SwissBanking

Check against delivery

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"Evolution and revolution"

Ladies and gentlemen

The financial centre has probably changed more in the last seven years than in the century leading up to that period.

This is the last time that I will stand before you as the Chairman of the Swiss Bankers Association (SBA), and I would like take this occasion to revisit, although not exhaustively, a few salient aspects from my term in office. I would also like to examine some important issues for the future of our financial centre.

Tax compliance: a revolution

Arguably the biggest paradigm shift that we have seen is the one that has taken place with regard to tax compliance. The result of the evolution of the international legal framework and the pressures that Switzerland has been subject to, in particular from the US and our European neighbours, is that our country gave up international bank-client confidentiality and significantly changed its regulation. The challenges were twofold: addressing the problematic issues of the past for customers as well as for the banks and their employees, and planning for the future in accordance with the new international reality.

Although the equation might appear to be a simple one, it required considerable efforts, not only on behalf of the financial industry, but also our authorities, in particular the State Secretariat for International Financial Matters (SIF). A few words are all that is needed to remind us of how much this issue occupied us: the conclusion of dozens of double taxation agreements in accordance with OECD article 26; adoption of the law on administrative assistance in tax matters; acceptance of group requests; regularisation programmes for our customers, conclusion of the Rubik agreements; roll-out of the US Program; implementation of FATCA; introduction of qualified tax fraud as a predicate offence to money laundering in line with the FATF recommendations, etc. Following the successful completion of Phase 2 of the Global Forum's peer review in July, the culmination of this revolution in tax compliance will be the introduction of the automatic exchange of information in 2018 (for information relating to 2017).

However, despite this significant construction site, a course of action has been determined ("international standards, not more, not less"), and limits have been set. And so, the *Weissgeldstrategie* that the Federal Council attempted to introduce on several occasions, and which would have seen Switzerland become the only country in the world to impose this type of due diligence requirements, was abandoned following the outcry induced by this project.

What remains is the Matter Initiative. And you know that we reject this initiative.

That being said, looking beyond these matters, the most striking factor from my point of view is the shift in attitude that we have witnessed. In the span of seven years, we have passed from the "taboo" of challenging the concept of bank-client confidentiality in tax matters in any way, to the natural implementation of the automatic exchange of information and the acceptance of the premise of tax compliance as evidence thereof. This was achieved step by step, and the Rubik agreements were, even though they did in the end not become an international standard, a key-element in this transition.

While supporting this evolution and working in close collaboration with our authorities, the Swiss Bankers Association was a key actor in the rejuvenation of banking sector's traditional business model.

A responsible financial centre that continues to serve its role

The Swiss financial centre has been the object of much criticism over the last few years, sometimes quite rightly, sometimes less so. However, it is undeniable that it always performed its role, even during the most acute moments of the crisis.

By granting credit to businesses, in particular SMEs, and private individuals, the banking sector never failed in its core role of financing the economy. There has not been a *credit crunch* in Switzerland since the financial crisis in 2008. This stands in contrast to the developments in Europe during the same period, which were characterised by the *subprime* and sovereign debt crises, as well as the introduction of non-conventional monetary policy measures. I was able to observe that the polemic that the economy be presumably opposed to the financial centre has vanished.

In the interests of investor protection, which is another core responsibility, the Swiss banking sector successfully and very quickly implemented measures that resulted in the banks consistently ranking among the best-capitalised in the world. The average Common Equity Tier 1 (CET 1) of the major listed Swiss banks thus rose to 13.6 percent for the second quarter of 2016, which is considerably above the 10 percent minimum required by the Swiss regulator. Switzerland has also recalibrated its *too big to fail* regime, defining loss-absorbing capital requirements which correspond to a ratio of 28.6% of risk-weighted assets or 10% of total exposure. In the current geopolitical environment, the solidity of the Swiss banks is a true competitive advantage. This applies as long as regulation is not taken to extremes that would jeopardize the banking institutions in their capacity to finance our economy.

In the wealth management segment, we have succeeded in upholding our standards of excellence in the services provided to customers. This translates into the fact that the Swiss financial centre continues to be the global leader in the management of cross-border assets with a 25 percent share of the market, notwithstanding the introduction of new restrictive regulations. On a more personal note, during my many trips abroad, I have been able to confirm that the Swiss brand is still highly regarded around the world.

In this kind of environment, it is remarkable to see that employment in the banking sector has remained relatively stable, even if we saw a decreasing trend in employment in Switzerland in 2015 and a rise in employment abroad. This was revealed in the SBA's most recent edition of the Banking Barometer. The negative effects of the lack of access to the European market are beginning to become more and more palpable. This is an alarming situation that I have spoken to you about often, and that I will revisit again today.

Prepared for the future: the Swiss Bankers Association

Recent developments have also led us to reflect seriously on the orientation and setup of the SBA. The measures we identified last year have been implemented.

Our Association is now focussed on the key strategic priorities for our different areas of business (retail banking, private banking, asset management and capital markets / corporate banking) with a view to increasing efficiency and avoid straying from of our key responsibilities.

We have introduced a more streamlined system of governance, namely by simplifying decision-making processes and ensuring a more business-oriented approach through the introduction of steering committees focussed on our areas of business. We have integrated the senior management of our banking institutions to an even greater extent. Thanks to their respective visions and experience, they strengthen the SBA as a whole and allow it to be closer to the issues on the ground.

A strong financial centre needs a strong SBA. As I have been able to ascertain over these past few years, the opinion of the banks are best heard if they speak with one voice. From this point of view, I am satisfied that my successor will have an even more effective mechanism for addressing the many challenges ahead.

Market access and attractive framework conditions: Necessities for our competitiveness

There are two key requirements for continuing to develop our activities in Switzerland: firstly, attractive framework conditions, because they allow Switzerland to attract new stakeholders and the best talents as well as develop new engines for growth. In the same perspective, the implementation of the third series of corporate tax reforms (CTR III) is a fundamental prerequisite for the competitiveness of the Swiss economy and its financial centre. The third series of corporate tax reforms guarantees equal treatment of all companies and businesses in Switzerland and a stable and attractive tax system for our location. We must commit ourselves o this reform.

Secondly, we need access to foreign markets, particularly in Europe. This allows us to export our products and services and maintain the substance of our institutions and jobs in Switzerland. We have been underscoring the strategic importance of market access for the Swiss banks for a long time now, but the current situation remains unsatisfactory.

So, where do we go from here? The options at our disposal were examined in detail during the review conducted by the group of experts led by Professor Aymo Brunetti: seeking to establish regulatory equivalence; concluding bilateral agreements with certain countries, such as with Germany; assessing the potential of a sectoral agreement for financial services with the European Union (EU), which would provide true long-term security.

Even if the banking sector is amenable to opening exploratory discussions with the EU to determine the feasibility of such an agreement on financial services, it would seem evident that such an agreement cannot come to fruition in the short-term given the political situation between Switzerland and the EU. This is regrettable. In particular, it should be expected that before concluding such an agreement, the European authorities will demand a resolution for the issue of the free movement of persons following the referendum on 9 February 2014, and for the institutional negotiations that are currently underway.

Despite this challenging environment, I am convinced that market access must remain at the centre of our efforts, because it is crucial to our ability to compete and for the future of employment in the Swiss banking sector.

Emerging stronger from the 4th industrial revolution

While much of our energy has been focussed on tax and regulatory issues, a new industrial revolution, the fourth, has emerged before our eyes. This digital revolution has, for the first time in history, seen technology companies take the top five spots for the biggest companies by market capitalisation.

These developments affect all areas of the economy and are of very direct relevance to the banking sector. This revolution challenges us with its dramatic rise, as well as the significant impact it has on our infrastructures and the way in which economic stakeholders interact with one another. And so, the introduction of *smartphones*, which have strengths and capabilities that were barely conceivable just a few years ago, are in the process of revolutionising both the supply and demand of customer services, including for bank customers.

Each day we see new stakeholders emerge and launch innovative products and services while questioning some of the ways that traditional players operate. Here it should be noted that financing for fintechs has never been as high as in the last two years. Financing in this segment reached historic highs of USD 12 bn and USD 19 bn respectively of investments.

The question we must ask ourselves is therefore the following: how can the Swiss banking sector come out a winner from the profound changes that are currently underway?

I am firmly convinced that the digital revolution offers numerous opportunities for banks and constitutes, from that point of view, a rejuvenating element for our financial centre. At a time when margins in the sector are under pressure, innovation represents more than just an opportunity. It is a necessity in order to:

- better serve customers and gain market share;
- reduce costs and improve the efficiency of banks;
- better manage risks that are becoming more and more complex to address.

In this context, it is also essential to reinforce the relationships between private and public stakeholders – banks, fintech companies, the academic world, and political, administrative and regulatory authorities – in order to establish agendas that promote shared interests, assure first-class education and benefit from the capacity for innovation and technical expertise that have always been some of Switzerland's key attributes.

The Swiss Bankers Association, which has made this issue one of its strategic priorities, intends to fully exercise its role as a catalyst, namely by monitoring and fostering a fintech ecosystem that benefits all banks, and by ensuring that at the regulatory level, all market players and all activities are subject to the same rules, which are determined on the basis of risk and applicable independently of the technologies or the business models in question.

Standing together

I have said it before in the past: it is vital for our country, which often finds itself isolated at the international level, to move forward as a united front in order to defend our interests as best possible. But we must also promote ourselves more vigorously, as do our biggest competitors. In this context, I am firmly convinced that the institutionalised dialogue that we have started to introduce between the public and the private sectors constitutes a key to success and is vital to the sustainability of our financial centre. This is an important effort that we must continue to pursue because our financial centre is an essential part of our collective prosperity.

Ladies and gentlemen, I am coming to the end of my presentation. I would like first and foremost to say that I have been honoured to defend the interests of the banking sector during a crucial period in its history. That required relentless commitment, and I would like to thank our employees and the members of the SBA who, during these seven years, worked side-by-side with me, tirelessly, diligently and with determination.

I wish my successor Herbert J. Scheidt much success in his role as Chairman of the Swiss Bankers Association. During these past years, we have worked together in an environment of respect and regard, sharing a veritable convergence of views, and I am convinced that he will be successful in guiding the banking sector with élan, skill and good judgement.