree of responsibility for its services. Finally, the exchange of data between banks and reliable third-party providers requires standardisation of interfaces and technological security measures to ensure data confidentiality. In Switzerland, a number of promising initiatives are moving ahead on standardisation and demonstrating that a market solution can be achieved. The Common API Initiative from Swiss Fintech Innovations (SFTI), for example, aims to standardise the application programming interface (API) for the banking and insurance sector. The infrastructure operator SIX is going a step further by developing b.Link, an operating platform that links banks and fintechs together directly. The openbankingproject.ch initiative, meanwhile, is supplying a knowledge platform and a test environment for API applications.

SBA publishes guidelines on secure cloud banking

Cloud services are a vital basis for banks to exploit new technology and bring innovative products quickly to their customers. Further opportunities are opened up by the simplification of compliance with regulatory requirements; artificial intelligence can for example be used to detect and combat money laundering more efficiently and effectively. Measures to guard against cyber crime can be implemented with less effort and greater security in cloud environments. Cloud solutions also passed the acid test of massively increased user numbers during the corona crisis. In the past, Swiss banks have had open questions about migrating data to the cloud. Back in March 2019 the SBA, together with member institutions, audit firms and providers, therefore published a set of guidelines to offer advice and specific recommendations on secure cloud banking.[42]

41 SBA (2020). Open Banking. An overview for the Swiss financial centre.
42 SBA (2019). Cloud Guidelines: A guide to secure cloud banking.

One sticking point with the use of cloud services has been dependence on foreign providers. The Federal Council has recognised the need for an efficient and secure digital infrastructure to maintain Switzerland's innovative capacity and competitiveness. In April 2020 it therefore decided to carry out an in-depth investigation into the demand for, design, necessity and feasibility of a "Swiss cloud". In particular, the aim is to establish whether Switzerland can minimise its technological dependence on foreign public cloud providers and ensure its own data sovereignty by developing its own data infrastructure.

SNB's digital Swiss franc to be restricted to financial market players

The Federal Council commissioned a report examining the opportunities, risks and potential of introducing and issuing a digital Swiss franc.[43] It concludes that universally accessible digital central bank currency could only fulfil a very limited part of the high expectations associated with it, and does not currently offer any additional benefits. The SNB is also of the view that the associated risks to the effective implementation of monetary policy and financial stability outweigh any advantages. In particular, it believes that it increases the risk of a bank run in a crisis situation, since this could essentially be triggered at the press of a button.[44] Banks would also increasingly be forced to resort to alternative sources of funding that are more volatile than bank deposits. Refinancing banks would tend to become more expensive, riskier and less stable, with a corresponding impact on financial stability. A digital Swiss franc could also act as an additional safe haven, further increasing the upward pressure on the Swiss franc in times of crisis. However, the Federal Council report identifies opportunities for a digital central bank currency restricted to financial market players. The changes this would entail would be less far-reaching and also have the potential to improve efficiency in trading and in the settlement and management of securities.

43 Federal Council (2019). Central bank digital currency. Federal Council report in response to the Postulate 18.3159, Wermuth, of 14 March 2018.

44 SNB (2019). Speech by Thomas Jordan: Currencies, money and digital tokens. University of Basel, 5 September 2019.

In July 2019 the Bank for International Settlements (BIS), working closely with the SNB, set up an innovation hub to promote collaboration between central banks on innovative financial technologies. An initial phase saw hub centres opened in Switzerland, Hong Kong and Singapore. One topic the Swiss centre will address is the integration of digital central bank currency into a DLT infrastructure. To this end the SNB is working with SIX on a pilot project linking the clearing system to a new blockchain platform.

I. 4 Regulation

Regulation of the banks and financial markets plays a key role in the attractiveness and competitiveness of the financial centre. Switzerland also has a long tradition of self-regulation of its financial sector, which offers the advantages of practical orientation and flexibility.

Financial legislation, including ordinances, now in force

The Financial Services Act (FinSA), Financial Institutions Act (FinIA) and the associated ordinances (FinSO and FinIO) came into force on 1 January 2020 along with the Supervisory Organisations Ordinance (SOO). As a result, Switzerland now has a balanced and up-to-date overall framework for investor protection. The FinIA closes the remaining gaps in the supervision of portfolio managers, while the FinSA is a standalone act covering all aspects of the relationship between financial service provider and customer. The SOO governs the authorisation requirements for and activities of the newly created supervisory organisation (SO). In the majority of cases, financial service providers have a transition period of two years prior to full implementation of the new rules and obligations. The SBA will be revising the self-regulatory documentation concerned to bring it into line with the new legislation.

Partial revision of the Banking Act: new capital and liquidity requirements must be cost-neutral

The consultation on a partial revision of the Banking Act ended in June 2019. It focuses on the deposit insurance scheme, bank restructuring and the requirement for custodians of intermediated securities to segregate their own holdings from those of their clients. With regard to the deposit insurance scheme, the key measures are shortening the payout period for deposit insurance funds, a new funding model (depositing securities or cash with a custodian or cash loans to esisuisse amounting to 50 % of the obligatory contributions) and increasing the system ceiling to 1.6 % of protected deposits (with an additional floor of CHF 6 bn). The insolvency provisions for banks incorporate into legislation certain provisions that are currently to be found in the FINMA ordinance, chiefly those relating to the treatment of the claims of bank owners and creditors. Rules to strengthen the stability of the mortgage bond system are also envisaged.

In the interest of further enhancing the security and stability of the financial centre, the banking sector is prepared to bear additional costs for the implementation and operation of the new deposit solution. From the SBA's perspective, it is important to ensure in return that at the ordinance level, the revision is cost-neutral in terms of capital and liquidity requirements. It also considers it desirable in principle to enshrine the insolvency provisions for banks at the legislative level, but at the same time to ensure that the rules are not solely tailored to limited companies but give FINMA sufficient discretion to implement solutions that reflect practical requirements.

The Federal Council adopted the dispatch at the end of June.[45] The Swiss Parliament is expected to address the dispatch for the first time in the second half of 2020.

Powers of the financial market supervisory authority set out in a new ordinance

The new Ordinance to the Financial Market Supervision Act (FINMASA) came into force on 1 February 2020. It sets out in detail the powers of FINMA in international matters and regulation and states how proportionality, differentiation and international standards should be taken into account in regulatory activities. It also defines the cooperation and exchange of information between FINMA and the Federal Department of Finance (FDF). The existing regulatory instruments, in the form of ordinances and circulars, remain in place, and the independence of FINMA's supervisory activities is guaranteed.

45 Federal Council (2019). Dispatch to amend the Banking Act (BankA) https://www.newsd.admin.ch/newsd/message/attachments/61773.pdf

Amendment to Capital Adequacy Ordinance takes account of banks' self-regulation
In November 2019 the Federal Council adopted an amendment to the Capital Adequacy Ordinance (CAO) which came into force on 1 January 2020. It introduces simplified rules for small, particularly liquid and well-capitalised banks and securities firms when calculating their capital requirements, and reduces regulation in certain other ways. This takes account of the heavy burden that increasingly complex regulation imposes on small institutions in particular, and improves the proportionality of banking regulation.

There are also more stringent capital requirements for the parent companies of systemically important banks. These apply to those in categories 1 and 2: UBS, Credit Suisse, PostFinance, Raiffeisen and Zürcher Kantonalbank.

However, the Federal Council decided not to implement an increase in banks' capital requirements for mortgages on residential investment property. This is because it considers the SBA's proposed self-regulatory regime to be effective and appropriate.[46] The revised self-regulatory regime entered into force on 1 January 2020. It provides that, where investment properties are concerned, the customer must supply at least 25 % of the capital, as against 10 % previously. The outstanding mortgage debt must also be amortised to two thirds of the lending value of the property within a maximum of 10 years, rather than 15 as before. These two measures make an effective contribution to further stabilising the real estate and mortgage market.

Timetable for introducing the net stable funding ratio established
In November 2019 the Federal Council established the timetable for introducing the net stable funding ratio (NSFR). The NSFR complements the liquidity coverage ratio (LCR), which is designed to boost banks' resilience in short-term liquidity crises and aims to ensure stable funding over the long term. The relevant amendment to the ordinance is scheduled to be adopted during 2020 and come into force in mid-2021.

46 SBA (2019). "Richtlinien betreffend Mindestanforderungen bei Hypothekarfinanzierungen".

Voters to have their say on electronic identity
The Swiss Parliament adopted the Federal Act on Electronic Identification Services (E-ID Act) in September 2019. It aims to create an e-ID for individuals, enabling their identity to be unequivocally verified electronically. This will allow online payment orders to be executed more quickly and in a more straightforward manner, support the development of online businesses, and create the basis for various e-government applications. The lockdown necessitated by COVID-19 provided further evidence of the need for digital identification procedures (see Chapter I.3). Official verification and confirmation of a person's existence and their identifying features remain the responsibility of the state alone, but the task of developing and issuing the e-ID is to be entrusted to the private sector. Its involvement will allow the e-ID to be used for numerous applications and speed up the task of rolling it out quickly, which will be key to the success of a state-recognised digital ID in Switzerland. Meanwhile, the state will be responsible for ensuring that the data cannot be misused. A referendum has been called against the new law. The date for the vote was not yet fixed at the time of the copy deadline.

Revisions of CDB and Anti-Money Laundering Ordinance come into force
The new Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20) came into force in 1 January 2020 along with the revised FINMA Anti-Money Laundering Ordinance (AMLO-FINMA). The identity of the contracting partner must now be verified starting from CHF 15,000, as against CHF 25,000 previously. The FINMA circular on video and online identification has been formally incorporated into the CDB and the provisions on the abbreviated process before the supervisory board have been updated. The rules on opening accounts without complete documentation have also been tightened up. An account must now be blocked for all deposits and withdrawals and the business relationship terminated if the missing information and documents are not supplied within 30 days.

The Federal Council adopted the dispatch on the revision of the Anti-Money Laundering Act in June 2019. The changes take account of the most important recommendations in the mutual evaluation report by the Financial Action Task Force on Money Laundering (FATF). Financial intermediaries must exercise due diligence in establishing the identity of the beneficial owner and in verifying and reporting their identity. This rule applies only to the services of domiciliary companies and trusts, which must also now check the necessary records periodically to ensure they are still current, and update them where necessary. At the first reading, the National Council decided not to accept the Federal Council's proposal. The Legal Affairs Committee of the Council of States then instructed the administration to submit to it proposals that take account of the National Council's main points of criticism.

Legal changes to make Switzerland more attractive for foundations making good progress

In November 2019 the Federal Council opened the consultation on a federal law to enhance the attractiveness of Switzerland as a location for foundations. Its central points are clearer rules on complaints to the supervisory authority for foundations, making it easier to amend the foundation deed, limiting the liability of honorary members of foundation bodies, and more favourable taxation for donations from the estate, as well as the option to carry donations forward to later assessment periods.

The existing law on foundations already provides a good framework for foundations in Switzerland. The new draft law aims to make the country even more attractive as a location for them. These projects have the support of the SBA. The draft law addresses needs identified in practice and tackles key issues that are relevant to the Swiss foundation sector in the international context. However, the SBA sees a need for coordination with the possible introduction of a Swiss trust and the associated strengthening of Swiss family foundations.

Amendment to Data Protection Act proves controversial in Parliament
The current Federal Act on Data Protection (FADP) dates back to 1992 and has not kept pace with advances in technology. The Federal Council has therefore decided on a total revision of the Act, which will take place in two stages. The first came into force on 1 March 2019 and ensures that Switzerland retains its capacity to act in terms of prosecution, execution of sentences and public security in the Schengen area and continues to receive data from European law enforcement agencies in an efficient manner.

The second involves aligning the Swiss data protection legislation more closely with the EU's General Data Protection Regulation (GDPR). A particular aim of the revision of the FADP is to bring data protection into line with the realities of the digital age and strengthen the position of the citizen. Aligning the legislation with EU law should also ensure that cross-border data transfer between Switzerland and EU Member States remains possible without additional hurdles. The draft law is currently being debated in Parliament, where there are disagreements especially related to the automated processing of personal data.

The SBA believes it is particularly important for Switzerland to refrain from giving the legislation a "Swiss finish", and that the rules should not go beyond the amendments necessary to ensure continuance of the existing European Commission adequacy decision.

Discussion on lifting lending ban for PostFinance
The Federal Council adopted the dispatch on the partial revision of the Post Organisation Act (POA) in June 2020. The consultation draft provides for PostFinance to be permitted to grant loans and mortgages in future. However, the volume it is permitted to issue is to be limited by the customer deposits that PostFinance receives via payment transactions in performance of its public service function. The Federal Council hopes this will enhance PostFinance's earnings power, which has declined sharply due to the persistent low interest rate environment. The draft also includes a partial privatisation of PostFinance, though with Swiss Post Ltd – and therefore indirectly the Confederation – remaining a majority shareholder. Finally, PostFinance should meet its regulatory capital requirements chiefly from its own funds, with the Confederation only providing a secondary capitalisation guarantee.

The SBA's view is that the entry of a new state actor at federal level into the lending market is not necessary. If PostFinance is to become involved in lending, this must go hand in hand with the Confederation giving up its majority shareholding and the ultimate goal of full privatisation.

I. 5 Tax and compliance

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

Switzerland further expands network of partner states for AEOI
In September 2019, Switzerland successfully exchanged tax data with 75 partner nations, and is further expanding its network of partner states for automatic exchange of information (AEOI). It has now signed AEOI agreements with its most important economic partners and the world's leading financial centres.

Domestic implementation of the AEOI standard is monitored by the Global Forum on Transparency and Exchange of Information for Tax Purposes, in order to create a level playing field world-wide. Comprehensive country audits will be carried out from 2020 onwards, but the Global Forum has already subjected the central elements to a phased preliminary review to ensure that the integrity of the AEOI standard is guaranteed from the outset. In that process, the Global Forum made various recommendations to Switzerland. The revision of the AEOI Act and Ordinance were adopted in the summer session of Parliament and will enter into force on 1 January 2021.

Tax reform and AHV financing proposal approved by voters
The tax reform and AHV financing proposal was approved by the electorate and the cantons in May 2019 and came into force on 1 January 2020. As a result, all companies will in future be subject to the same internationally accepted rules on taxation. The tax burden on predominantly internationally active "status companies" rises, while firms hitherto subject to ordinary taxation will pay less. To compensate for this, many cantons have planned or already implemented reductions in profits tax. The proposal has created legal certainty for the companies concerned and secures the attractiveness of Switzerland as a business location – something from which banks in Switzerland also benefit.

Abolition of stamp duties only makes sense in a single draft law
In January 2020 the Economic Affairs and Taxation Committee (EATC) of the National Council opened a consultation on parliamentary initiative 09.503 to progressively abolish stamp duties and create jobs. It aims to abolish the stamp duty on new issues, the transfer stamp tax, and stamp duty on insurance premiums, and so boost the competitiveness of the Swiss financial centre compared with rivals where such duties do not exist. In its response to the consultation, the SBA calls for the abolition of stamp duties to be tackled via a single draft law and not, as the EATC suggests, in separate drafts.[47] If phasing the abolition proves necessary for financial policy reasons, the transfer stamp tax on foreign securities should be done away with first, as this is particularly damaging to the Swiss financial centre's international clients. There also needs to be a political linkage to the planned reform of withholding tax.

Proposal for the reform of withholding tax: practicable solution on the table
A reform of withholding tax on interest is urgently needed to stimulate the seriously underdeveloped Swiss bond market. The Federal Council opened the consultation on the reform of withholding tax in April 2020. Mainly for reasons of financial policy, however, it does not wish to reform withholding tax across the board, but instead proposes changes to invigorate the debt market. The core element of the draft involves exempting domestic legal entities and foreign investors from withholding tax on domestic interest income and switching over to a paying agent principle,

47 SBA (2020). Stellungnahme der SBVg zur Parlamentarischen Initiative: Stempelsteuer schrittweise abschaffen und Arbeitsplätze schaffen.

whereby withholding tax would be paid not by the debtor but by the investors' paying agent. Withholding tax would only be payable if the paying agent were domiciled in Switzerland, and only by domestic private individuals.

The proposal drawn up by the Federal Council involves a disproportionately large administrative burden and in some cases, notably for foreign debt securities, will be impossible to implement due to lack of information. It is therefore essential that a distinction be made between domestic and foreign debt securities. Building on the Federal Council's proposals, the SBA has put together a solution involving a paying agent tax on interest on investments issued in Switzerland.[48] In order to reduce the administrative burden on smaller and medium-sized banks in particular, the package envisages allowing payment of the tax to be delegated to a third party in Switzerland. However, it rejects the idea of a paying agent tax on interest from foreign sources. The cost involved in introducing it is entirely disproportionate to the tax revenue estimated by the Federal Council. The reform of withholding tax should also be conducted in tandem with the progressive abolition of stamp duties based on location.

OECD continues efforts to reform corporate taxation

It is no longer always necessary for companies to have a physical presence in a country – in the form of a permanent establishment giving rise to a tax liability – in order to operate there. For some business models, it is enough to have a digital presence that is difficult or impossible to account for under current rules and therefore cannot be fully taxed. The Organisation for Economic Cooperation and Development (OECD) has called into question the existing rules on taxation of multinational enterprises because, in its view, they can no longer take proper account of the situation in a modern and increasingly digitised economy.

The OECD presented a proposal for a new regime governing the taxation of company profits in autumn 2019. It comprises two main pillars. Pillar One provides that a greater proportion of company profits should be taxed where users reside, irrespective of the company's physical presence. Pillar Two comprises a number of measures yet to be defined that are designed to ensure that company profits are subject to a minimum level of taxation. In a change from the original plan, it is now intended

48 SBA (2020). Reform der Verrechnungssteuer: Für eine smarte und einfache Lösung.

that the rules should not apply solely to large international digital firms but should instead cover all companies that exceed a specific revenue threshold and are highly profitable. The OECD is still aiming to present a final report by the end of 2020. That goal seems highly ambitious, and is subject to additional uncertainty given the COVID 19 pandemic and the threat of the US vetoing Pillar One.

Following the failure of attempts to introduce a digital tax at EU level in March 2019, some EU Member States have pressed ahead with introducing their own. If no consensus is achieved at OECD level, further countries can be expected to introduce a tax of this kind, with the issue being raised again at EU level.

Switzerland would be heavily impacted by a new regime governing taxing rights for company profits at OECD level, because many corporate headquarters and internationally oriented SMEs are domiciled here, and because Switzerland is a comparatively small sales market. The result would probably be a significant loss of tax revenue for Switzerland if the OECD project came to fruition.

Within the OECD debate, Switzerland is arguing that the place where the value is essentially created should in principle continue to be where the profits are allocated, and that the proportion of profits allocated to market jurisdictions should remain moderate. Mandatory minimum taxation is a constraint on tax sovereignty and prevents fair tax competition.

Popular initiative to introduce a micro-tax launched
A popular initiative proposes the introduction of a tax on electronic payment transactions combined with the abolition of value added tax, direct federal tax and stamp duty. It envisages a micro-tax of a maximum of 0.5 % on every electronic transaction. The process of collecting signatures has been under way since March 2020.

Fig. 3

Selected events that impacted the financial centre

When	Reporting	Issue
Jan 19	Regulation	Systemically important domestic banks must now also hold gone-concern capital for potential restructuring and resolution.
Jan 19	Structural change and growth areas	Fintech companies can accept deposits of up to CHF 100 mn under relaxed requirements as long as they are not invested and no interest is paid on them.
Feb 19	Tax and compliance	The OECD presents a consultation document containing various proposals to introduce a digital tax.
Mar 19	Regulation	The Federal Council opens the consultation on the partial revision of the Banking Act.
Mar 19	Tax and compliance	The EU decides not to introduce a digital tax.
Mar 19	Sector development	Jörg Gasser, most recently State Secretary for International Finance, is announced as the new CEO of the SBA. He takes up his post in May 2019. Daniela Stoffel replaces him as the State Secretary for International Finance.
Mar 19	Structural change and growth areas	The SBA publishes legal and regulatory guidelines for the use of cloud services by banks and securities dealers.
Mar 19	Structural change and growth areas	The SNB announces that companies with a fintech licence will in future be able to hold sight deposit accounts at the SNB.
Apr 19	Regulation	The Federal Council opens the consultation on the amendments to the Capital Adequacy Ordinance.
Apr 19	Economic policy environment	The EU extends the deadline for Brexit to 31 October 2019. As a result, the UK is obliged to take part in elections to the European Parliament.
Apr 19	Structural change and growth areas	The SNB and FINMA join the Network for Greening the Financial System.
May 19	Regulation	The Federal Council opens the consultation on the new Ordinance to the Financial Market Supervision Act.
May 19	Tax and compliance	The Swiss electorate votes in favour of the Tax Reform and AHV Financing (TRAF) Act. The Act is to enter into force on 1 January 2020.
May 19	Economic policy environment	A survey conducted by gfs.bern reveals that a majority in Switzerland have a positive view of the country's banks, which are regarded as reliable and secure.
May 19	Tax and compliance	The Federal Council adopts the dispatch on AEOI with 19 further partner states and approves the first review report.
Jun 19	Economic policy environment	The Federal Council announces that it will only sign institutional framework agreements with the EU once certain unanswered questions have been resolved.
Jun 19	Structural change and growth areas	Florian Schütz is appointed Federal Cyber Security Delegate, heading up the Competence Centre for Cyber Security.
Jun 19	Structural change and growth areas	A consortium led by Facebook announces the introduction of the cryptocurrency Libra.

Jun 19	Economic policy environment	The SBA stages the Politforum for the first time. Its aim is to strengthen the dialogue between the banking sector and politicians.
Jun 19	Tax and compliance	The Federal Council resolves once again to undertake a reform of withholding tax and adopts the objectives and parameters for it.
Jun 19	Economic policy environment	The SNB announces that the newly created SNB policy rate will replace the target range for the three-month Libor as its monetary policy instrument.
Jun 19	Structural change and growth areas	The BIS, working closely with the SNB, sets up an innovation hub to promote collaboration between central banks on innovative financial technologies.
Jul 19	Tax and compliance	The US Senate approves the 2009 protocol amending the double taxation agreement (DTA) between Switzerland and the USA. In future, no distinction will be made between tax evasion and tax fraud, and requests for administrative assistance in accordance with FATCA will be possible.
Jul 19	Economic policy environment	The European Commission does not further extend the recognition of Swiss stock market equivalence. In turn, the Federal Council activates contingency measures to protect the Swiss stock exchange infrastructure on 1 July 2019.
Jul 19	Tax and compliance	The Federal Supreme Court approves the handover of UBS customer data to France.
Jul 19	Economic policy environment	The Fed cuts the federal funds rate from 2.5 % to 2.25 %.
Aug 19	Structural change and growth areas	The SBA publishes revised guidelines on opening corporate accounts for DLT companies.
Aug 19	Structural change and growth areas	Two blockchain companies become the first to be granted a banking licence by FINMA.
Aug 19	Regulation	FINMA accepts the banks' proposal for amended self-regulation when granting mortgages on investment properties.
Sep 19	Structural change and growth areas	The social partners Employers in Banking, the Swiss Bank Employees Association and the Association of Commercial Employees launch "skillaware" – Fit for the world of banking.
Sep 19	Economic policy environment	The Fed cuts the federal funds rate from 2.25 % to 2 %.
Sep 19	Economic policy environment	The SNB announces that it is raising the threshold factor to 25 from the start of November 2019 and adjusting the method for calculating the commercial bank sight deposits that are exempt from the negative interest rate.
Sep 19	Regulation	Parliament adopts the E-ID Act.
Oct 19	Structural change and growth areas	Federal Councillor Ueli Maurer, representing Switzerland, joins the Coalition of Finance Ministers for Climate Action.
Oct 19	Structural change and growth areas	Bank Vontobel becomes the first issuer to offer a structured product in the form of an asset token.
Oct 19	Tax and compliance	The EU removes Switzerland from its "grey list" of tax havens.
Oct 19	Economic policy environment	The Fed cuts the federal funds rate from 2.0 % to 1.75 %.

Oct 19	Economic policy environment	The SBA publishes a study on the negative interest rate policy and its macroeconomic consequences.
Nov 19	Tax and compliance	The Federal Act on the Implementation of Recommendations of the Global Forum on Transparency and Exchange of Information for Tax Purposes enters into force.
Nov 19	Structural change and growth areas	SIX establishes its own rating agency which rates fixed income instruments on the basis of artificial intelligence.
Dec 19	Tax and compliance	The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS Convention) enters into force.
Dec 19	Regulation	FINMA publishes its first Risk Monitor.
Jan 20	Regulation	The small banks regime comes into force.
Jan 20	Tax and compliance	The Tax Reform and AHV Financing (TRAF) Act enters into force.
Jan 20	Regulation	The FinSA, FinIA, FinSO, FinIO and SOO enter into force.
Jan 20	Regulation	The amendments to the Capital Adequacy Ordinance enter into force.
Jan 20	Structural change and growth areas	The advisory board for the future of the Swiss financial centre, in its last year of activity, submits a strategic roadmap for financial market policy to the Federal Council.
Jan 20	Economic policy environment	The UK leaves the European Union.
Jan 20	Tax and compliance	The EATC-N opens the consultation on two preliminary drafts on the progressive abolition of stamp duty.
Feb 20	Regulation	The new Ordinance to FINMASA enters into force.
Feb 20	Economic policy environment	The Federal Council adopts the dispatch on the reform of the New Arrangements to Borrow of the International Monetary Fund.
Mar 20	Structural change and growth areas	The Swiss Cyber Security Days take place for the second time.
Mar 20	Economic policy environment	The Fed cuts the federal funds rate from 1.75 % to 1.25 %.
Mar 20	Structural change and growth areas	Switzerland joins the International Platform on Sustainable Finance.
Mar 20	Economic policy environment	The Fed cuts the federal funds rate from 1.25 % to 0.25 %.
Mar 20	Economic policy environment	The Confederation and banks present a comprehensive package of measures to cushion the economic impact of the COVID-19 pandemic. The Confederation approves bridging loans for companies totalling CHF 20 bn.
Mar 20	Economic policy environment	The SNB requests a reduction of the countercyclical capital buffer to 0 %.
Apr 20	Economic policy environment	The SNB raises the threshold factor from 25 to 30.
Apr 20	Tax and compliance	The Federal Council opens the consultation on the reform of withholding tax.

Apr 20	Economic policy environment	The Federal Council boosts the guarantee programme for COVID-19 bridging loans by CHF 20 bn to a total of CHF 40 bn.
Apr 20	Tax and compliance	The Global Forum also rates Switzerland as "largely compliant" in the second round of peer reviews on the exchange of information for tax purposes upon request.
Apr 20	Economic policy environment	economiesuisse and TheCityUK publish a joint position paper setting out specific requirements for a bilateral financial services agreement between Switzerland and the UK.
May 20	Tax and compliance	The Federal Council publishes the second review report on the standard-compliant implementation of AEOI by partner states.
Jun 20	Structural change and growth areas	The SBA publishes a study on sustainable finance and a guideline for the integration of ESG considerations into the advisory process for private clients.
Jun 20	Structural change and growth areas	The Federal Council publishes a report and guidelines on sustainability in the financial sector.
Jun 20	Structural change and growth areas	The SIA, SFAMA and SSF publish reports on sustainability in the financial sector.
Jun 20	Regulation	The Federal Council opens the consultation on the partial revision of the Post Organisation Act. It proposes allowing PostFinance to offer mortgages and loans.
Jul 20	Regulation	The Federal Council opens the consultation on the partial revision of the COVID-19 Joint and Several Guarantees Act.
Jul 20	Structural change and growth areas	The SBA publishes an overview of open banking.
Jul 20	Economic policy environment	Luxembourg recognises the equivalence of the Swiss regulatory framework.

II. Consolidated trend in Switzerland's banks

The aggregate net income of the banks in Switzerland rose by 1.1 % year-on-year to CHF 66.1 bn in 2019. Their profit for the year fell to CHF 0.8 bn due to accounting effects at a big bank caused by regulatory factors. In all, 216 of the 246 institutions posted a profit. The banks paid taxes amounting to CHF 2.2 bn. The job market in the banking sector remains robust – despite headcount being reduced by a further 1.2 % compared with 2018 and the number of institutions falling by two to 246.

II. 1 Banks' net income

In 2019, 216 of the 246 banks in Switzerland made a profit. Their total profits rose slightly by CHF 0.3 bn or 2.3 % to CHF 13.1 bn. The total losses of the unprofitable institutions increased sharply by CHF 11.1 bn from CHF 1.3 bn to CHF 12.3 bn.[49] This is mainly the result of high value adjustments by a big bank following a change in the principles used to value its participations.[50] Without this effect, the banks in Switzerland would have posted a profit similar to that recorded in the previous year.[51] The banks paid taxes amounting to CHF 2.2 bn (+52.8 %).

49 Because of rounding differences values may deviate minimally.
50 See box page 53 for details.
51 SNB (2020) Banks in Switzerland 2019.

Aggregate net income was up 1.1 % in 2019 at CHF 66.1 bn. The result from interest operations (up 1.0 % at CHF 23.8 bn) was the largest contributor to total net income in CHF terms despite the low interest rate environment. The result from commission business and services rose by CHF 0.4 bn or 1.7 %, the other result from ordinary activities by CHF 0.9 bn or 7.8 %.[52] The result from trading activities was down CHF 0.8 bn or 9.4 %.

Statistical effects of accounting principles

This publication is based on data provided by the SNB compiled from the individual financial statements of banks (parent companies) as required by law. In the case of the big banks in particular, these statements may deviate from the group financial statements. This is usually caused by accounting effects that cannot be distinguished from operational effects at group level in the SNB banking statistics.

The revised Banking Ordinance of 30 April 2014 provided for a transition period until the full implementation of the Ordinance on 1 January 2020 for certain rules, including those on the individual valuation of participations, tangible fixed assets and intangible assets. In view of these changes, the parent company of a big bank changed the way it values participations from the portfolio valuation method to the individual valuation method in 2019. This resulted in a value adjustment of CHF 15.3 bn on participations due to regulatory factors, which affected the result of the period for the year in the SNB statistics. The SNB notes that, without this effect, the banks in Switzerland would have posted a profit similar to that recorded in the previous year.[53]

52 The values in the charts may deviate minimally from the values in the text due to rounding differences.
53 SNB (2020). Banks in Switzerland 2019.

II. 1.1 Trends in 2019

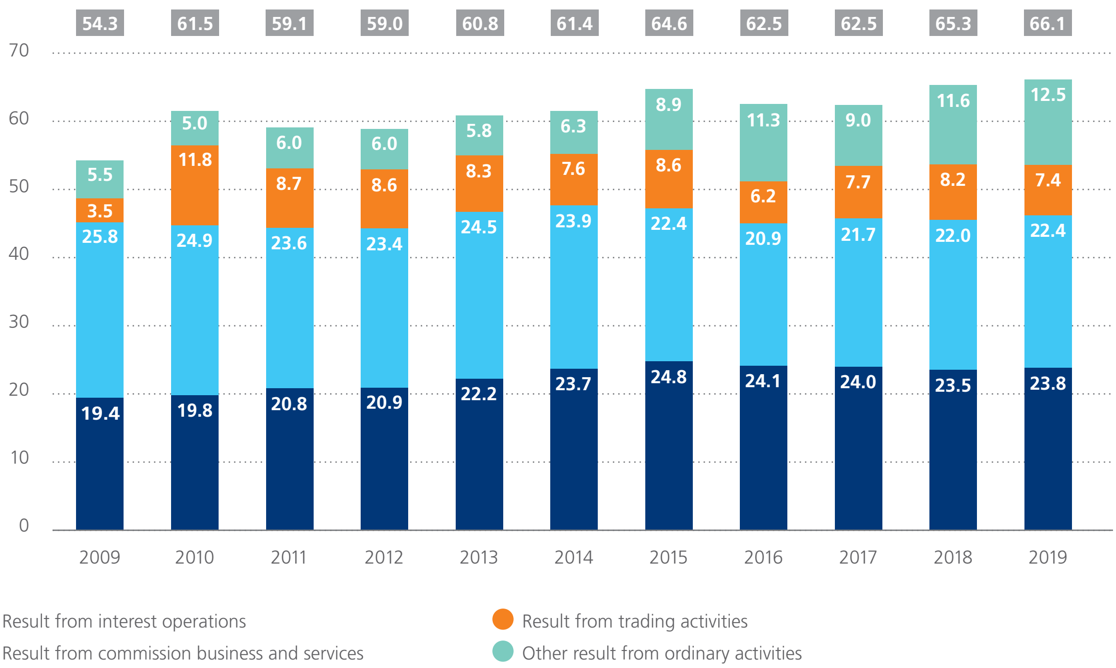
Slightly higher net income in key areas of business

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. It increased by CHF 0.7 bn or 1.1 % year-on-year to CHF 66.1 bn and has risen by a total of CHF 11.8 bn or 21.8 % since 2009.

Fig. 4

Net income by banking activity

In CHF bn



Source: SNB

Interest operations largest contributor to net income

With a share of 36.0 %, the result from interest operations was the largest contributor to net income. However, low interest rates continue to hamper the banks' interest margin business.[54] The result from interest operations grew for the first time in four years, rising by 1.0 % from CHF 23.5 bn in 2018 to CHF 23.8 bn in 2019. The positive result stems from interest income showing a slightly stronger increase than interest expense (CHF 2.7 bn versus CHF 2.5 bn). The big banks were the driving force behind this trend. Their interest income rose by CHF 2.7 bn, whereas their interest expense only rose by CHF 2.2 bn. Interest income was stable for all of the other categories, with interest expense increasing slightly (+CHF 0.3 bn). The big banks' result from interest operations was CHF 8.9 bn, compared with CHF 14.8 bn for all of the other categories. One reason for the high interest expense is negative interest rates. The banks in Switzerland paid the SNB a total of approximately CHF 1.9 bn in negative interest last year. This equates to around 8.2 % of their gross profit for the year. Despite the increase in the exemption threshold in November 2019, therefore, the amount of negative interest paid was still close to the year-back figure of CHF 2.0 bn. Since negative interest rates were introduced in 2015, the banks have paid the SNB roughly CHF 8.7 bn in interest.

Further increase in result from commission business and services

The result from commission business and services is the second-largest contributor to net income, accounting for 33.9 %. It increased further by 1.7 % to CHF 22.4 bn in 2019. Commission expense and the various income items showed differing trends. While commission income from securities trading and investment activities was up CHF 0.6 bn, and income from other services was up CHF 0.2 bn, commission income from lending activities was down CHF 0.2 bn. Overall, aggregate commission income was CHF 0.6 bn higher at CHF 27.6 bn. Commission expense, meanwhile, rose by CHF 0.2 bn to CHF 5.2 bn.

54 See also SNB (2020). Financial Stability Report 2020.

Drop in result from trading activities

The result from trading activities fell by CHF 0.8 bn or 9.4 % to CHF 7.4 bn in 2019, making up 11.2 % of total net income. This drop from the year-back figure of CHF 8.2 bn was largely due to a decline in the big banks category, one reason being that market volatility was lower year-on-year, which is normally associated with reduced trading activity on the part of bank customers.

Continued growth in other result from ordinary activities

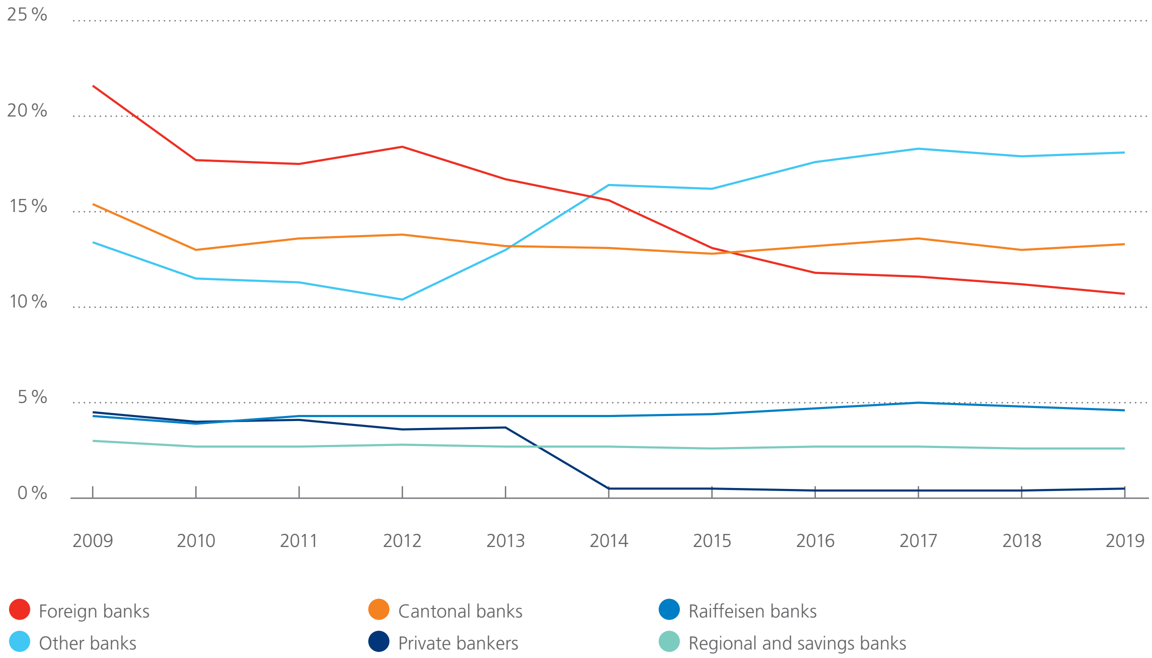
The other result from ordinary activities rose by CHF 0.9 bn or 7.8 % to CHF 12.5 bn in 2019, accounting for 18.9 % of total net income. The individual items showed differing trends. Income from participations increased by CHF 0.4 bn to CHF 7.5 bn, primarily thanks to the big banks (+CHF 0.3 bn), which report dividend payments from subsidiaries under this item. These subsidiaries also include institutions in Switzerland with their own banking licence. The result from the disposal of financial investments was also higher in 2019, up CHF 0.1 bn at CHF 0.2 bn. Meanwhile, other ordinary income (– CHF 0.2 bn) and the result from real estate (– CHF 0.1 bn) were both lower. A CHF 0.6 bn reduction in other ordinary expenses had a positive impact on net income.

Small changes in shares of net income by bank category

The categories big banks (+1.2 %), cantonal banks (+3.9 %), regional and savings banks (+3.2 %), private bankers (+12.7 %) and other banks (+2.3 %, comprising other banking institutions and stock exchange banks) all posted an increase in net income compared with 2018. Net income fell for the Raiffeisen banks (– 2.4 %) and foreign banks (– 3.4 %).

Fig. 5

Net income by bank category (excluding big banks)



Note: The big banks contribute a much larger share of net income than the other categories – it has fluctuated between 46 % and 51 % since 2010. They have thus been omitted from the chart in order to provide a clearer picture of the trends among the other categories

Source: SNB

Differing trends in net income led to slight changes in the various categories' shares of the total in 2019. The cantonal banks' share rose from 13.0 % to 13.3 %, that of the "other banks" category from 17.9 % to 18.1 %. The categories with falling shares were foreign banks (down from 11.2 % to 10.7 %) and Raiffeisen banks (down from 4.8 % to 4.6 %). There were only minimal changes in the shares attributable to the big banks, regional and savings banks and private bankers.

The share of total net income contributed by the “other banks” category has increased from 10.4 % to 18.1 % since 2012. The big banks also increased their share over the same period, from 46.8 % to 50.2 % (not shown). The private bankers’ share fell from 3.6 % to 0.5 % during the period, that of the foreign banks from 18.4 % to 10.7 %. The fall among private bankers can be explained by the fact that a large number of institutions changed their legal form in 2014 and now belong to the category of stock exchange banks. This has caused a structural shift in the statistics for private bankers and stock exchange banks. The reduction among foreign banks is partly due to the financial crisis, which led to many branch closures in Switzerland. In addition, foreign banks have restructured their international activities in recent years, in some cases repatriating high-value-added businesses. The remaining categories only showed minimal changes in their shares of total net income.

Increase in gross operating profit

The gross operating profit of the banks in Switzerland rose by CHF 1.0 bn or 4.5 % to CHF 23.2 bn in 2019. This rise is attributable to an increase of CHF 0.8 bn in total net income and a simultaneous decrease of CHF 0.3 bn in operating expenses.

In 2019, 216 of the 246 banks in Switzerland made a profit.[55] Their profits totalled CHF 13.1 bn, an increase of CHF 0.3 bn or 2.3 % year-on-year. The total losses of the unprofitable institutions increased by CHF 11.1 bn from CHF 1.3 bn to CHF 12.3 bn. This is mainly the result of high value adjustments by a big bank following a change in the principles used to value its parent company’s participations.

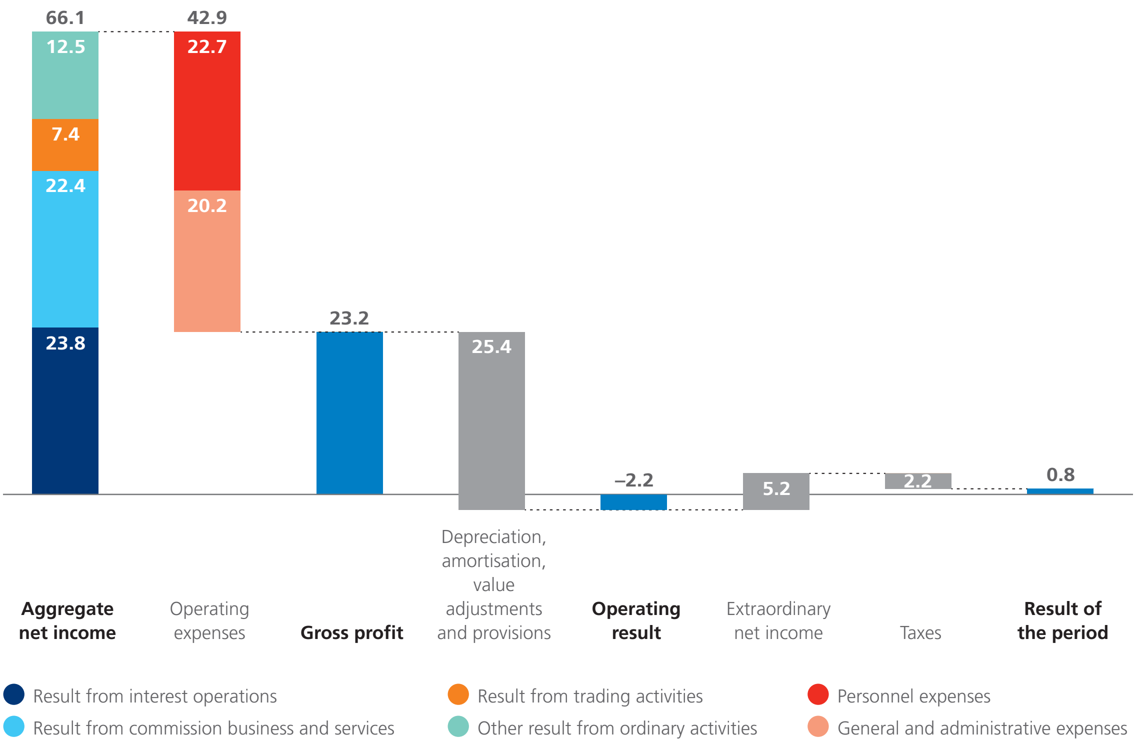
The result of the period across all banks was down CHF 10.8 bn year-on-year at CHF 0.8 bn. Without the aforementioned value adjustments by a big bank, the figure would have been more or less stable compared with 2018. The banks paid taxes amounting to CHF 2.2 bn, up CHF 0.7 bn or 52.8 % year-on-year.

55 The result of the period (annual profit or loss) is equal to the gross profit plus extraordinary income minus the following: value adjustments on participations, depreciation and amortisation; changes to provisions, other value adjustments and losses; extraordinary expenses; and taxes.

Fig. 6

Breakdown of result of the period for banks in Switzerland 2019

In CHF bn



Source: SNB

II. 1.2 Trends in 2020

The first half of 2020 was dominated by the COVID-19 pandemic. The International Monetary Fund is therefore forecasting a 4.9 % contraction in global GDP during 2020[56] – the sharpest economic decline worldwide since the Second World War. SECO has already reported a 2.6 % decline in Swiss GDP in the first quarter of 2020 and expects a fall of 6.7 % for 2020 as a whole, the strongest economic downturn since 1975. However, it is predicting a moderate recovery in 2021.[57]

The economic slump prompted the US Federal Reserve to reduce its headline rate significantly again in March 2020, bringing it to 0.25 %. As well as reducing interest rates, the Fed has intervened on the market through large-scale asset purchases and granted temporary emergency loans to banks. The European Central Bank has kept its key refinancing rate unchanged at 0 %. However, it is temporarily offering banks additional subsidised loans, and plans to further improve the conditions of an existing programme of long-term funding for commercial banks at very attractive terms ("targeted longer-term refinancing operations"). It also plans to make additional asset purchases amounting to EUR 120 bn by the end of 2020.[58] It is unlikely that the low interest rate policy will change in the near future. In view of the continued upward pressure on the Swiss franc, the SNB also plans to keep negative interest rates in place. It intervened heavily on the currency market during the COVID-19 crisis but refrained from cutting rates further.

The COVID-19 pandemic caused the referendum on the popular initiative in favour of moderate immigration to be postponed from May 2020 to September 2020. This "limitation initiative" calls for an end to the free movement agreement with the EU. It would trigger the "guillotine clause" that would result in the cancellation of all bilateral agreements. The European Commission has ruled out a fundamental renegotiation of the framework agreement with Switzerland. The agreement contains many elements that are advantageous to Switzerland and sustainably strengthens bilateral relations with the EU. As well as consolidating legal certainty thanks to

56 International Monetary Fund (2020). World Economic Outlook. June 2020.
57 SECO (2020). https://www.seco.admin.ch/seco/en/home/wirtschaftslage---wirtschaftspolitik/Wirtschaftslage/konjunkturprognosen.html.
58 ECB (2020). Monetary Policy Decisions. July 16 2020.

reliable and clearly defined processes, it also creates a basis on which to maintain – and bring about the urgently needed improvement in – market access for banks in Switzerland.

Trends on the financial markets are at odds with the global economy and prevailing uncertainties. After initially plummeting from over 11,000 points to around 8,160 in March, the Swiss Market Index (SMI) defied the macroeconomic trend with a gradual recovery, eventually breaking through the 10,000-point barrier at the end of June. High levels of trading activity in the first half-year bolstered the banks' commission income, but it remains to be seen how the markets will influence trading income over the year as a whole.

II. 2 Balance sheet

The aggregate balance sheet total of all banks in Switzerland grew from CHF 3,225.0 bn to CHF 3,317.6 bn in 2019. The SNB's intervention on the currency market affected the composition of the commercial banks' assets. The banks' sight deposits with the SNB once again showed an increase year-on-year.

II. 2.1 Trends in 2019

Banking sector growing

The aggregate balance sheet total of all banks in Switzerland grew by 2.9 % from CHF 3,225.0 bn to CHF 3,317.6 bn in 2019. The cantonal banks posted the largest year-on-year increase (+CHF 26.4 bn), followed by the Raiffeisen banks (+CHF 23.0 bn), the big banks (+CHF 19.9 bn), the "other banking institutions" category (+CHF 14.0 bn), the foreign banks (+CHF 8.8 bn) and the regional and savings banks (+CHF 6.0 bn). The categories posting a decline in their balance sheet totals were stock exchange banks (–CHF 5.0 bn) and private bankers (–CHF 0.5 bn).

Fig. 7

Balance sheet total by bank category

In CHF bn	Balance sheet total 2018	Balance sheet total 2019	Change in balance sheet total	Share of balance sheet total 2019
Cantonal banks	600.3	626.7	4.4 %	18.9 %
Big banks	1,520.8	1,540.7	1.3 %	46.4 %
Regional and savings banks	120.3	126.3	5.0 %	3.8 %
Raiffeisen banks	225.3	248.3	10.2 %	7.5 %
Foreign banks	313.5	322.3	2.8 %	9.7 %
Private bankers	6.3	5.8	–9.0 %	0.2 %
Stock exchange banks	228.7	223.7	–2.2 %	6.7 %
Other banking institutions	209.7	223.7	6.7 %	6.7 %
Total	**3,225.0**	**3,317.6**	**2.9 %**	**100.0 %**

Source: SNB

Mortgage loans constitute largest asset item

Domestic and foreign mortgage loans increased by CHF 32.9 bn or 3.2 % year-on-year in 2019 from CHF 1,031.8 bn to CHF 1,064.7 bn. With a share of around 32.1 %, mortgage loans thus remained the largest asset item for banks in Switzerland in last year. Especially strong increases were recorded by the cantonal banks (+CHF 15.7 bn), the Raiffeisen banks (+CHF 5.7 bn) and the big banks (+CHF 4.1 bn). As in 2018, fixed-interest mortgages accounted for roughly 81 % of all domestic mortgage loans.

Increase in amounts due from customers

Amounts due from customers rose by CHF 17.9 bn or 3.0 % to CHF 619.2 bn in 2019. Making up 18.7 % of total assets, they constitute the second-largest asset item. The big banks (+CHF 6.2 bn) and the stock exchange banks (+CHF 7.2 bn) posted the most pronounced increases.

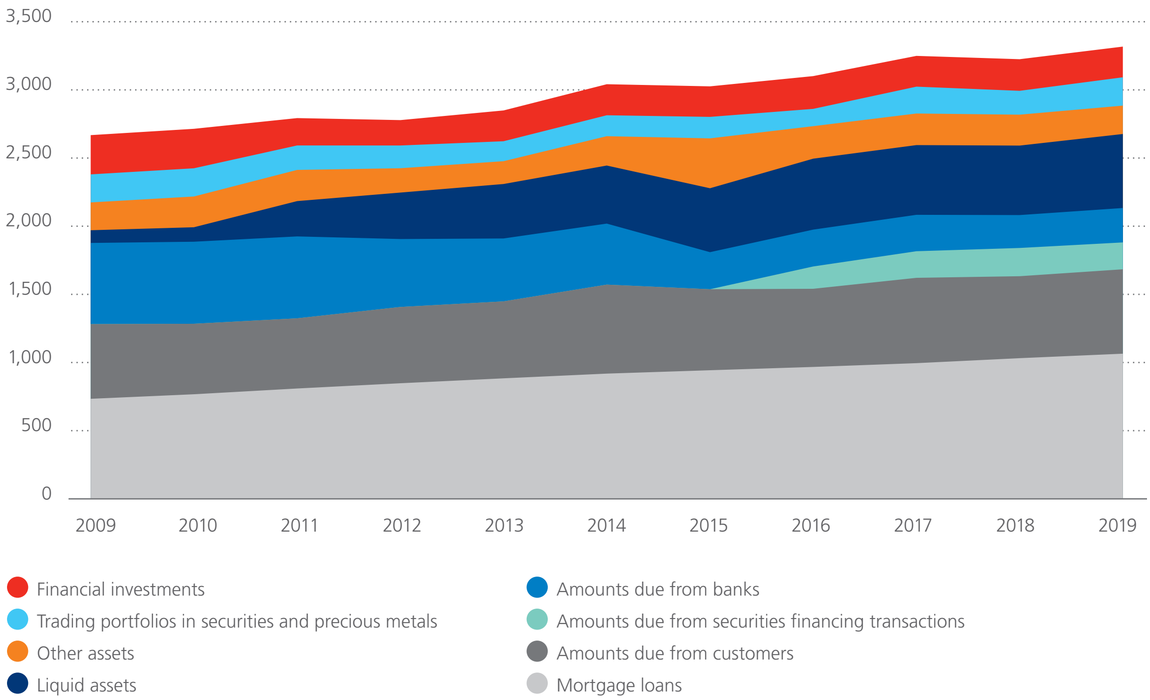
Higher amounts due from banks

Amounts due from banks increased by CHF 11.0 bn or 4.6 % to CHF 252.4 bn in 2019. Almost all of this increase is attributable to amounts due from banks in Switzerland (+CHF 9.1 bn). The big banks (+CHF 9.8 bn) and the Raiffeisen banks (+CHF 1.0 bn) in particular posted increases here. Amounts due from banks outside Switzerland showed a slight rise of CHF 1.9 bn, pointing to a pick-up in the interbank market.

Fig. 8

Breakdown of assets

In CHF bn



Source: SNB

Increase in liquid assets

Liquid assets increased by CHF 33.2 bn or 6.5 % year-on-year to CHF 542.9 bn. The main reason for this increase was banks holding higher sight deposits with the SNB, especially the "other banking institutions" category (+CHF 12.0 bn), the Raiffeisen banks (+CHF 11.0 bn), the cantonal banks (+CHF 10.4 bn) and the foreign banks (+CHF 7.6 bn). The stock exchange banks, meanwhile, reduced their sight deposits with the SNB by CHF 18.3 bn. The overall increase in sight deposits was probably caused by the persistent lack of attractive alternatives, together with changes in the way the exemption threshold is calculated and an increase in the exemption threshold as of 1 November 2019. Like most economic actors, banks are holding large quantities of liquid assets, indicating that the economy – from a monetary policy viewpoint – is in a liquidity trap.

Growth in trading portfolio assets

Trading portfolio assets grew by CHF 32.9 bn or 18.8 % year-on-year to CHF 207.9 bn. Securities from foreign issuers accounted for the largest share of this increase, which was brought about by the positive trend on the stock market in 2019. Switzerland's blue-chip index, the SMI, gained 26 % over the year and thus performed in line with many other leading indices. Amounts due from securities financing transactions fell by CHF 10.0 bn, largely as a result of a marked decrease in amounts due from foreign counterparties.

Lower financial investments

Financial investments were down CHF 6.8 bn or 2.9 % year-on-year at CHF 225.1 bn. While domestic investments rose by CHF 3.1 bn compared with 2018, both foreign investments (– CHF 9.8 bn) and participations (– CHF 12.8 bn) declined. This was mainly due to a big bank changing the way it values its participations in other group companies (see explanation on page 53) in accordance with the 2015 revision of accounting rules that required banks to switch from portfolio valuation to individual valuation by the end of 2019.

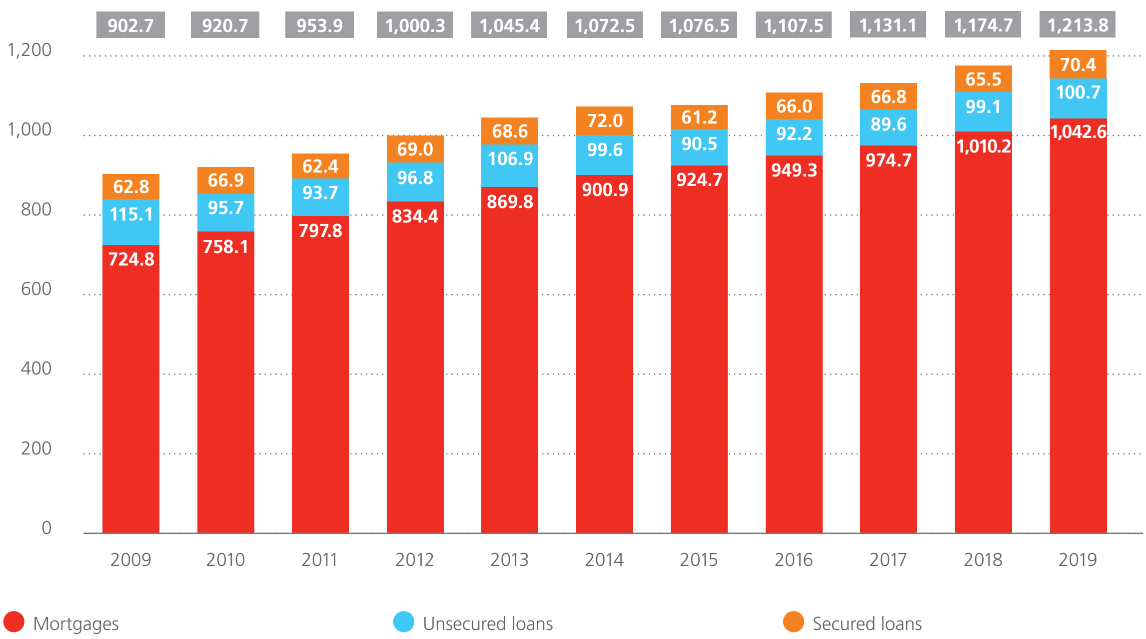
Unrestrained growth in mortgage loans

The total volume of outstanding domestic loans came to CHF 1,213.8 bn in 2019. This figure was made up of CHF 171.1 bn in secured and unsecured loans to customers (corporate, public-sector and consumer loans) and CHF 1,042.6 bn in mortgage loans. Overall domestic lending was up 3.3 % relative to 2018. Growth in domestic mortgage loans was thus slightly weaker than in the previous year, when it had been 3.9 %. Mortgage loans have increased by CHF 317.9 bn or 43.9 % since 2009, with their share of domestic lending rising from 80.3 % to 85.9 %, Mortgage loans thus remain the most important form of domestic lending by far. Year-on-year growth was also evident in secured loans (+CHF 4.9 bn) and unsecured loans (+CHF 1.6 bn).

Fig. 9

Domestic lending volume

In CHF bn



Source: SNB

Fundamental change in asset breakdown since 2009
The breakdown of assets has changed markedly over the past decade. Liquid assets increased massively from CHF 93.2 bn in 2009 to CHF 542.9 bn at the end of 2019. This was caused by a number of factors. The SNB's intervention to counteract the Swiss franc's strength played a significant role as the bank's purchases of foreign currencies caused counterparties' sight deposits denominated in Swiss francs to increase. In addition to this, low interest rates made the opportunity cost of holding cash low, so the banks placed large quantities of it in sight deposits with the SNB. Despite the fact that negative interest rates have been in place since January 2015, the banks stepped up their sight deposits with the SNB by a further CHF 14.4 bn or 3.0 % to CHF 481.1 bn in 2019.

Domestic and foreign mortgage loans[59] also rose steadily between 2009 and 2019 (+45.1 % from CHF 733.8 bn to CHF 1,064.7 bn). Their share of total assets climbed from 27.5 % at the end of 2009 to 32.1 % at the end of 2019. This was also due to the persistently low level of interest rates, which bolstered demand for real estate. Amounts due from banks accounted for CHF 595.2 bn or 22.3 % of total assets in 2009 but had fallen to CHF 252.4 bn or 7.6 % of total assets in 2019. This reduction was caused by, among other things, the banks deliberately scaling back this asset item in order to mitigate the counterparty risks involved in dealing with other banks. At the same time, it is also linked to stricter regulatory requirements in terms of capital adequacy. Trading portfolio assets fluctuated throughout the period between 2009 and 2019, falling CHF 78.8 bn or 38.3 % from CHF 205.8 bn in 2009 to a low of CHF 127.0 bn in 2016 and ending the period at CHF 207.9 bn, CHF 2.1 bn higher than the 2009 level. Their share of total assets in 2019 was 6.3 %.

59 Foreign mortgage loans are negligible, making up only around 2 % of total mortgage loans in 2019.

Increase in amounts due in respect of customer deposits

Amounts due in respect of customer deposits – comprising sight deposits, time deposits and other customer deposits – rose by CHF 4.8 bn or 0.3 % to CHF 1,815.3 bn in 2019. This item made up 54.7 % of the balance sheet total at the end of last year. Sight deposits grew by CHF 12.7 bn or 1.4 %, time deposits by CHF 9.1 bn or 3.4 %. Other customer deposits, meanwhile, were down CHF 17.0 bn or 2.6 %. As in 2018, amounts due to foreign customers fell (by CHF 20.5 bn), largely due to the big banks recording a fall of CHF 18.5 bn. Amounts due to domestic customers, meanwhile, rose by CHF 25.3 bn. The cantonal banks (+CHF 9.0 bn) and Raiffeisen banks (+CHF 9.6 bn) posted significant increases in deposits from customers in Switzerland.

Higher amounts due to banks

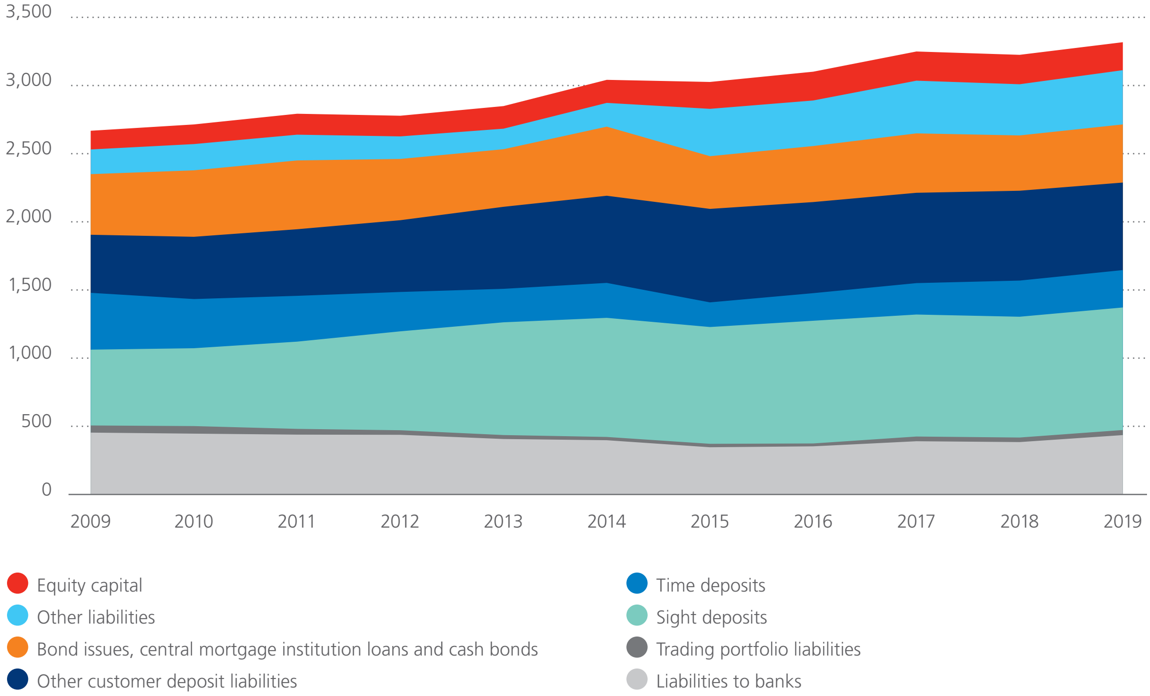
Amounts due to banks were up CHF 51.3 bn or 13.3 % in 2019. Both amounts due to banks outside Switzerland (+CHF 35.2 bn) and amounts due to banks in Switzerland (+CHF 16.1 bn) were higher year-on-year. The categories posting the biggest increases were Raiffeisen banks (+CHF 5.8 bn) and big banks (+CHF 36.3 bn), in the latter case mainly due to intra-group transactions.

Lower equity

The banks' equity fell by CHF 10.6 bn or 4.9 % to CHF 205.2 billion in 2019, but their capitalisation remains strong. Since 2015, equity has been defined as the sum of bank capital, the statutory capital reserve, the statutory retained earnings reserve, voluntary retained earnings reserves, own shares (negative item) and profit/loss carried forward.

Fig. 10

Breakdown of liabilities
In CHF bn



Source: SNB

Increase in trading portfolio liabilities

Trading portfolio liabilities increased by CHF 3.8 bn or 11.5 % to CHF 37.2 bn. This increase was mainly attributable to the big banks, whose foreign liabilities rose by CHF 4.6 bn. Negative replacement values of derivative financial instruments fell slightly (– CHF 0.7 bn), while liabilities from other financial instruments at fair value showed a sharp rise (+CHF 13.0 bn).

Bond issues, central mortgage institution loans and cash bonds higher

Bond issues, central mortgage institution loans and cash bonds were up CHF 20.8 bn or 5.1 %, primarily due to a CHF 21.3 bn increase in bond issues and central mortgage institution loans. The cantonal banks (+CHF 11.5 bn) and big banks (+CHF 3.8 bn) made the strongest gains here. Cash bonds, meanwhile, were down CHF 0.4 bn.

Breakdown of liabilities over time

The share of liabilities made up by amounts due to banks fell from 17.0 % in 2009 to 13.1 % in 2019. This shows that interbank business, particularly with banks in Switzerland, has declined over time. During the same period, sight deposits rose from CHF 556.2 bn to CHF 899.0 bn. The share of liabilities made up by sight deposits grew from 20.8 % in 2009 to 27.1 % in 2019. Sight deposits were thus the largest liability item at the end of 2019. At the same time, the share made up by time deposits fell from 15.6 % in 2009 to 8.3 % in 2019. Low interest rates make time deposits less attractive compared with sight deposits, resulting in a shift in favour of the latter.

Private households accounting for three quarters of all mortgage loans in 2019

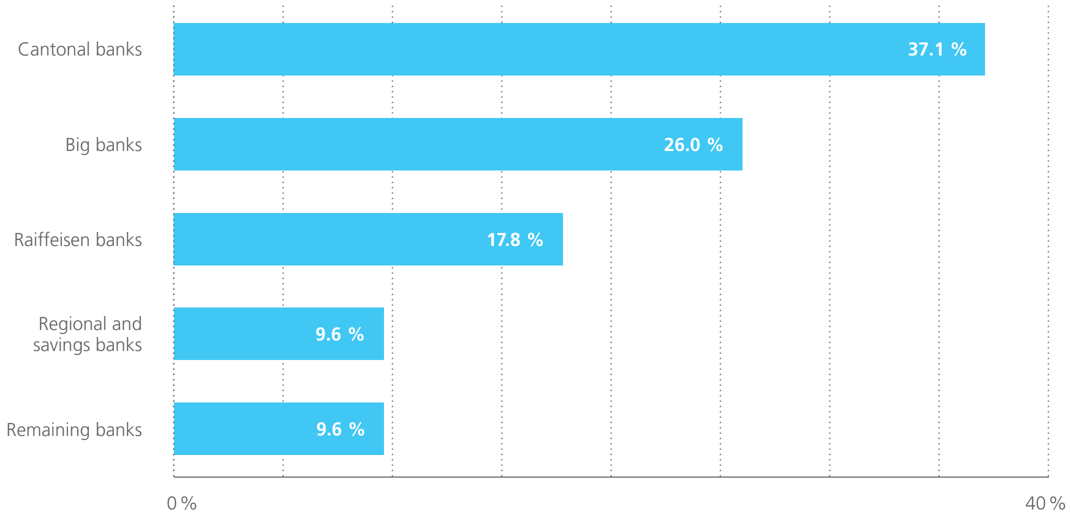
Total outstanding mortgage loans grew by 3.2 % to CHF 1,064.7 bn in 2019. The vast majority (CHF 1,042.6 bn) was attributable to domestic customers. Some 75 % of all mortgages were granted to private households. Fixed-interest mortgages made up around 86 % of all outstanding mortgage loans. The average interest rate on outstanding domestic mortgage loans fell from 1.45 % to 1.37 % in 2019. Mortgages with a term of more than five years have become more popular over time. Their share was just 14.0 % in 2009, but it had risen to 26.5 % in 2019.

Cantonal banks commanding largest share of domestic mortgage market

The cantonal banks' overall share of the domestic mortgage loan market was 37.1 % at the end of 2019. They were followed by the big banks with 26.0 % (see Fig. 11). 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. Mortgage loans granted by non-banks such as insurance companies and pension funds are not included in these figures. According to the FINMA, these amounted to approximately CHF 58.0 bn at the end of 2018.

Fig. 11

Shares of domestic bank mortgage market in 2019



Source: SNB

Senior mortgage loans largest category by far

Looking at the individual categories, senior domestic mortgage loans – representing up to two thirds of the market value of the mortgaged property – accounted for 92.7 % of the total volume in 2019. This is unchanged compared with 2018. No relevant differences between the various bank categories can be discerned. The high share of senior mortgage loans probably indicates that mortgage lenders are continuing to pursue cautious lending policies.

According to the SNB's Financial Stability Report, most domestically focused banks are on a solid footing. The banks' eligible capital has grown much more quickly than their risk-weighted assets over the past few years. This has led to risk-weighted capital ratios that are considerably higher than the regulatory minimum requirement.[60]

60 Financial Stability Report (2020).

Rising demand for consumer loans

Consumer loans remain relatively insignificant in Switzerland. At the end of 2019, a total of 655,836 loans with a volume of CHF 9.5 bn were outstanding. This equates to a 20.8 % increase year-on-year. In addition to this, consumer loans provided through crowdlending platforms totalled CHF 67.7 m in 2019.[61] While this volume remains comparatively small for the time being, its year-on-year growth of 18.0 % shows that this form of financing is gaining importance.

II. 2.2 Trends in 2020

Higher balance sheet total

The aggregate balance sheet total of all banks in Switzerland grew by CHF 222.6 bn or 6.4 % in the first five months of 2020 from CHF 3,489.7 bn in December 2019 to CHF 3,712.3 bn in May 2020[62], continuing the upward trend seen in 2019.

Liquid assets, amounts due from banks and financial investments up sharply, trading portfolio assets down

Between January and May 2020, there were sharp increases in the balance sheet items liquid assets (up CHF 115.3 bn or 20.6 %), amounts due from banks (up CHF 43.7 bn or 15.1 %) and financial investments (up CHF 26.4 bn or 11.3 %). Also rising, albeit to a lesser degree, were amounts due from customers (up CHF 17.1 bn or 2.7 %), amounts due from securities financing transactions (up CHF 9.7 bn or 4.8 %) and mortgage loans (up CHF 8.6 bn or 0.8 %). Trading portfolio assets, meanwhile, fell significantly by CHF 31.2 bn or 15.0 %. Both liquid assets and trading portfolio assets recorded their largest corrections in the months from March to May. This was due to the SNB's COVID-19 response in the form of the refinancing facility and increased threshold factor as well as the economic trend resulting from the pandemic.[63]

61 Institute of Financial Services Zug IFZ, Crowdfunding Monitor Switzerland 2020, https://blog.hslu.ch/retailbanking/crowdfunding/.
62 The monthly SNB figures are based on a partial sample survey and may therefore differ from the year-end statistics, which are based on a full sample survey.
63 Please refer to Chapter III.4.4 for details of the SME loan programme in connection with COVID-19.

Moderate increase in mortgage loans, considerable increase in secured and unsecured loans

Mortgage loans increased by CHF 13.8 bn or 1.3 % to CHF 1,052.0 bn in the first five months of 2020. Secured loans increased by CHF 14.6 bn or 20.2 %, unsecured loans by CHF 5.1 bn or 5.0 %. The strong growth in secured loans is mainly attributable to the COVID-19 bridging loans provided by the federal government and the banks.

Sight deposits up, time deposits down, equity rising

On the liabilities side of the balance sheet, amounts due in respect of customer deposits grew by CHF 108.2 bn or 5.8 % in the first five months of the year. Sight deposits were a full CHF 147.0 bn or 15.9 % higher, while time deposits were down CHF 21.4 bn or 7.6 %. Other customer deposits were also down, falling by CHF 17.4 bn or 2.7 %. The main reason for the diverging trends in sight and time deposits was probably the impact of the pandemic and the SNB's related measures to supply the banks with liquidity. It is likely that the interest rate situation and uncertainty over the economic trend are also causing investors to hold more money in liquid assets.

Amounts due to banks rose by CHF 43.8 bn or 9.1 % in the first five months of the year, equity by CHF 7.7 bn or 3.6 %. This suggests that banks have built up their reserves with a view to being better prepared to cope with the potential after-effects of the pandemic.

Trading portfolio liabilities were also higher, rising by CHF 2.7 bn or 7.1 %. This item includes short positions in the trading portfolio. Its increase indicates that investors were anticipating a fall in asset prices. The position "bond issues, central mortgage institution loans and cash bonds" grew by CHF 14.9 bn or 3.4 %.

All other liabilities were up CHF 45.4 bn or 9.6 %, primarily due to a rise of CHF 35.0 bn or 25.9 % in liabilities from securities financing transactions. This also points to an increase in investors' short positions.

II. 3 Assets under management

The banks in Switzerland had assets under management totalling CHF 7,893.4 bn at the end of 2019. This represents an increase of CHF 959.8 bn or 13.8 % year-on-year. The share of non-resident customer assets remained virtually unchanged at 47.6 %. Switzerland is the global market leader in cross-border wealth management, accounting for almost a quarter of all cross-border assets under management worldwide.[64]

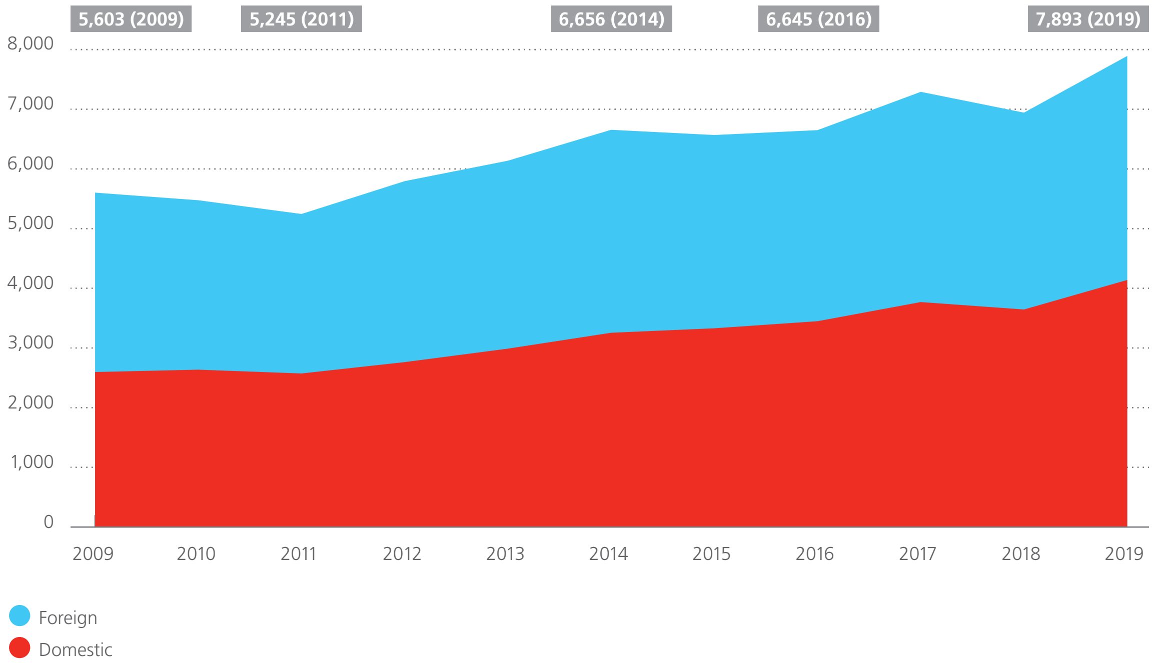
II. 3.1 Trends in 2019

The banks in Switzerland had assets under management totalling CHF 7,893.4 bn at the end of 2019. This represents an increase of CHF 959.8 bn or 13.8 % year-on-year, reflecting rises in both non-resident (+13.9 %) and resident customer assets (+13.8 %). Assets under management comprise securities holdings in bank custody accounts (CHF 6,780.1 bn), amounts due to customers excluding sight deposits (CHF 916.3 bn) and fiduciary liabilities (CHF 197.0 bn).

64 A detailed analysis of assets under management in Switzerland by client segment and type of management is provided in Part III Developments in selected areas of business.

Fig. 12

Assets under management in Switzerland by customer origin
In CHF bn



Note: As of November 2015, the SNB has compiled data on the basis of the revised accounting rules for banks (ARB) published by the Swiss Financial Market Supervisory Authority FINMA in its Circular 2015/1, which replaced FINMA Circular 2008/2. The revised ARB changed the structure and content of banks' balance sheets and income statements, redefining assets under management. Applying the new definition to the years 2006–2014 may result in deviations from the previously reported figures.

Source: SNB

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 the leading indices plummeted. Assets under management have gradually recovered since 2009, rising by CHF 2,290.8 bn or 40.9 % to CHF 7,893.4 bn in 2019.

The year-on-year growth of 13.8 % was mostly attributable to the positive trend in securities holdings in bank custody accounts (+15.9 %), which account for the largest share of assets under management.

The increase in securities holdings in 2019 was fuelled by rising stock markets – typical CHF balanced portfolios gained 12 – 13 % – as well as the strong Swiss franc, which appreciated by 3.8 % versus the euro and 1.9 % versus the US dollar. It is also likely that the banks benefited from net asset inflows.

On top of this, fiduciary liabilities were up 23.1 %. Amounts due to customers excluding sight deposits, on the other hand, were down 0.9 %.

Fall in foreign customers' share of assets only moderate despite abolition of bank-client confidentiality for tax purposes

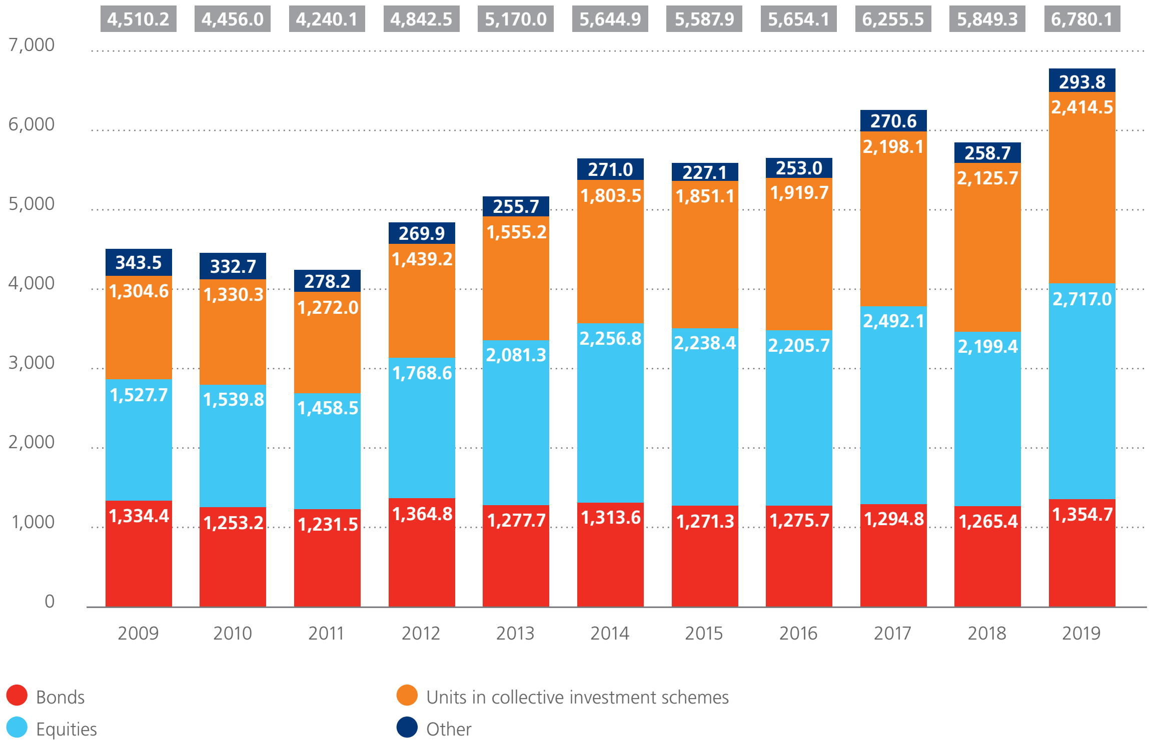
The proportion of assets under management attributable to non-resident customers fell from 53.7 % in 2009 to 47.6 % in 2019. There are a number of reasons for this, the first being currency effects. Non-resident customers hold a much higher proportion of their assets in euros and US dollars than resident customers, but the percentages shown here are calculated in Swiss francs. If the franc appreciates relative to other currencies, the assets held by non-resident customers automatically lose value compared with those of their resident counterparts. Another reason could be the transition to more stringent requirements for bank customers in terms of tax compliance. Non-resident customers have repatriated at least some of their assets in order to regularise their tax situation. Despite their declining share compared with resident customers, non-resident customers' assets under management rose by CHF 748.3 bn or 24.9 % from CHF 3,005.9 bn to CHF 3,754.2 bn over the same period.

Increase in securities holdings

Securities holdings in bank custody accounts rose by CHF 930.8 bn or 15.9 % to CHF 6,780.1 bn in 2019. The breakdown by category is as follows: shares 40.1 %, collective investment schemes 35.6 %, bonds 20.0 % and other 4.3 %. All categories recorded increases year-on-year.

Fig. 13

Securities holdings in bank custody accounts by category
In CHF bn



Source: SNB

Sharp rise in holdings of shares

Holdings of shares in bank custody accounts rose by 23.5 % year-on-year to CHF 2,717.0 bn at the end of 2019. Shares make up the largest proportion of securities holdings at around 40.1 %.

Stronger demand for collective investment schemes

With a share of 35.6 %, collective investment schemes, mainly consisting of investment funds, are the second-largest category of securities holdings. They grew by 13.6 % to CHF 2,414.5 bn in 2019.

Increase in bond holdings

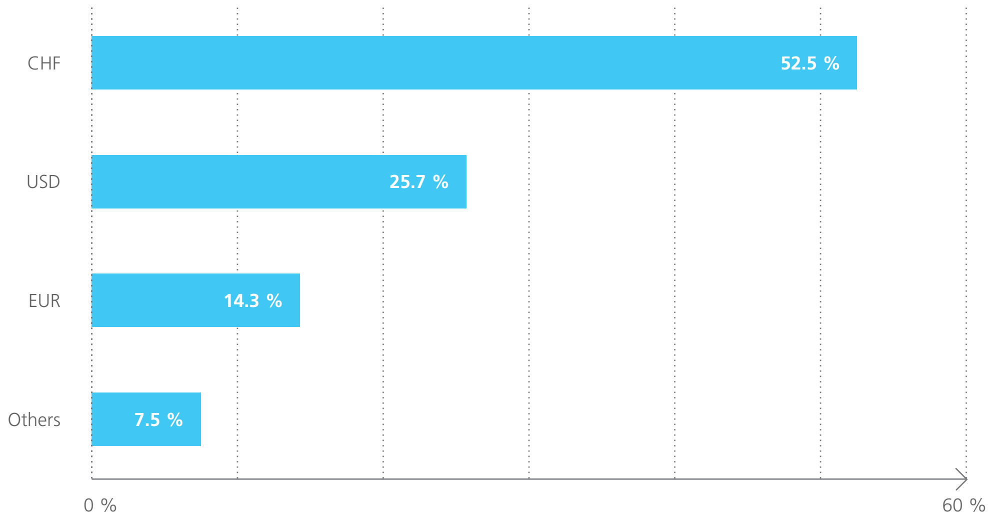
Bond holdings increased by 7.1 % to CHF 1,354.7 bn last year. They account for 20.0 % of securities holdings in bank custody accounts and are thus the third-largest category.

CHF share up, EUR share down

The proportion of custody account holdings denominated in Swiss francs rose from 51.1 % to 52.5 % in 2019. The franc therefore remains the leading investment currency in Switzerland. The euro's importance as an investment currency once again declined slightly last year. Its share of total securities holdings fell from 14.8 % to 14.3 %. The proportion of securities holdings denominated in US dollars was at 25.7 % and slightly lower compared with 2018.

Fig. 14

Custody account holdings by currency, end of 2019



Source: SNB

Further increase in fiduciary assets

Fiduciary assets managed by banks in Switzerland rose further by CHF 36.9 bn or 23.1 % year-on-year to CHF 197.0 bn in 2019. Resident customers accounted for 56.7 % of this increase. Fiduciary assets were as high as CHF 249.6 bn in 2009 but then fell steadily to CHF 114.0 bn by 2015. With just a 2.5 % share of total assets under management, they have very little impact on the Swiss wealth management market.

Slight fall in savings and investment liabilities

At the end of 2019, amounts due to customers in the form of savings and investments were down 2.6 % year-on-year at CHF 642.1 bn. Resident customers accounted for 89.1 % of this total, which includes vested benefits accounts (second pillar) and tied assets (third pillar).

II. 3.2 Trends in 2020

The banks in Switzerland had assets under management totalling CHF 7,423.2 bn at the end of May 2020, CHF 432.6 bn or 5.5 % below the figure of CHF 7,855.8 bn recorded in December 2019.[65] All components were affected by the downturn. Securities holdings in bank custody accounts fell by CHF 351.3 bn or 5.2 %, amounts due to customers excluding sight deposits by CHF 38.8 bn or 4.2 %, fiduciary liabilities by CHF 42.5 bn or 21.3 %. The main reasons for the downturn were financial market trends and the related uncertainty. After initially plummeting from over 11,000 points to around 8,160 in March, the SMI defied the macroeconomic trend with a gradual recovery, eventually breaking through the 10,000-point barrier at the end of June.

65 The monthly SNB figures are based on a partial sample survey and may therefore differ from the year-end statistics, which are based on a full sample survey.

Switzerland number one in cross-border wealth management
Despite tighter regulation and low interest rates, Switzerland is the global market leader in cross-border wealth management with a market share of 25 %.[66] It faces intense competition from financial centres all over the world. The Asian financial centres of Hong Kong and Singapore in particular are growing faster than Switzerland and will thus take an increasing share of assets under management over the medium term. If Switzerland is to defend its position against these Asian rivals and others with higher growth expectations going forward, its wealth management industry must continue to promote innovation, e.g. in digital banking.

II.4 Number of staff at banks in Switzerland

At the end of 2019, the banks in Switzerland employed a total of 89,531 people (domestic full-time equivalents), 1.2 % fewer than in 2018. A survey conducted by the SBA showed a small increase in headcount in the first half of 2020. Around three quarters of the banks surveyed expect their headcount to remain unchanged in the second half of the year.

II.4.1 Trends in 2019

The banks employed 89,531 full-time equivalents in Switzerland in 2019, down 1,130 or 1.2 % year-on-year. As in prior years, some of this decrease was due to jobs being transferred to group entities not covered by the banking statistics.

The SECO puts the Swiss banking sector's average unemployment rate in December 2019 at 2.5 %. This is identical to the figure for the overall economy. Averaged over 2019 as a whole, the banking sector had 3,115 registered unemployed, representing a fall of 303 year-on-year.[67] The job market remained extremely robust, given the major challenges faced by the banks.

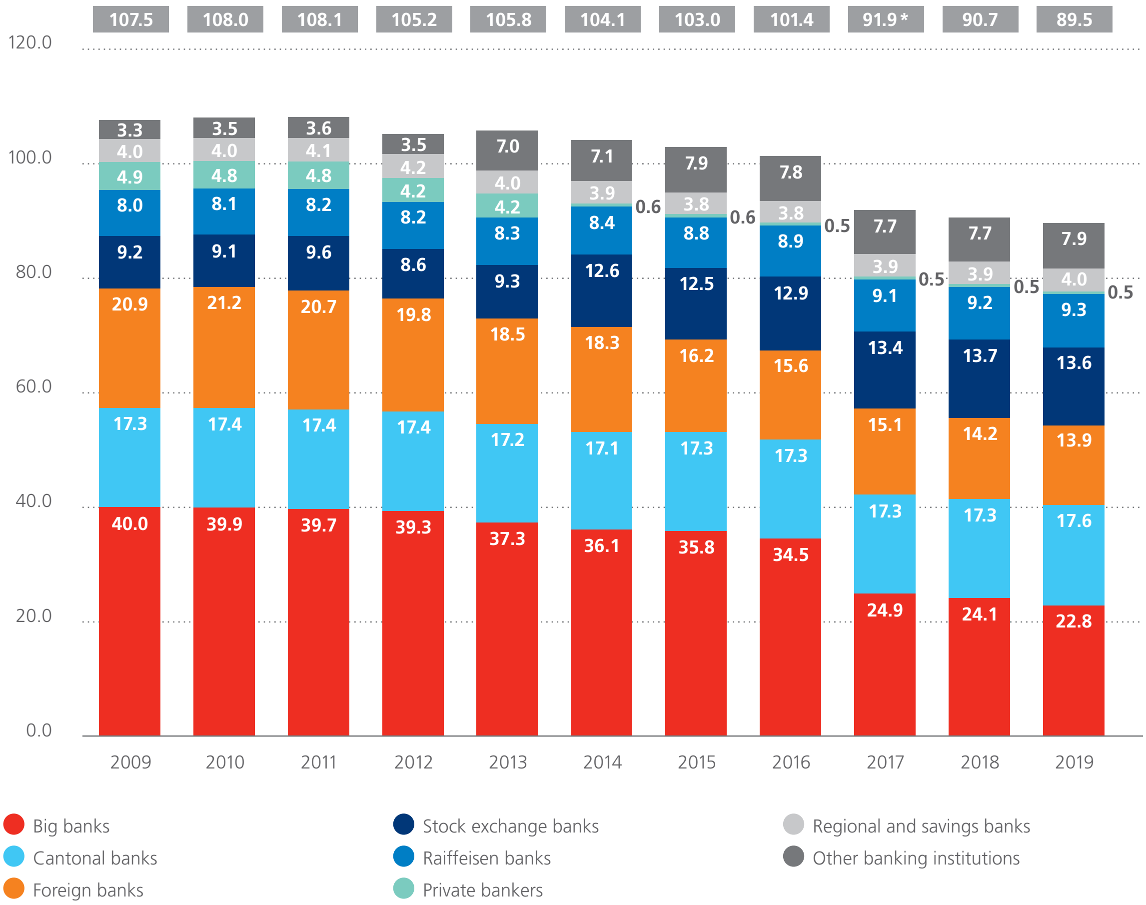
66 The Boston Consulting Group (2020). See also Chapter III.2. Wealth management.
67 SECO (2020).

The trend towards consolidation in the banking sector has been in place for a long time. Low interest rates, more stringent rules on lending and the new capital adequacy requirements are putting pressure on margins. The digital transformation is causing business processes to be optimised and restructured, increasing efficiency and enabling certain processes to be outsourced.

Fig. 15

Number of staff at banks in Switzerland (domestic)

In thousands of full-time equivalents



* Includes a one-off effect caused by the reassignment of staff within a big bank to a group company without a banking licence.

Source: SNB

The big banks, foreign banks and stock exchange banks shed a total of 1,706 jobs last year. The big banks accounted for most of this figure, reducing their headcount by 1,313 or 5.4 %. The foreign banks reduced their headcount by 307 or 2.2 %, the stock exchange banks by 86 or 0.6 %. The cantonal banks, regional and savings banks, Raiffeisen banks, other banking institutions and private bankers, meanwhile, created 576 new jobs in 2019. The strongest growth was recorded by the cantonal banks with 229 (+1.3 %) and other banking institutions with 194 (+2.5 %). Headcount grew by 80 or 0.9 % at the Raiffeisen banks, by 63 or 1.6 % at the regional and savings banks and by 10 or 2.0 % at the private bankers. Personnel costs were slightly higher year-on-year, rising by CHF 0.2 bn or 0.8 %. This was probably caused by higher profit-related compensation in spite of the lower headcount.

The number of bank staff in the 15–24 age group fell 16.9 % from 16,330 to 13,570. The number in the 25–39 age group also declined from 48,230 to 46,510 (–3.6 %). However, the 40–54 age group showed an increase, growing by 1.5 % from 52,120 to 52,900. Finally, the 55–64 age group grew by 12.7 % from 15,320 to 17,260.[68]

The proportion of women working at banks in Switzerland once again rose slightly year-on-year from 38.0 % to 38.5 %, but it remains below the Swiss average of 46.7 % across all sectors. As in prior years, the highest proportions of female staff were recorded at the Raiffeisen banks with 54.2 % and the regional and savings banks with 44.2 %. The banks in Switzerland employed 34,461 women (full-time equivalents) in 2019. They also had 3,181 apprentices, 46.4 % of them female.

II. 4.2 Trends in 2020

The SBA's annual survey of employment trends in the banking sector shows a small increase in the banks' domestic headcount from 87,122 at the end of 2019 to 87,269 in June 2020 – a rise of 147 full-time equivalents or 0.2 %. Foreign headcount grew even more strongly over the same period, rising by 1,450 full-time equivalents or 1.7 %.

68 Swiss Labour Force Survey (2019).

Fig. 16

Number of staff: domestic and foreign

In full-time equivalents	As at 31.12.2019	As at 30.06.2020	Trend in the first half of 2020			
			Total change	Change in %	Joined	Left
Domestic	87,122	87,269	147	0.2 %	4,468	4,321
Foreign	86,850	88,300	1,450	1.7 %	8,386	6,936

Note: number of responses: 143

Note: The domestic headcount figure at the end of 2019 according to the SBA survey is lower than that quoted in the SNB statistics. This is due to the SBA survey's response rate: 216 banks in Switzerland were surveyed, and the response rate of two thirds represents 97.3 % of the total headcount for all banks in Switzerland.

Source: SBA employment survey (2020)

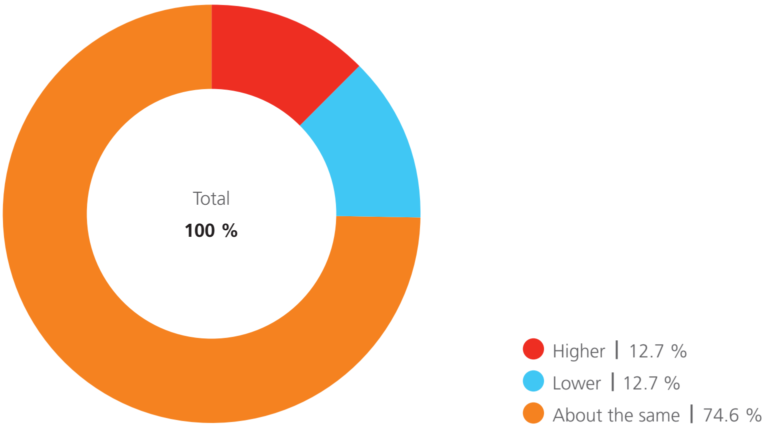
The detailed results show 4,468 full-time equivalents joining banks in Switzerland in the first six months of 2020 and 4,321 leaving, resulting in a net increase of 0.2 % in domestic headcount.

Broad-based expectation of stable employment

Around three quarters of the banks that responded expect employment to remain stable in the second half of 2020. This represents a significant increase of some 15 percentage points compared with last year's survey. However, expectations of rising employment are much lower than a year ago: only 12.7 % (down from 25.7 %) of respondents expect an increase in headcount. Exactly the same percentage expect a decrease in the second half of the year. With just over 87 % of the banks surveyed expecting stable or higher employment, it can be assumed that the total number of staff will at least remain unchanged in the final six months of 2020.

Fig. 17

Expected employment trend in second half of 2020



Note: number of responses: 142. Percentages refer to all responses.

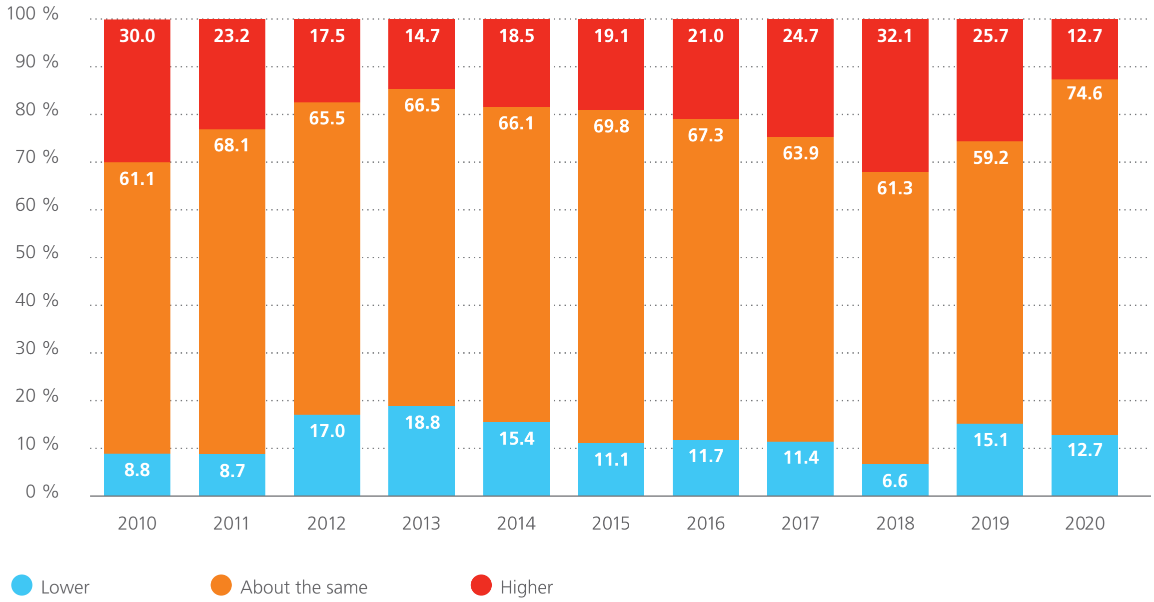
Source: SBA survey (2020)

Minority of banks expecting rise in employment

In past SBA employment surveys, the banks predicting that their own headcount would stay more or less the same had been in the majority. Since 2013, however, expectations of falling employment had been decreasing, while expectations of rising employment had been increasing. This trend started to change last year, and expectations of rising employment were very low by historical standards in 2020. Expectations of a fall in headcount in the second half-year also showed a slight decrease from 15.1 % in 2019 to 12.7 % in 2020.

Fig. 18

Survey results on employment expectations for second half
Percentages refer to all responses.



Note: number of responses: 142

Source: SBA survey (2020)

Stable employment in almost all areas of business

Weighting the banks' responses concerning employment trends in individual areas of business by domestic headcount at the end of June 2020 shows that the dominant expectation is for stable employment.[69] However, some differences in expectations can be discerned. For example, the headcount-weighted proportion of respondents expecting an overall fall in their domestic headcount is 12.7 %, with expectations being most pessimistic for private banking, logistics and operations. Around 5 % expect headcount to increase in retail banking. Overall, the survey reveals that expectations for the second half of 2020 are more pessimistic than they were 12 months ago for the second half of 2019.

69 The Swiss association Employers in Banking publishes up-to-date employment figures in its regular online Banking Monitor (available in French and German). Due to varying methods of calculating results and differing time horizons, the comparability of the results obtained by Employers in Banking and those of the SBA survey is limited.

Fig. 19

Employment trend in second half of 2020

Total	Retail Banking	Private banking	Institutional asset management	Securities trading	Logistics and operations (back office)
→ ↘	→	→ ↘	→	→ (↘)	→ ↘

Note: The number of responses for each area of business varies between 86 and 100. The total number of responses is 142. Since the overall response rate is far higher than the rates for individual areas of business, "Total" is the most reliable indicator here. The trends are based on responses weighted by domestic head-count as at June 2020.

Source: SBA survey (2020)

Increase in banking sector unemployment rate

According to the monthly SECO statistics, the unemployment rate in the banking sector increased significantly in the first half of the year, rising from 2.5 % at the end of December 2019 to 3.2 % at the end of June 2020. This is equal to the overall Swiss unemployment rate.

An additional question in the SBA survey concerning the impact of COVID-19 on headcount revealed that there is no direct link between the pandemic and the banks' headcount reductions. Some institutions stated that they had either taken a cautious approach to recruitment or stopped hiring altogether during the crisis. COVID-19 was frequently cited as a reason for organisational measures such as dividing staff into teams or encouraging them to work from home. The survey also showed that some banks actually increased their headcount in back-office functions in order to handle the extra workload created by COVID-19 loans.

III. Developments in selected areas of business

Swiss banking comprises several areas of business that follow their own individual development path: retail banking, corporate banking, investment management and wealth management. Of the CHF 3.7 tn in private assets under management at the end of 2019, CHF 2.3 tn came from foreign-domiciled customers. A total of CHF 3.9 tn was entrusted to investment managers operating in Switzerland. Around 30 % of the assets in Swiss investment management are invested sustainably in line with ESG criteria, compared with a global average of 15 %.[70] Corporate banking is essential for a functioning economy, providing companies with financing, transaction services and access to capital markets.

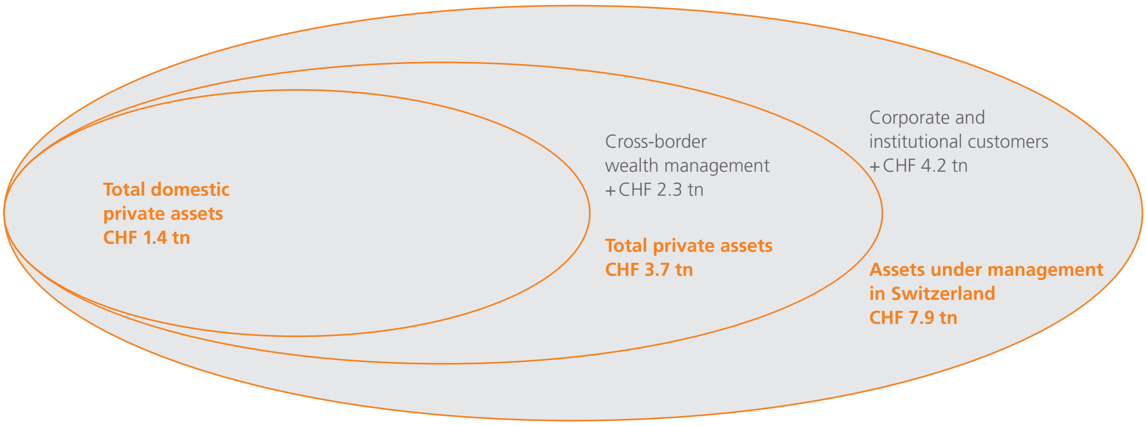
70 SBA estimates based on figures provided by Swiss Sustainable Finance (2020) with growth rates from McKinsey (2020), Global Growth Cube.

III. 1 Overview of assets and investments under management

At the end of 2019, assets under management at banks in Switzerland totalled CHF 7.9 tn, the highest annual figure since records began. Private customers' assets amounting to CHF 2.3 tn were managed in cross-border wealth management. Domestic and foreign private customers together hold CHF 3.7 tn, accounting for approximately 46 % of all assets at banks in Switzerland. The remaining 54 % or CHF 4.2 tn are owned by corporate and institutional customers. The total assets of CHF 7.9 tn comprise CHF 1.1 tn in bank deposits and CHF 6.8 tn in securities.

Fig. 20

Segmentation of assets by beneficial owner 2019



Note: relative sizes are indicative, deviations due to rounding differences. According to the SNB, total assets of CHF 7.9 tn are held at Swiss banks. Their allocation to customer segments is based on figures provided by BCG.[71]

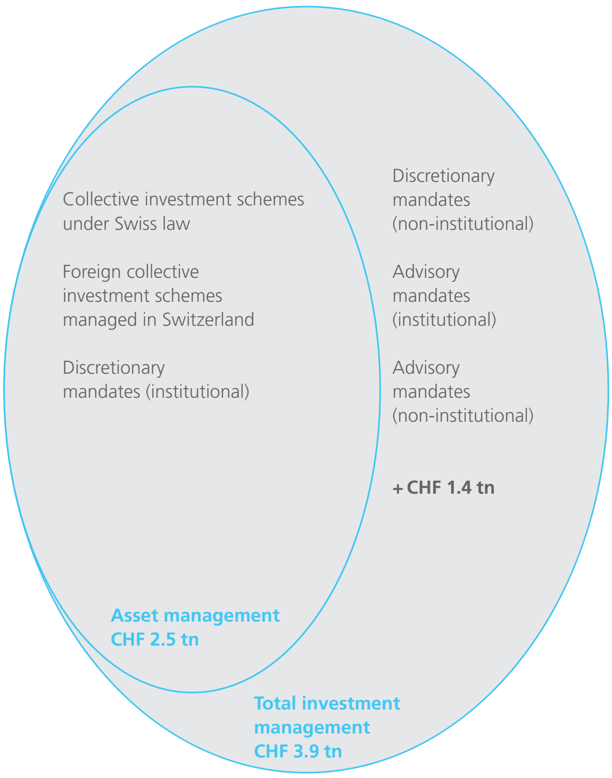
Sources: SNB, BCG, IFZ/Asset Management Association Switzerland. SBA

71 BCG has published its Global Wealth Report annually since 2001. The report aims to calculate the volume of private financial wealth in 97 countries, forecast future growth and explain the implications and trends for wealth managers. It is drawn up using public-domain data sources, BCG models, expert opinions and a survey of 150 wealth managers around the world. BCG has kindly supplied the SBA with detailed data for this year's Banking Barometer. The full Global Wealth Report 2020 is available at www.bcg.com.

Some of the assets booked in Switzerland are managed via investment solutions (e.g. collective investment vehicles and mandates) with Switzerland as their production location. The broadly defined investment management industry in Switzerland is responsible for managing a total of CHF 3.9 tn. Asset management, including collective investments and discretionary mandates for institutional customers, accounts for CHF 2.5 tn of this. The remaining CHF 1.4 tn is attributable to discretionary and advisory mandates for non-institutional customers – mainly private customers – and advisory mandates for institutional customers.

Fig. 21

Investments managed in Switzerland 2019



Note: relative sizes are indicative.

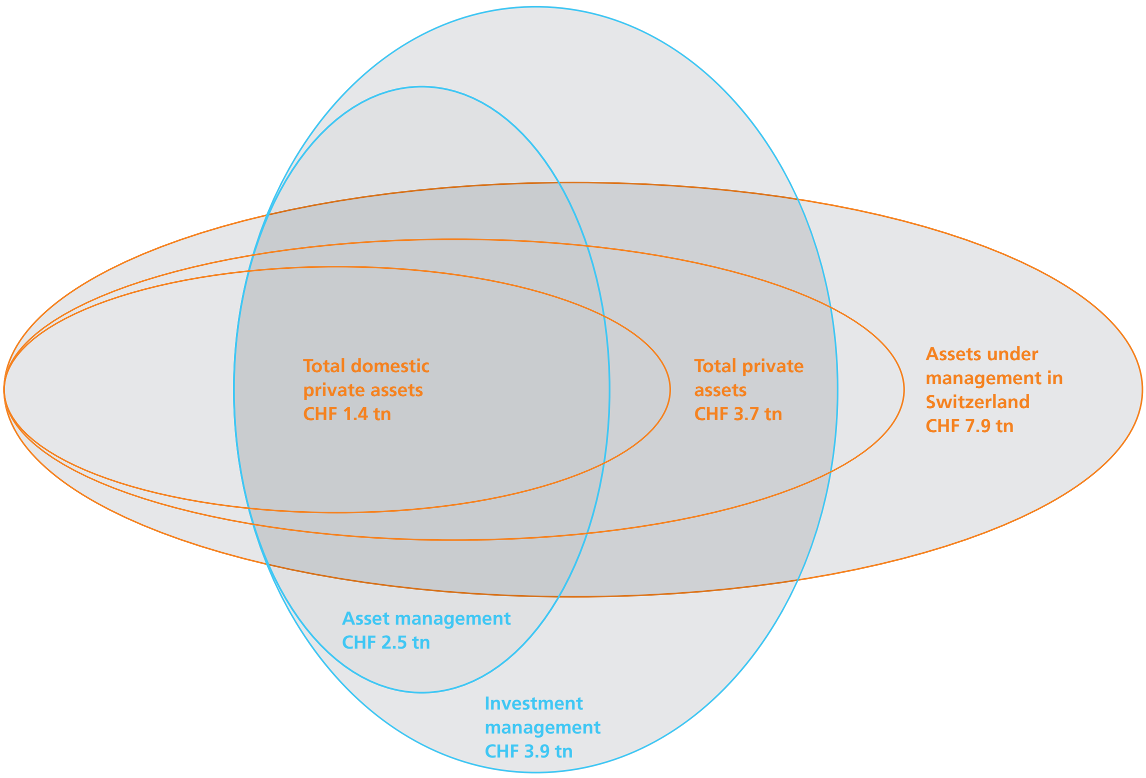
Sources: SNB. IFZ/Asset Management Association Switzerland. SBA

Synergies between areas of business

The breakdown of assets reveals a closely interconnected financial centre. The various customer segments benefit considerably from the concentration of expertise in investment management. At the same time, private customers' assets generate strong demand for investment know-how. This results in synergies and advantages for both investor groups. The Swiss financial sector offers corporate customers a broad range of financing opportunities, specific transaction services and access to the capital market. The job market, which allows experts to move between the various functions, also plays an important role in terms of knowledge transfer and shared understanding among market participants. This is currently evident, for example, with regard to sustainable finance, which was originally in demand mainly among institutional investors but is now very popular with private customers as well.

Fig. 22

The Swiss financial centre is tightly interconnected (2019)



Note: relative sizes are indicative.

Sources: SNB, BCG, IFZ/Asset Management Association Switzerland. SBA

In addition to the assets booked to commercial banks, the SNB holds financial investments totalling CHF 860 bn, primarily in foreign currencies and investments from outside Switzerland. However, these are booked with foreign central banks and the BIS rather than commercial banks. The SNB's assets are therefore not included in the statistics on banks in Switzerland or in this publication, although its investment management expertise strengthens Switzerland's investment know-how.

III. 2 Wealth management in Switzerland

Wealth management is the jewel in the Swiss financial sector's crown, providing a full range of financial services for private individuals and their wealth. Banks in Switzerland managed a total of CHF 3.7 tn in private assets in 2019, around 62 % of which came from foreign-domiciled customers. Wealth management is thus one of Switzerland's biggest export industries.

Switzerland is the leading global centre of cross-border wealth management, far outstripping its two closest rivals (Singapore and Hong Kong) with foreign private assets of CHF 2.3 tn. However, this lead has decreased in recent years as the Asian wealth pools, particularly those in China, have recorded much stronger growth. The Swiss banks are highly active in Asia with cross-border services and increasingly serve customers there directly from local bases.

The complexity of cross-border wealth management encompasses not only specialist financial needs, but also a range of differing regulations across the various domicile countries. The regulatory environment for banks has changed dramatically since the financial crisis in 2008. Changes to regulations have necessitated major alterations to their business models, particularly in cross-border wealth management.

Wealth management highly important for financial sector and overall economy

With CHF 3.7 tn in assets under management, wealth management is vitally important to Switzerland's financial sector and overall economy. Banks offer a comprehensive range of services for private customers and cover all aspects of holistic wealth planning (see Fig. 23).

Only a small number of financial centres can offer a long-standing track record and high density of specialised wealth management services comparable to those in Switzerland. These services range from advice on investments, taxes, inheritance to philanthropy. Switzerland's international focus, multilingual population, sensitivity to cultural differences in target markets, central location within Western Europe and high-quality transport links mean that the banks in Switzerland are able to offer bespoke services for customers in all regions of the world.

Fig. 23

Central role of wealth management for Switzerland's economy

Economic relevance

- Efficient asset allocation
- Effective risk/return ratio
- Contributes to the liquidity and stability of financial markets

Ecosystem "Producers"

Internal banking services:

- Basic services (accounts, deposits, cards, online services, mortgages, etc.)
- Asset management (e.g. funds)
- Management mandates, advisory mandates, etc.
- Structured product issuers
- Private label funds

Other financial service providers:

- Financial markets
- External asset managers
- Issuers of private equity, venture capital
- Fintech start-ups

Advisory:

- Trustees, lawyers
- Tax experts
- Relocation companies

Wealth management

Holistic asset planning (not exhaustive)

- Investment strategy / asset allocation
- Access to financial markets / products / exclusive investment (e.g. IPOs, hedge funds, etc.)
- Financing (Lombard loans, aircraft/ yacht finance, etc.)
- Research
- Suitability and appropriateness testing for investment products
- Pension planning, tax and inheritance consulting
- Succession solutions
- Custody solutions
- Philanthropy services

Wealth management Customers

Internal banking services:

- Private individuals
- Families
- Entrepreneurs

- Family offices
- Foundations, trusts

Spillover effects

For other economic sectors:

- Tourist, event organisers
- Luxury goods, art trade
- Image of Switzerland

Within banks:

- Retail customers benefit from wealth management expertise
- Refinancing
- Transformation of retail customers into wealth management customers

Source: SBA

In addition to adding value directly, wealth management also has close relationships with other areas of business, either as a trading partner or as an upstream service provider. For instance, wealth management and its customers buy investment products from the investment management sector, and they also do business with and provide funding for lenders, IPOs and private equity. Around CHF 368 bn or 25 % of the collective investments managed by asset managers in Switzerland are held by private customers. In addition to this, some CHF 596 bn is held by private customers in discretionary mandates. Retail and corporate banking benefit from wealth management's know-how and also supply new customers who move into the wealth management segment as their assets grow.

From a macroeconomic viewpoint, wealth management makes a substantial contribution to the efficient allocation of assets and to the overall economy's risk/return ratio. Banks and their customers thus form the basis for the liquidity and stability of the financial markets, which ultimately contributes to the success of the entire economy.

Asian wealth management centres posting strongest growth

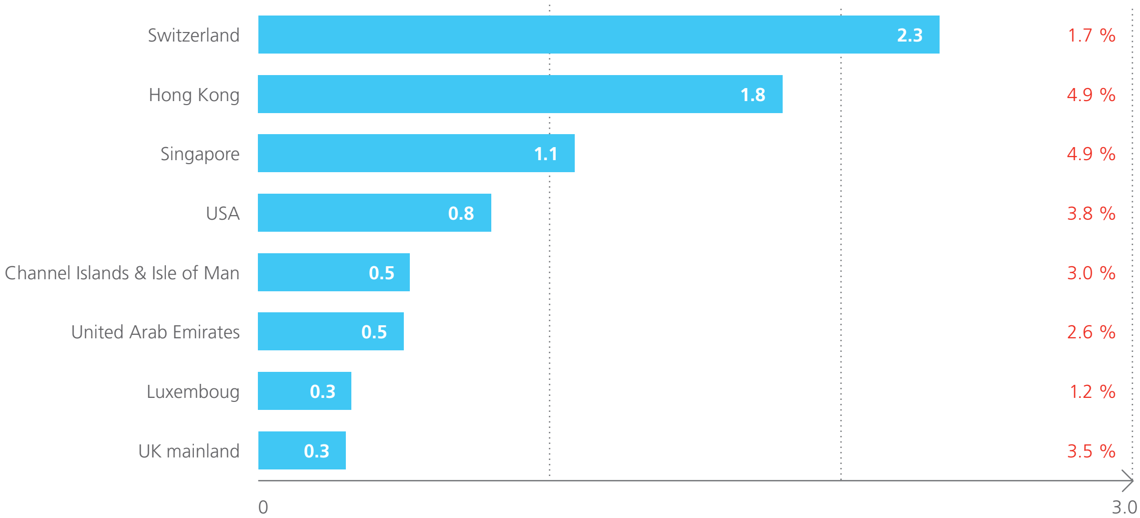
Switzerland is the leading centre of cross-border wealth management worldwide with a market share of approximately 25 %. Besides its uniquely broad range of high-quality services, high level of experience and favourable regulation, it has also benefited considerably from its geographical and cultural proximity to what used to be the fastest-growing markets. The continuing economic difficulties facing wealth management in Western Europe, its biggest market, and far-reaching regulatory changes have caused Swiss wealth management to grow less strongly than rival centres, especially those in Asia, over the past few years. Meanwhile, private wealth has shown the sharpest increases in the emerging markets of the Far East, Latin America, the Middle East and Eastern Europe. This is another reason why Swiss banks have been increasingly seeking a presence on foreign soil for some time already. Customers are also increasingly interested in being provided with a combination of services from different locations.

BCG predicts that this trend will persist over the medium term (see Fig. 24). It forecasts growth of 1.7 % in cross-border assets under management by Swiss wealth managers, which is below the level of 4.9 % forecast for both Hong Kong and Singapore. The latter two locations are profiting most of all from the huge accumulation of wealth in neighbouring countries, particularly China. Other European wealth management centres such as Luxembourg, the Channel Islands and the UK mainland are also likely to post slower growth for similar reasons to Switzerland.

Fig. 24

Assets under management and growth forecasts for largest cross-border wealth management centres 2019–2024

Assets under management in CHF tn, growth forecasts in percent



Note: The blue bars represent assets under management in CHF tn. The red percentage figures on the right are annual growth forecasts. Given the highly uncertain nature of forecasting against the backdrop of the COVID-19 pandemic, BCG has worked out various scenarios. The figures presented here are based on the "slow recovery" scenario, which is regarded as the most probable. Following a revision of the influencing factors, the 2019 estimate for Hong Kong (CHF 1.8 tn) is much higher than that for 2018 (CHF 1.3 tn). This is due to a structural change in the forecasting model rather than an actual increase in assets under management.

Source: BCG

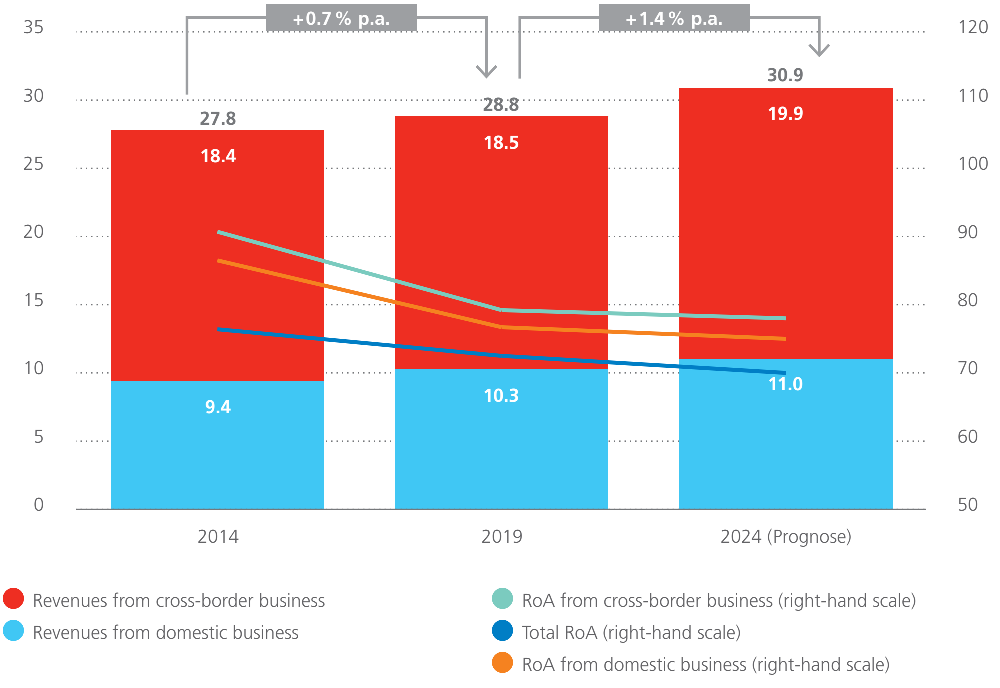
Revenues set to grow, margins stabilising

BCG estimates gross revenues for the entire industry in 2019 from domestic and foreign customers at CHF 28.8 bn, with around two thirds of this coming from cross-border business (see Fig. 25). The volume has grown by 0.7 % a year since 2014, which appears very small compared with the 3.2 % growth in assets. Margins have thus been eroded. Return on assets is an indicator of how much gross revenue institutions earn on each Swiss franc under management. The industry-wide figure fell by ten basis points from 87 basis points to 77 between 2014 and 2019. The figure for cross-border business fell even more sharply, although domestic business, which has traditionally had lower margins, was also affected. According to BCG's forecasts, the margin will fall further to 75 basis points by 2024. The decline should thus slow down. Overall, however, revenues are expected to increase between now and 2024.

Fig. 25

Revenues and margins in Swiss wealth management

Revenues: gross revenues in CHF bn, return on assets (RoA) in basis points (right scale), growth rates as average annual growth in %.



Note: margins: return on assets (RoA) excluding lending business. Forecasts based on "slow recovery" scenario.

Source: BCG

III. 3 Investment management in Switzerland

Global investment management is a growing area of business for the financial sector, and this is also true in Switzerland. In recent years, investment management, i.e. the management institutional and private customers' assets, has established itself as a mainstay and hallmark of Swiss finance. It adds a great deal of value for both the financial sector and the real economy by allocating capital efficiently and ensuring efficient markets and professional management of institutional and non-institutional assets.

Increase in assets under management to CHF 3.9 tn

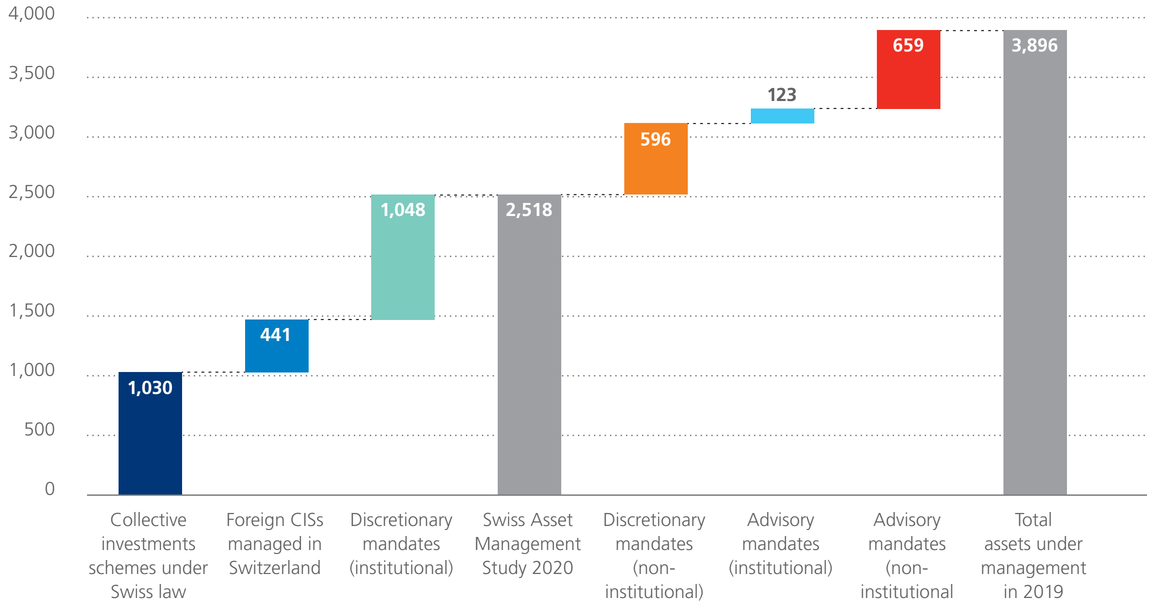
The term "investment management" covers the management of collective investment schemes as well as discretionary and advisory mandates for institutional and non-institutional customers. The SBA's 2018 study[72] sheds light on this area of business across a broad front and reveals the strength of the combined institutional and non-institutional asset management industry in Switzerland. The broad definition also makes it possible to highlight the symbiotic relationship between the different fields and their constructive interplay with regard to innovation and infrastructure thanks to a large shared base of investable assets.

72 SBA (2018). Switzerland – A strong hub for investment management.

Fig. 26

Investment management: assets under management 2019

In CHF bn



Note: The figures for advisory mandates do not include cash or self-managed portfolios. They reflect pure mandate business only.

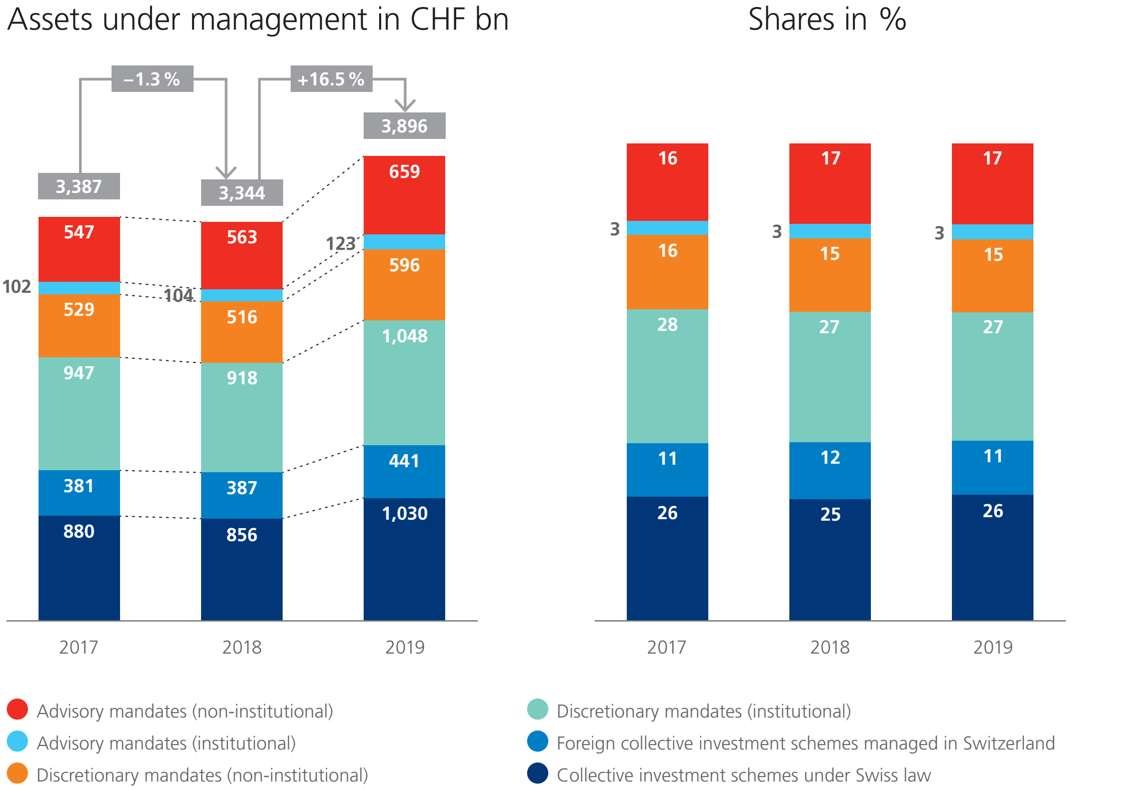
Sources: SBA, IFZ/Asset Management Association Switzerland

Investment management outperforms wealth management in terms of assets under management

In 2019, investments totalling CHF 3.9 tn were managed in Switzerland (see Fig. 26). This equates to roughly five and a half times national GDP and around four times total Swiss pension assets. Assets under management in investment management exceeded those in wealth management for the first time ever thanks to year-on-year growth of 16.5 %. This resulted from a combination of market gains (around 12.5 %) and net new money inflows (around 4 %). There were no significant changes in the overall portfolio composition. Collective investment schemes under Swiss law and advisory mandates showed the strongest growth. Due to the dynamic development of the financial markets in 2019, however, all components of investment management posted double-digit growth rates (see Fig. 27).

Fig. 27

Growth in assets under management



Sources: SBA, IFZ/Asset Management Association Switzerland

Sustainable investments: Switzerland's competitive edge

Investment management plays a central role in allocating capital, ensuring efficient markets and generating returns for investors. This is exactly why sustainable investments are very important to the Swiss financial sector and becoming ever more so. According to Swiss Sustainable Finance, assets of CHF 1,163.3 bn are now invested in line with sustainability criteria in Switzerland, and this figure is growing fast. It already equates to some 30 % of all professionally managed assets, which is twice as high as the global average of around 15 %. Investment management thus makes a substantial contribution to Switzerland's efforts to position itself as a leading hub for sustainable finance.[73]

73 SBA (2020). Sustainable finance in Switzerland: from pioneer to a premier international hub.

Fig. 28

Role and relevance of investment management

Efficient financing

Economic relevance

- **Capital allocation** via meritocratic investment decisions
- **Arrangement** and replacement of traditional sources of financing
- **Influence** on the exercise of voting rights and dialogue with investors
- **Market efficiency** and system stability
- **Professional** management of pension funds
- **High added value** and attractive jobs

Risk-appropriate

Investment universe

Public markets
- Bonds
- Stocks
- listed instruments

Private markets / alternative investments
- Equity capital
- Private placements
- Infrastructure
- Property
- Hedge funds

Investment manager as intermediary

- Preservation of fiduciary interests
- Access to investment universe
- Assessment and selection
- Portfolio building
- Risk management
- Structuring
- Representation of investor interests

Investors' universe

- Pension funds
- Insurance
- Sovereign wealth funds
- Family businesses
- Quasi-institutional
- UHNWIs*
- Private investors

* Ultra high-net-worth individuals

Sources: SBA, BCG

Switzerland's strength in institutional and non-institutional asset management sets it apart from rival financial centres and brings benefits for domestic and foreign customers alike. Switzerland is the world's leading financial centre for cross-border private assets and one of Europe's biggest investment management centres. These two vast asset pools feed off each other and encourage innovation.

Investment management: an export industry

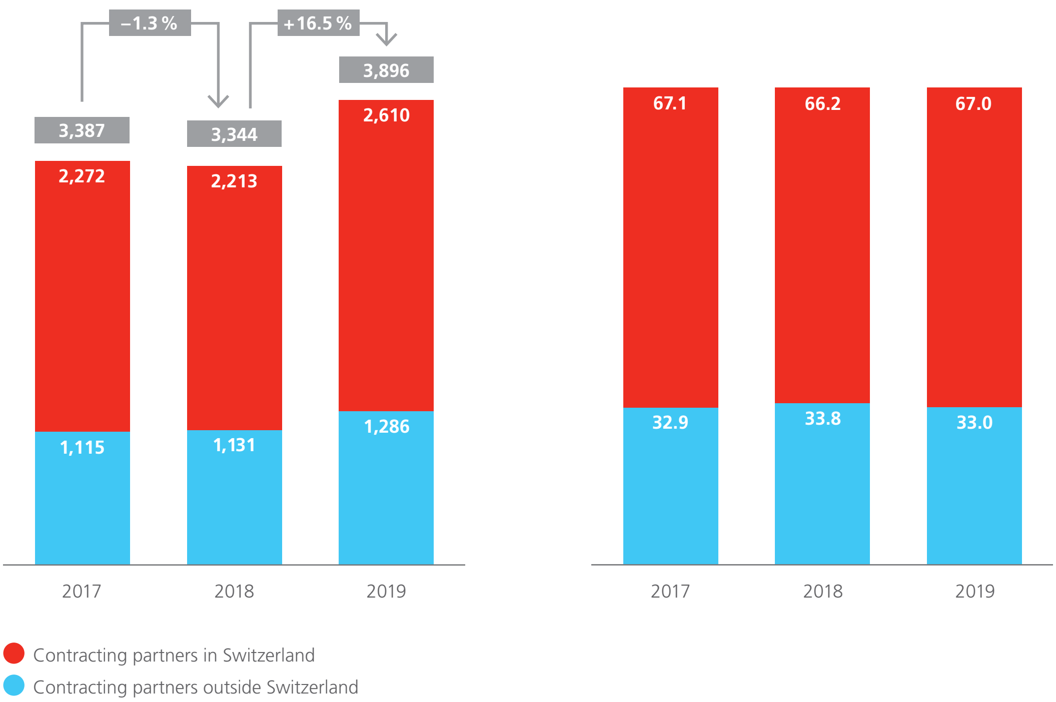
Of the CHF 3.9 tn in assets under management in Switzerland, 33.0 % are managed for contracting partners outside the country, underscoring the global competitiveness of Swiss investment management (see Fig. 29). This figure is lower than in previous years because assets under management for contracting partners in Switzerland have grown more strongly. This can be attributed to currency effects and the outperformance of the Swiss financial market, combined with a preference for domestic investments in Swiss portfolios. At the same time, however, foreign customers probably offer the best growth prospects for Swiss investment management.

Fig. 29

Assets under management by domicile of contracting partner

Assets under management in CHF bn

Shares in %



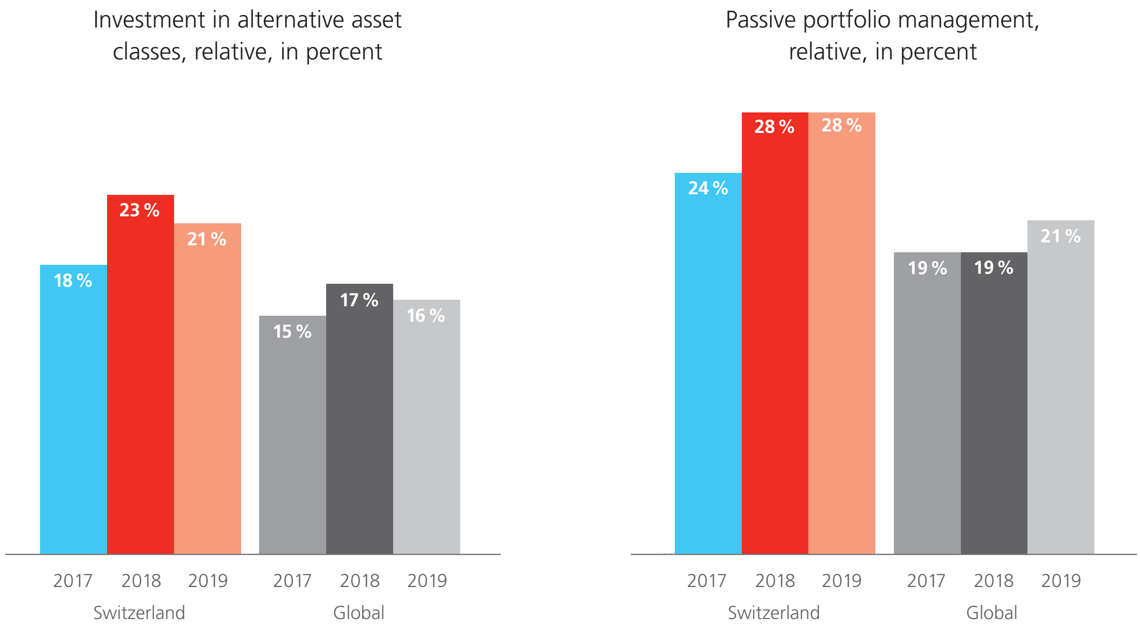
Sources: SBA, IFZ/Asset Management Association Switzerland

Switzerland as an innovation hub in investment management

Alongside traditional asset classes such as equities and bonds, customers' needs are increasingly shifting towards alternative investments. These entail greater innovation and require specialist knowledge and infrastructure as well as political stability and favourable framework conditions. Swiss investment management began to play an active role in this trend at an early stage, giving it a head start over other financial centres. At 21 %, the share of alternative asset classes is well above the global average of 16 % (see Fig. 30). Switzerland is additionally well positioned in passive investments, which are also in vogue: their share is 28 %, compared with 21 % globally.

Fig. 30

Shares of alternative investments and passive portfolio management in investment management



Note: Alternative investments include private equity, private debt, hedge funds, real estate, insurance-linked securities (including catastrophe bonds), commodities and infrastructure. The charts show assets in Switzerland from the production perspective rather than the distribution perspective.

Source: SBA, IFZ/Asset Management Association Switzerland, BCG

Highly sophisticated financial products are crucial to the success of the Swiss investment management industry. Switzerland possesses extensive experience in focused and specialised customer solutions. It sets itself apart from other hubs like Hong Kong and Singapore through structured investment advisory processes, a solid pool of highly qualified talent and a long-standing tradition in investment management.

The steadily accentuating polarisation of investment management between high-volume products (e.g. passive investments) on the one hand and niche products (e.g. alternative investments) on the other is likely to continue. Investment managers must also keep pace with new technologies to optimise administration and management and to offer integrated digital platforms for interacting with customers.

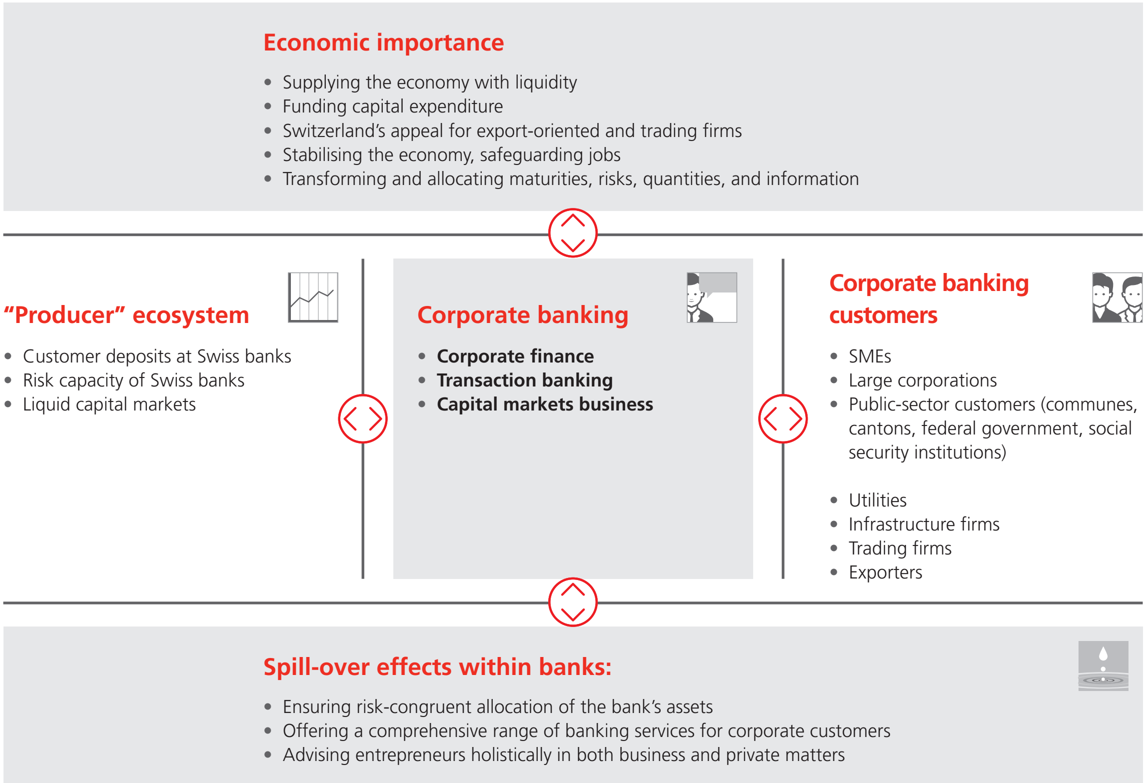
Switzerland represents the ideal environment for a thriving investment management industry: a strong economy, a large pool of talent, know-how, access to capital, a stable political system and an independent justice system. However, care must be taken to ensure that other prerequisites – such as access to institutional customers in Europe and appropriate regulation and tax legislation – are also in place to foster innovation, attract foreign investment and support the industry's continued growth.

III. 4 Corporate banking in Switzerland

Corporate banking is a key component of Swiss banks' business models. Corporate finance, financial transactions and capital markets are of vital importance for the Swiss economy. Providing liquidity as well as access to financing and other services for growth investments, exports and capital markets is an essential prerequisite for Switzerland's economic competitiveness and high productivity. Switzerland's outstanding corporate banking industry makes it attractive as a base for companies or a location for their financing activities.

Fig. 31

**Corporate banking:
providing essential services for the Swiss economy**



Source: SBA

"House bank" model allows corporate customers to be served comprehensively

Corporate banking comprises corporate finance, transaction banking services and capital markets business (see Fig. 32). While most banks with corporate customers offer them loans and payment services, specific offerings such as factoring, structured finance and capital markets business are concentrated among a small number of providers.[74] Corporate customers also have varying needs: basic services like payments are used by virtually all Swiss companies, whereas others are specifically

74 Factoring involves outsourcing a company's receivables to a bank or other financial service provider before they fall due. Structured finance involves financial instruments that are more complex than conventional loans in economic, legal, tax and contractual terms.

aimed at exporters, commercial firms or large corporations. Banks also create solutions tailored to individual phases in a company's life cycle, e.g. founding, IPO or succession. These may combine standard products with services sourced from other areas of business such as wealth management or investment management.

Fig. 32

Corporate banking product groups

Corporate banking	**Corporate finance**	Working capital loans
		Investment loans
		Export finance
		Factoring
		Leasing
		Structured finance
	Transaction banking	Payments/cash management
		Documentary foreign business (letters of credit, debt collection, trade finance etc.)
		B2C payment solutions
		Deposit/money market business
	Capital markets business	Interest rate management
		Commodity price management
		Foreign exchange management
		Debt capital markets
		Equity capital markets
		Mergers and acquisitions

Sources: SBA, based on Roland Berger (2017)[75]

75 Roland Berger (2017). Corporate Banking 2020.

III. 4.1 Corporate finance

Various financing options are available to companies in Switzerland. The traditional "house bank" model is based on long-standing relationships between a bank and its customers and encompasses a wide range of products designed to meet a variety of customer needs. Bank loans are thus the most important source of debt capital for most Swiss companies. By contrast, corporate banking in other countries is more heavily dependent on other forms of financing such as capital markets business or private debt without the involvement of banks.

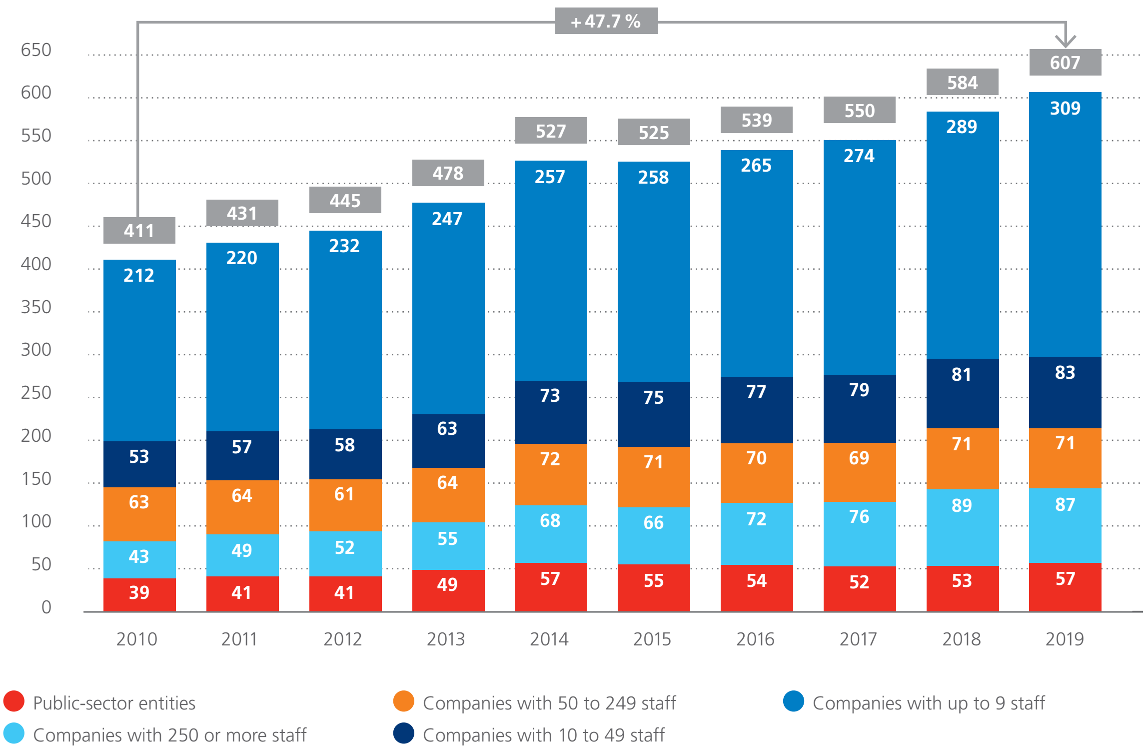
Corporate lending volume growing around 3.5 times faster than GDP

In December 2019, the banks in Switzerland had granted credit facilities totalling CHF 607 bn for corporate loans (see Fig. 33). Over half of all loans were granted to micro-companies with up to nine staff. Since these account for approximately 26 % of the Swiss labour force, they are thus much more dependent on lending than larger companies. The size classes with 10–49, 50–249 and 250 or more staff each make up around one eighth of the total lending volume. This leaves CHF 57 bn in credit facilities granted to public-sector entities. The SNB's lending statistics draw no further distinction between different forms of credit.

Fig. 33

Corporate loans by size of company

Credit facilities in CHF bn, December average, excluding mortgage loans



Note: The total lending volume thus includes working capital loans, investment loans, export finance and other forms of credit granted to domestic and foreign borrowers. It does not include mortgage loans. Due to changes in the basis used to compile the statistics, a small proportion of the growth is attributable to statistical effects.

Source: SNB

The high economic importance of corporate lending is clear from the fact that the total volume increased by 47.7 % between 2010 and 2019, whereas Swiss GDP grew by around 13 % on a nominal basis over the same period. This is especially true for small and medium-sized enterprises (SMEs), which account for the largest share of lending growth. In 2019, 58.8 % of the total domestic lending volume (excluding mortgage loans) was unsecured, i.e. guaranteed only to the extent that the borrower is solvent. Some corporate loans, however, are secured.

The fact that lending volume is rising steadily clearly illustrates how superbly the supply of credit works in Switzerland, even in economically challenging times. Unlike other countries, Switzerland was not confronted with a credit crunch in the midst of the financial crisis.[76]

Broad range of financing solutions for companies
A number of other financing instruments are available to Swiss companies besides bank loans, including factoring (see above), leasing and mezzanine finance, each of which has advantages for companies in specific situations. Banks also offer services tailored to exporters, such as buyer and fabrication loans. Structured finance is an umbrella term covering financing instruments that are more complex than conventional loans, e.g. securitisation, acquisition finance and sale-and-lease-back contracts.

III. 4.2 Transaction banking

Transaction banking comprises products and services for companies that cover the financial flows arising from their business activities. These range from processing millions of customer payments every day to bespoke trade finance in which the bank secures international financial flows. From the customer's perspective, transaction banking facilitates liquidity and capital planning and reduces transaction costs. Banks can also reduce counterparty risks in international trade through their networks of foreign correspondent banks.

Mass-market and bespoke transactions
In 2019, banks processed 1.5 bn domestic card transactions with a total volume of CHF 87.6 bn, which equates to around 12 % of Swiss GDP. Card payments are a typical form of highly automated mass-market business. Their advantage from a company's perspective is that they reduce the costs and risks associated with standard payments. Roughly 45 % of transactions in Switzerland are still carried out using cash. In terms of value, however, debit cards have overtaken cash and now account for 28 % of the total payment volume.[77]

76 SECO (2009). Report to the National Council's Economic Affairs and Taxation Committee on the supply of credit in the Swiss economy: current situation and potential action areas.
77 ZHAW, University of St. Gallen (2020). Swiss Payment Monitor 2020. https://swisspaymentmonitor.ch/.

Letters of credit reduce risks in global goods trading

Another example of a transaction banking product is the letter of credit, which is primarily used in international trade. It is a conditional guarantee under which the bank agrees to cover, for example, a payment owed by an importer to an exporter. The exporter is thus assured payment, while the importer is assured delivery. The bank only executes the payment when the exporter can prove that the goods have been delivered using the documentation defined in the letter of credit. From the bank's perspective, a letter of credit constitutes a contingent liability as the bank is obliged to pay the exporter when the agreed documentation is provided.

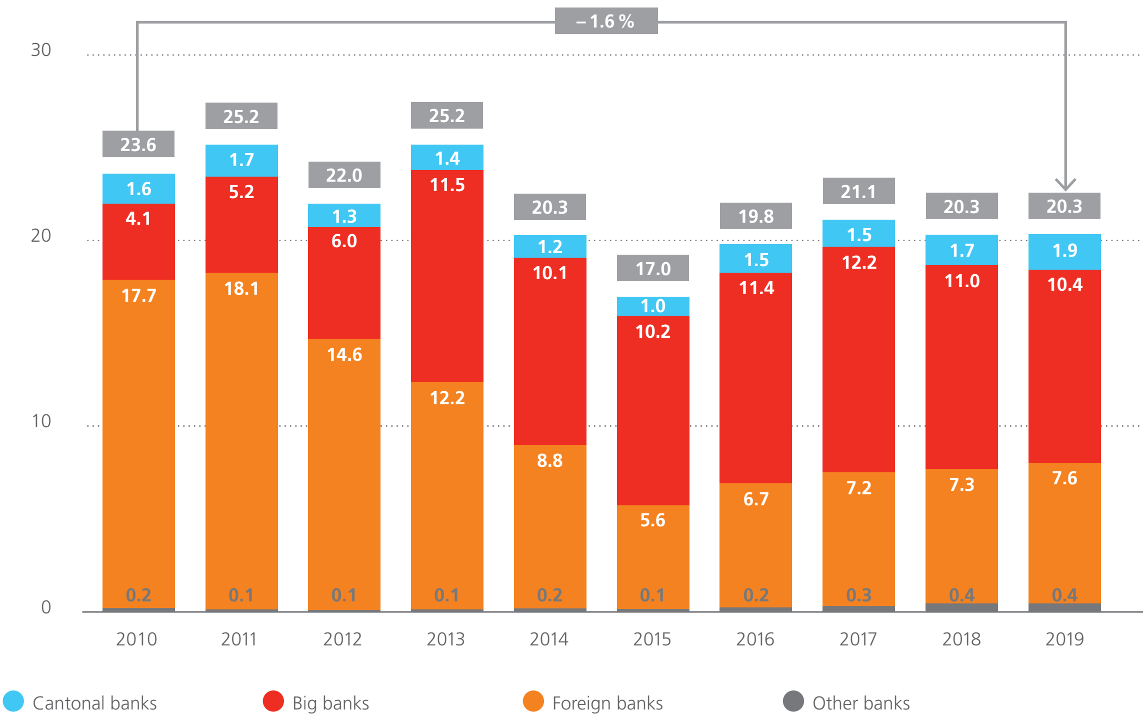
The banks in Switzerland had liabilities from documentary letters of credit totalling CHF 20.3 bn in 2019 (see Fig. 34). This volume has decreased by an average of 1.6 % a year over the past decade. The big banks have the largest share of this business, but their outstanding volumes have fallen slightly. Foreign banks, meanwhile, have increased their liabilities from letters of credit in recent years.

Access to a functioning documentary foreign business is absolutely vital to the Swiss economy, which is heavily dependent on foreign trade. Documentary foreign business means transactions that are not executed until the bank receives certain documents relating to the flow of goods, e.g. delivery notes. In particular, it includes documentary letters of credit and documentary debt collection. Through this business, banks offer companies security in global goods trading and help to safeguard Switzerland's competitiveness in foreign trade.

Fig. 34

Irrevocable commitments from documentary letters of credit

In CHF bn



Note: The growth rate shown refers to average annual growth. The "other banks" category includes regional and savings banks, stock exchange banks and other banking institutions.

Source: SNB

Other transaction banking services besides customer payments and documentary foreign business include cash management, deposit and money market business for corporate customers.

III. 4.3 Capital markets business

Whereas SMEs are financed mainly by bank loans and private transactions, larger companies are focused on the capital markets, where larger sums can be raised at (mostly) more attractive terms. In contrast to the English-speaking world, capital markets business is less important than bank loans for Swiss companies in terms of issuance volumes. Public-sector borrowers are thus typically the biggest bond issuers in Switzerland.

Capital markets enable issuance and trading of shares and bonds
Issuing shares via the stock exchange allows a company to spread its equity capital among a wider group of investors. Banks can support an initial public offering or IPO, for example, with various services such as financial analysis, transaction structuring, bookbuilding and setting the issue price.

The bond market, meanwhile, allows companies to place debt capital. Banks also support bond issues with specific services. Issuance of CHF-denominated bonds has fluctuated between CHF 6.1 bn and CHF 20.4 bn per quarter every years since 2010 (see Fig. 35). With an average share of 34.9 %, foreign issuers constituted the largest borrower category during this period, followed by central mortgage institutions with 21.8 %. The federal, cantonal and communal governments together accounted for 13.7 % of all bonds. Utilities, industrial firms, insurers and other service providers were responsible for 17.2 %, banks for 12.2 %.

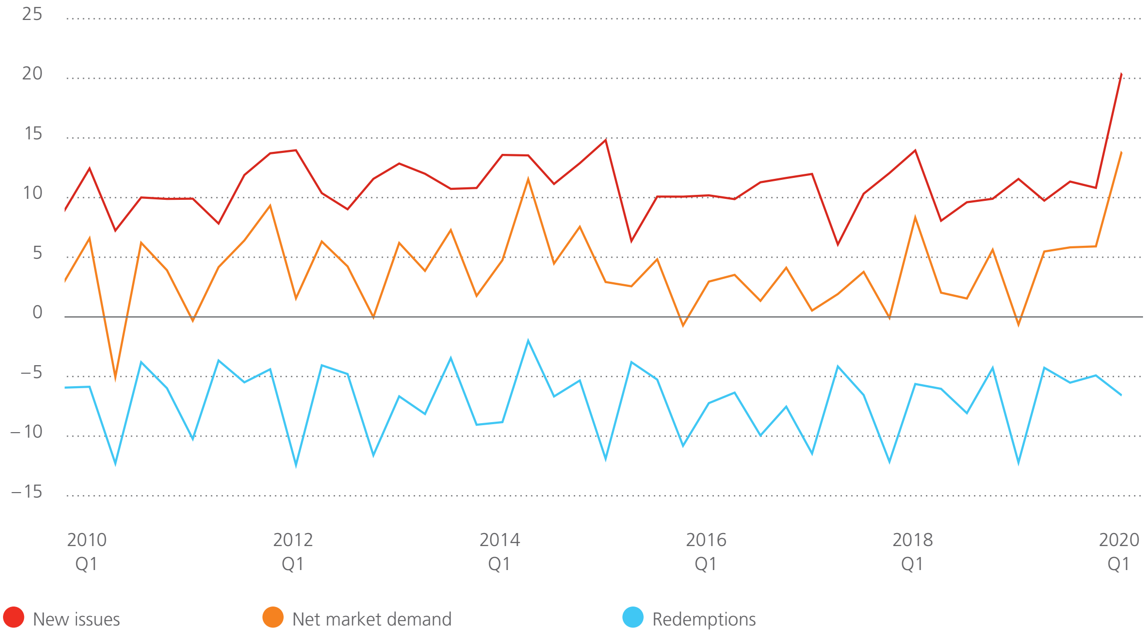
Capital market still fulfilling its role amid COVID-19 pandemic
Capital market demand goes up and down in line with companies' financing needs. In the previous decade, net demand from domestic borrowers peaked at CHF 11.5 bn per quarter (see Fig. 35). This has changed recently because uncertainty caused by the COVID-19 pandemic has led to increased demand for financing in both the public and private sectors. In the second quarter of 2020, new CHF bond issues from domestic borrowers amounted to CHF 20.4 bn. Net market demand was CHF 13.9 bn. Issuance was thus around two times the historical average, which shows that the Swiss capital market is fulfilling its role as a provider of liquidity even in this challenging situation and thus contributing to the stability and prosperity of Switzerland's economy. At the same time, however, its role in financing companies remains small

by international standards. This is due to a number of factors, including stamp duty and withholding tax, which make Swiss securities unattractive for foreign investors and place the Swiss capital market at a considerable disadvantage internationally.

Fig. 35

Capital market demand

CHF bonds in CHF bn, domestic borrowers, quarterly figures



Note: Net market demand is equal to new issues minus redemptions.

Source: SNB

III. 4.4 COVID-19 loans

The "extraordinary situation" declared by the Federal Council in connection with the COVID-19 pandemic has had a huge impact on the Swiss economy. Otherwise healthy companies suffered massive slumps in revenue within a matter of days when protective measures were introduced. Depending on a company's financial situation, a short-term liquidity shortage can pose an existential threat even if the business model is fundamentally profitable.

The Federal Council worked together with banks and authorities to respond to the emergency extremely quickly and safeguard the liquidity of Swiss SMEs. The SME loan programme was launched on 26 March 2020 with a volume of CHF 20 bn, which was increased to CHF 40 bn on 3 April. The federal government guarantees the loans granted by banks under this programme. SMEs were able to take out loans up to 31 July 2020.

Rapid, unbureaucratic support for more than one in five Swiss SMEs
Demand from SMEs for COVID-19 loans up to CHF 500,000 was very high at the start of the programme. On average, around 10,000 loan agreements were signed every day (see Fig. 36). During this period, the banks were even processing applications at weekends. Demand then eased to around 2,000–3,000 agreements a day. By the end of the programme on 31 July, the number was down to a few hundred a day. A total of 135,012 COVID-19 loans with a volume of CHF 13.8 bn were granted. More than one in five of Switzerland's 589,000 SMEs thus took advantage of the programme. The average loan amount was approximately CHF 103,000.[78]

The process of granting COVID-19 plus loans (for amounts from CHF 500,000 to CHF 19.5 mn) proved to be slower, which was to be expected as a credit check was required. Up to the end of July 2020, 1,130 loan applications with an average volume of around CHF 2.7 mn (almost CHF 3.0 bn in total) were received.

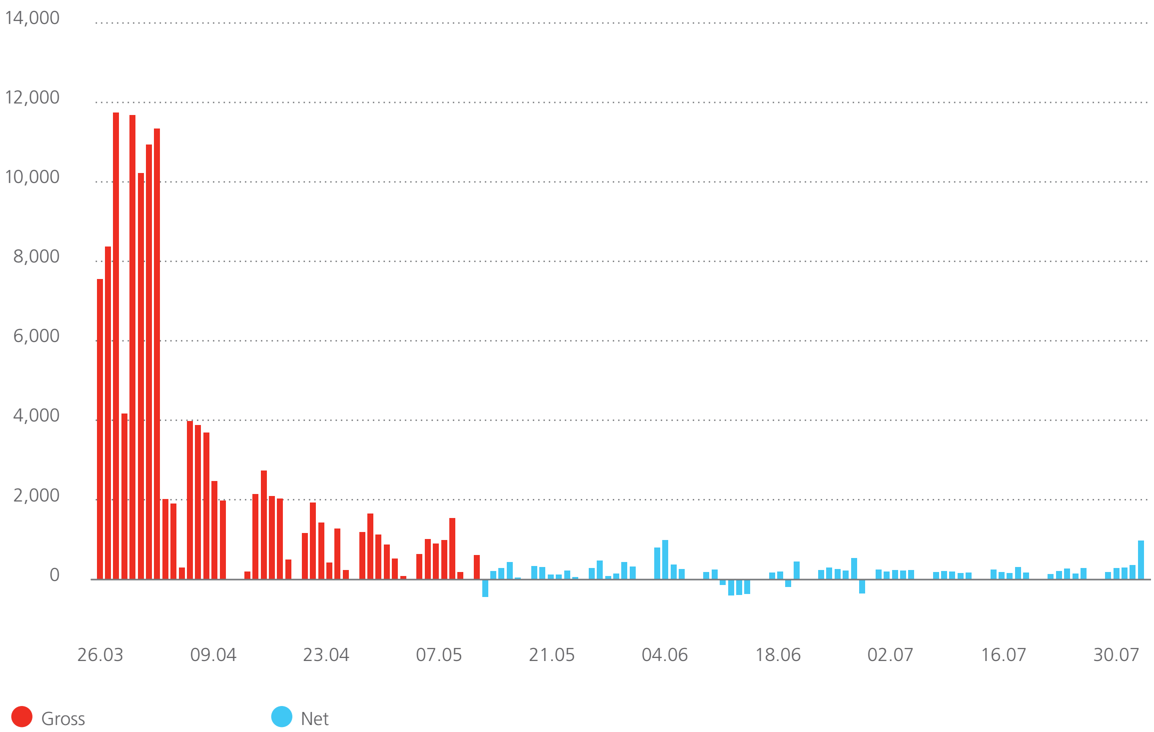
78 The figures shown here reflect the guaranteed amount for COVID-19 loans and the total loan amount for COVID-19 plus loans, which are only partially guaranteed by the federal government. The published figures represent credit lines, their utilisation is not shown in the statistic. Data status: 28 August 2020.

In addition, 90 startup guarantees were granted under the programme. The total volume granted under the SME loan programme as a whole came to CHF 16.8 bn.

Fig. 36

COVID-19 loans

Number of loan agreements per day from 26 March to 31 July 2020, COVID-19 loans and COVID-19 plus loans, excluding startup guarantees



Note: Correction as of 12 May: rejected agreements deducted; net figures thereafter

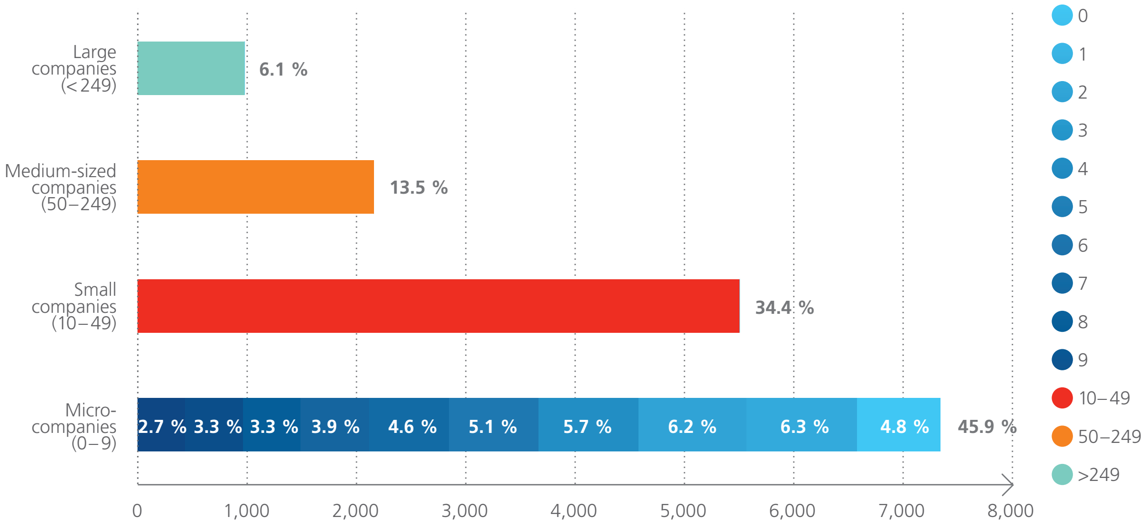
Source: https://covid19.easygov.swiss

Some 45.9 % of the total volume – and thus around half of the COVID-19 loans – were granted to micro-companies with up to nine staff. A further 34.4 % went to small firms with between 10 and 49 staff. Around eight francs in ten of the entire loan programme have therefore benefited enterprises in the micro- to small business sector.

Fig. 37

Loan volume by company size

In CHF mn, company size in terms of full-time equivalents (FTE), as at 25 June 2020, COVID-19 loans and COVID-19 plus loans, excluding startup guarantees



Source: https://covid19.easygov.swiss

Big banks and cantonal banks providing 70 % of loan volume

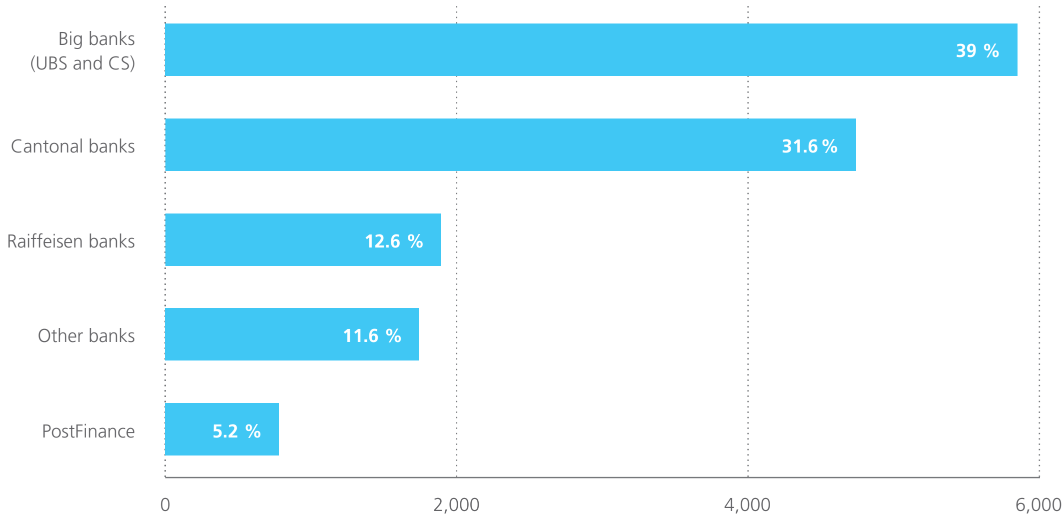
According to information provided by SECO, 123 banks participated in the SME loan programme. They represent a very broad cross-section of the industry in terms of size, regional presence and business model. Even PostFinance, which does not normally engage in lending, took part in the programme. An overwhelming majority of the banks with lending operations thus supported their corporate customers with bridging loans.

In terms of volume, the big banks were responsible for 39.0 % of all COVID-19 loans, the cantonal banks 31.6 %. The Raiffeisen banks supplied 12.6 %, other banks 11.6 % and PostFinance 5.2 %.

Fig. 38

Loan volume by bank category

In CHF mn, as at 25 June 2020, COVID-19 loans and COVID-19 plus loans, excluding startup guarantees



Source: https://covid19.easygov.swiss

Connectedness was decisive in implementing SME loan programme

In view of the drastic economic impact of the COVID-19 pandemic, the SME loan programme organised by the authorities and the banks proved to be a stabilising factor for the Swiss economy. It will of course not be able to eradicate all the effects of the pandemic for SMEs, but it has at least largely averted the existential threat of liquidity shortages in the short term.

The programme was implemented quickly thanks to a number of key factors that are typical of the Swiss financial sector and its cooperation with the authorities:

- **Pragmatism:** The loan application form was kept very simple, its length was comparable to just a single A4 page.
- **Networking:** The authorities and banks have established communication channels that were activated quickly when the crisis broke out.
- **Decentralisation:** The application process was implemented via the banks, primarily using e-mail and with no central servers or offices. Similar programmes in other countries saw central offices inundated with applications.
- **Strong compliance culture:** The threat of hefty penalties and the availability of robust infrastructure for combating fraud on an ex-post basis significantly reduced the abuse rate.

With the pandemic still in progress and healthcare measures still having far-reaching consequences for the economy at the time of writing, it is not yet possible to offer a conclusive assessment of the SME loan programme's economic effect. Depending on default rates, the financial impact of the loans granted may well weigh on the federal budget for some time to come. At the same time, however, the programme represents an unprecedented achievement by everyone involved that has earned a great deal of praise internationally.

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