• Swiss Banking

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The Swiss banking centre is successful and stable

A competitive Swiss economy needs strong banks

- The Swiss banking centre demonstrated its stability last year, despite the Credit Suisse crisis.
- The majority of Swiss banks reported strong annual results.
- The updated Swiss Banking Outlook published by the Swiss Bankers Association (SBA) points to solid prospects for 2024. The outlook for the domestic economy this year is mixed. As regards net income in 2024, stronger commission business and services should make up for the expected decline in interest operations. Expectations on cross-border net new money inflows are cautious.
- A survey conducted by gfs.bern on behalf of the SBA reveals that the Swiss population is still well disposed towards the banks. The sector's reputation remains positive, despite the CS crisis.
- To preserve the stability and competitiveness of the financial centre, the right lessons need to be learned from the CS crisis and existing regulation further strengthened by means of targeted measures. The relationship between a strong Swiss economy and the strong Swiss financial centre is a success factor for Switzerland.

The Swiss banking centre had another successful year in 2023. Swiss banks' net income rose, largely on the back of increased interest income. That positive development was far from inevitable, given the various challenges the sector faced. The takeover of Credit Suisse by UBS just under a year ago, along with the measures taken at the same time by the Swiss authorities, provided immediate stability and enabled Switzerland to avert the risk of an international financial crisis by its own efforts. The financial centre also successfully weathered market volatility and geopolitical challenges.

“2023 showed once again that Switzerland has not only a resilient economy but also a strong and stable banking centre which contributes to the prosperity of the Swiss population”, says Marcel Rohner, Chairman of the SBA, at today's annual media conference.

Looking ahead, the banks are unlikely to enjoy an economic tailwind in 2024. “As an association, we are committed to learning the right lessons from the CS crisis, securing the banks' access to their export markets, and further strengthening the measures in place to prevent money laundering”, Rohner continues.

TBTF: targeted measures to close gaps in four areas

The political investigation into the events that led to the demise of Credit Suisse is still ongoing. “In our view, however, the analysis to date clearly demonstrates that the ‘too big to fail’ (TBTF) regulations enabled the acquisition of Credit Suisse thanks to their high liquidity and capital requirements. However, gaps have become apparent, and targeted action now needs to be taken to close them”, says Roman Studer, CEO of the SBA.

The SBA is arguing the case for measures in four areas: First, as long as they are solvent, all banks should be provided with liquidity quickly if they are no longer able to refinance their operations on the market, but only if they deposit collateral with the Swiss National Bank (SNB). Second, Switzerland should follow other financial centres in introducing a “public liquidity backstop” (PLB). This default guarantee from the federal government to the SNB would allow the latter to provide systemically important Swiss banks that are in recovery or resolution with the liquidity they need. As such, the PLB is an important complement to the TBTF regulations. It enhances system stability and ensures that customers continue to receive services in a crisis. Third, the duty to implement a remuneration policy geared to the long term should be written into law and a lean accountability framework (“senior manager regime”) introduced. Fourth, targeted improvements in the supervisory activities of the Swiss Financial Market Supervisory Authority (FINMA) can be achieved by granting it additional powers if the analysis of the CS case shows this to be necessary.

The SBA believes that the existing capital requirements for systemically important banks are sufficient and sees no need for stricter measures across the board. “The regulatory adjustments made in the wake of the CS crisis are key to the success of the Swiss banking centre over the next 20 years. The measures outlined can further enhance system stability without weakening Switzerland’s innovative capacity and competitiveness”, adds Roman Studer.

Updated Swiss Banking Outlook: Swiss banks expect solid net income at a high level despite muted support from the economy

In a survey conducted between the end of January and the start of February 2024, the SBA questioned 15 chief investment officers (CIOs), chief economists and leading investment managers at SBA member institutions on their assessment of the economy, the financial market and Swiss banks' business performance. The detailed results are published in the updated Swiss Banking Outlook.

The SBA's sector forecast for the Swiss economy in 2024 is very cautious, with GDP growth of 1.2% expected. Looking ahead to 2025, the prospects are somewhat brighter, with slightly higher GDP growth and a continued decline in inflation predicted. Two thirds of the experts polled expect to see at least two quarter-point cuts in the SNB's policy rate over the course of the year. The stock market (SMI) is expected to perform rather moderately in line with the long-term average, gaining 7.7% by the end of the year.

The sector forecast has the banks' net income for this year at a similar level to that seen in the record year of 2023, with a decline in interest operations countered by an upturn in commission business and services. One key element of the survey was the expected trend in foreign assets managed by banks in Switzerland, a core business of the Swiss banking centre. Overall, growth in foreign assets is likely to be modest, and driven primarily by the positive market trend. Expectations on cross-border net new money inflows, meanwhile, are cautious. There is concern that other financial centres may overtake Switzerland as a wealth management hub.

Securing exportability: improving EU market access and consistently implementing sanctions

Europe is by far the most important market for Swiss banks' cross-border wealth management business. For example, a bilateral agreement was concluded with the UK last December. The next step will be to improve access to the EU market overall. “In the SBA's view, the banks' concerns regarding market access must be actively placed on the political agenda. An institution-specific approach for the EU would open up vital access for those banks who want it, without requiring Switzerland to adopt EU law comprehensively”, says Roman Studer.

At a time of growing geopolitical crises, Switzerland's stability and political certainty make it especially attractive for customers seeking a safe place for their assets. That includes a sanctions policy which pursues a long-term approach, takes account of the rule of law and overarching political principles, and adheres to them systematically. By consistently implementing sanctions, the Swiss banks ensure a clean financial centre and, in so doing, boost the export-oriented economy.

Strengthening the anti-money laundering regime

The SBA welcomes in principle the planned law on the transparency of legal entities as a way of further strengthening the measures to combat money laundering. However, it identifies further potential for optimising the current draft. In particular, the authorities' access to the planned register must be aligned with the purpose of the law and should not lead to the indirect removal of bank-client confidentiality in Switzerland. Lawyers, notaries and fiduciaries, in their capacity as advisors, should also be required to comply with the duties imposed by the Anti-Money Laundering Act.

2023 opinion survey: banks' reputation remains positive despite CS crisis

A survey of opinion on banks in Switzerland has produced encouraging results, with the positive view of Swiss banks remaining stable. The figures are currently below the record highs attained during the coronavirus crisis. Overall, the reputation of the banking sector is resilient, in spite of the CS crisis. The Swiss people surveyed are also positive regarding the banks' future competitiveness, thanks to Switzerland's political and economic stability and the fact that its banks are more customer-oriented than their foreign counterparts. To further boost competitiveness, those polled believe that training programmes in the banking sector should be promoted, financial service providers more strongly focused on sustainability, and financial privacy protection maintained.

The survey on banks in Switzerland was conducted by gfs.bern on behalf of the SBA in October and November 2023.

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