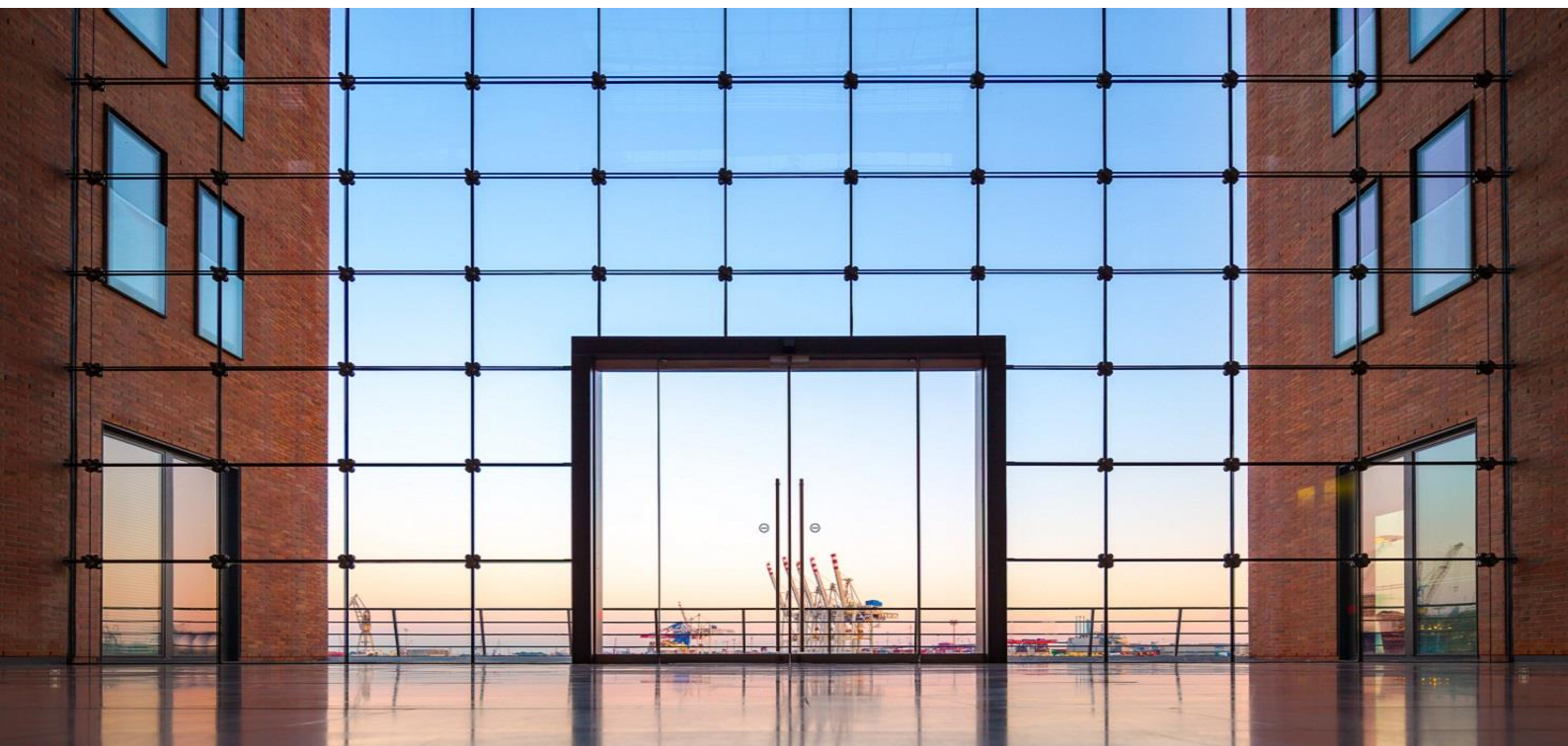


June 2019

Market access for Swiss Banks

Importance and outlook

SBA background paper



Market access for Swiss banks

Importance and outlook

Executive summary

- The cross-border wealth management business with private customers in the EU is an important export industry for Switzerland. Banks in Switzerland manage **CHF 1,000 bn** of assets for customers in the EU. Roughly **20,000 people** in Switzerland are employed in this area, which generates tax revenues of approximately **CHF 1.5 bn per year**.
- **Market access restrictions** are, however, increasingly **hindering** internationally oriented Swiss banks from **meeting legitimate customer needs** and **keeping value creation, jobs and tax revenues in Switzerland**.
- **Market access solutions are required** which cover banking, wealth management and investment advisory services. If market access is not secured and sustainably improved, there is a risk of a **significant erosion of value creation** in an important sector of Switzerland's economy.
- **An institutional framework agreement (InstA) would probably be needed** for any of the solutions that the banking sector is focusing on to be successful.

Why does market access matter for Swiss banks?

With a global market share of 27.5%, Switzerland is the global leader in cross-border wealth management. Private banking and asset management are fundamental for the Swiss financial centre and make an important contribution to the value creation of the overall economy.

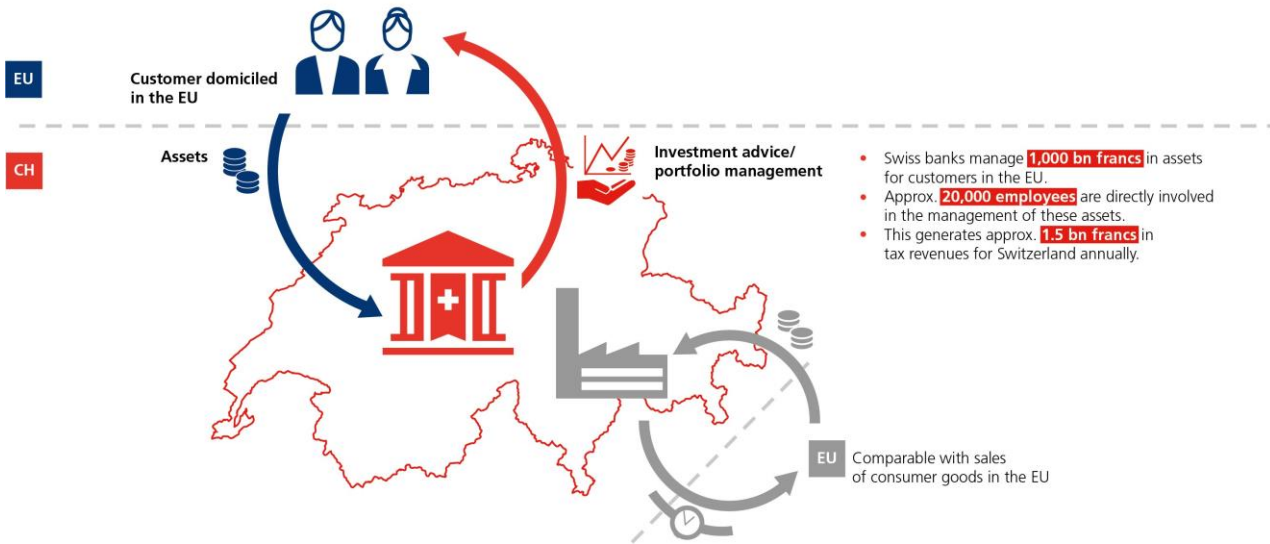
Switzerland is an export nation. This also applies to wealth management. Despite stiff competition between the world's financial centres, EU customers currently entrust banks in Switzerland with around CHF 1,000 billion in assets under management. This demonstrates the strong interest in the services provided by Swiss banks, whose financial services are considered to be of high quality and complement those that EU customers can find in their country of domicile. Political stability, the strong Swiss franc and Switzerland's long and successful tradition in the banking business are attractive to these customers. However, there are no agreements in this area to ensure proper market access. This business is not about goods but financial products and services. Just as it is important for a Swiss company that manufactures luxury watches to be able to sell them abroad, banks providing financial services in Switzerland must also be able to sell them to EU citizens abroad.

For the banks, market access therefore means being able to offer services efficiently according to their customers' needs. Market access is just as essential for the finance industry as it is for the watch, engineering or wine industries. It is therefore not a "nice to have", but rather a clear necessity.

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What exactly does market access mean?

Market access as a prerequisite for cross-border business

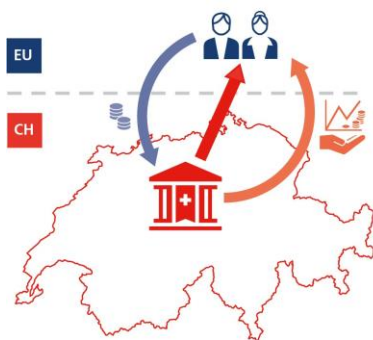


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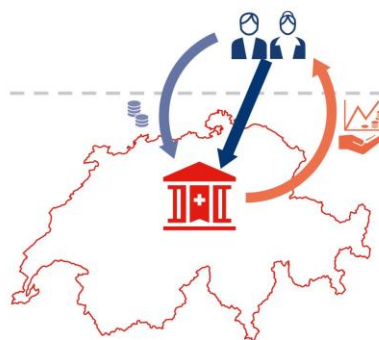
What are the different types of market access?

Cross-border active



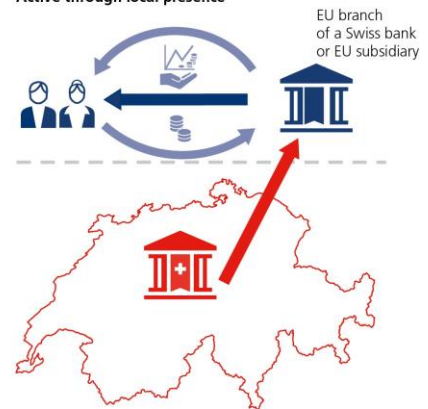
- Active, cross-border servicing of existing EU customers
- Active acquisition of new EU customers abroad out of Switzerland

Cross-border passive



- Serving existing EU customers within the scope of standard business activities and on their own initiative
- Limited possibilities for growth

Active through local presence



- Swiss bank serves its EU customers through a local presence in the customer's country of domicile
- The majority of value creation is not generated in Switzerland

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Market access can be broken down into three different types: Swiss banks can actively serve their foreign customers out of Switzerland and actively acquire new customers; alternatively, they can do this only passively, i.e. in principle only on the customer's initiative; the third form of market access

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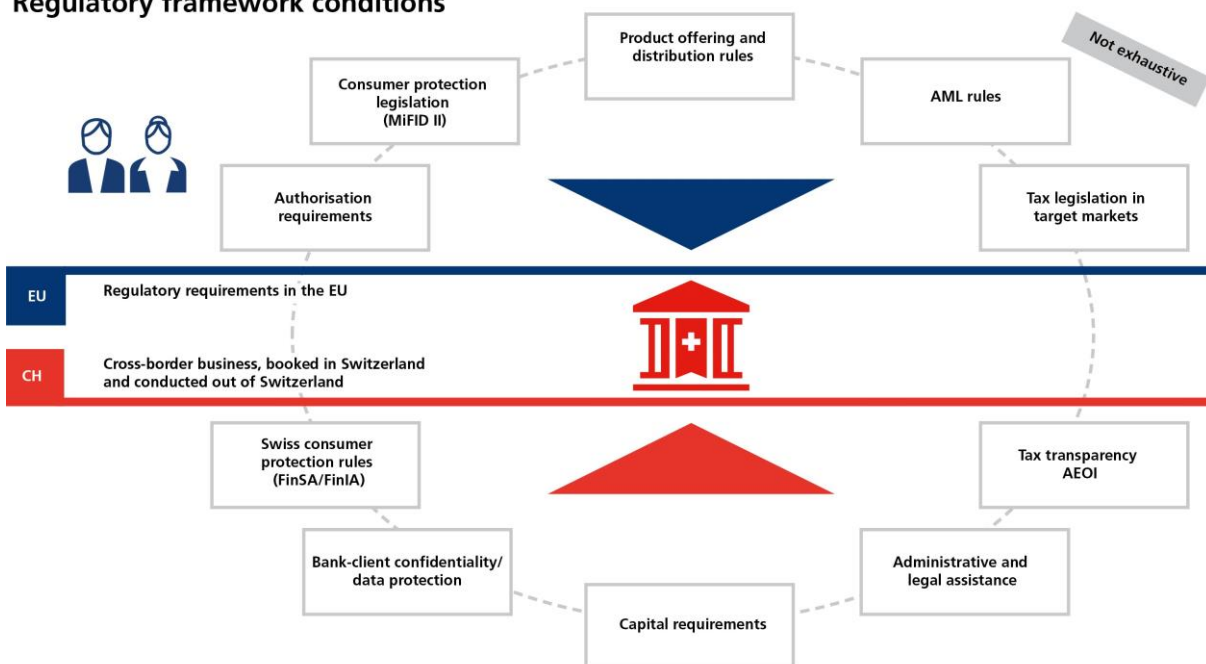
involves serving customers via a physical local presence, i.e. through an EU subsidiary or an EU branch. In this latter case, however, most of the value creation occurs outside Switzerland. There is no basis for the first, active type of service provision mentioned above.

The current dominance of Swiss banks in the international competition between wealth management locations is not incontestable. Competitive financial centres in Asia are currently experiencing above-average growth rates in cross-border business. In order to keep value creation, jobs and tax revenues in Switzerland, it is important for Swiss banks to be able to export their products and services actively out of Switzerland to relevant target markets such as the EU.

Challenging environment makes market access even more important

Regulatory requirements in the individual target markets for conducting cross-border business out of Switzerland have always been rather restrictive, and they are now being enforced even more rigorously. Added to this, harmonisation efforts within the EU have made the framework for providing banking services out of third countries increasingly problematic, even in the area of passive servicing (“reverse solicitation”). If nothing is done to counteract it, this restrictive trend will continue.

Regulatory framework conditions



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Customer behaviour and expectations have also changed. In the past, the focus was primarily on the secure preservation of assets in a reliable jurisdiction and the associated confidentiality. Actively serving the customer was not the priority. However, there is a new generation of customers in the EU who are looking for active, professional and performance-oriented services from Swiss banks. Both personal contact with client advisors and interaction, including through new means of communication, are important in this respect.

Only improved market access geared to customer needs can put the cross-border business on a solid footing.

Options pursued to date

To achieve improved market access, the sector has in the past pursued a number of mutually independent approaches:

- **Bilateral agreements:** Agreements which allow for improvements to market access with individual, strategically important EU countries. To date, it has only been possible to reach such an agreement with Germany.
- **Equivalence strategy:** Key elements of Swiss financial market regulation are recognised as equivalent to EU regulations. However, the relevant recognition processes are currently one-sided, inefficient and, in some cases, heavily politicised (e.g. stock market equivalence). In addition, the scope of the existing EU third-country equivalence regime is restricted to certain activities, certain customer categories (professional clients) and certain products. Even if it is handled in an efficient and depoliticised manner, the current EU regime cannot cover Swiss banks' needs, especially as regards cross-border business with private customers (technically retail customers).
- **"Financial services agreement" (FSA):** A key component of an FSA in the traditional sense would be extensively aligning Swiss financial market legislation with EU regulations. This kind of sector-specific agreement is not currently an area of focus, but it could remain a strategic option from a longer-term perspective.
- **Onshore presences in EU countries:** A number of Swiss banks have established subsidiaries in the EU, but these do not solve the problem. Customers want financial services provided out of Switzerland.

Conclusion: For the banking sector, unlike other sectors of the economy, the fundamental matter at hand is not just "further developing" Switzerland's bilateral path. New avenues need to be explored in cross-border banking, securities and investment services.

What is needed in concrete terms?

What is required are practicable market access solutions that take into account the realities of the entire banking sector. These solutions should in particular cover banking, wealth management and investment advisory services.

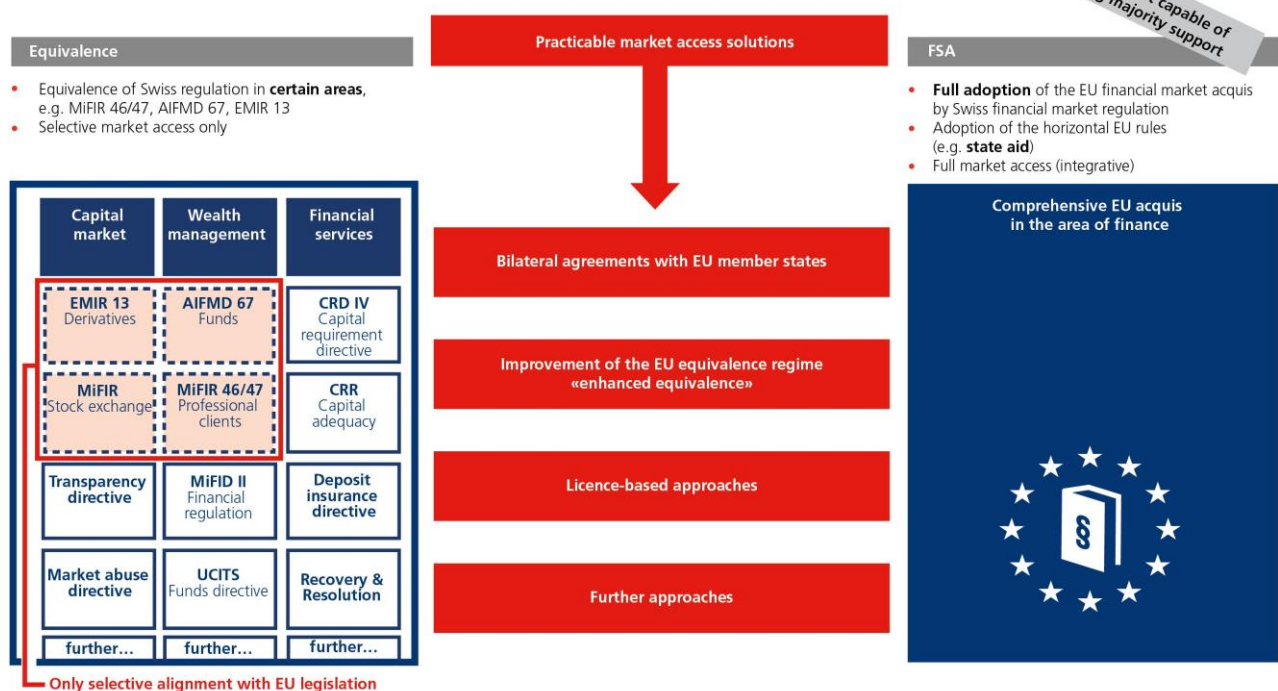
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Accordingly, the sector is currently focusing on the following approaches, all of which would probably require an InstA:

- Placing the existing processes for the recognition of equivalence in the area of financial services on a stable and reliable foundation. They should be depoliticised, addressed swiftly and settled;
- Finding practicable market access solutions at the EU level. These should at least provide market access to interested institutions, without Switzerland having to implement EU regulations for the entire banking sector;
- In parallel to this, improving the current equivalence regime.

An FSA in the traditional sense is not currently an area of focus.

Practicable market access solutions



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What is at stake?

Banks in Switzerland manage assets of approximately CHF 1,000 billion for EU clients. This business employs around 20,000 bank staff and generates annual taxes and levies of around CHF 1.5 billion in Switzerland.

In addition to the domestic market, Switzerland's asset management industry manages assets totalling around CHF 100 billion for EU clients (predominantly institutions). The importance of market access is growing, as the domestic market is increasingly saturated, and demand for institutional asset management in the EU is set to increase.

It is very important to the banking industry that value creation in these vital industries is retained in Switzerland.

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