

# LIFTING THE VEIL

The era of banking secrecy is over, meaning that the world has changed for Swiss banks. But how they position themselves in the new financial landscape has huge implications for the whole wealth management industry, writes Yuri Bender



**T**hat the veil of Swiss banking secrecy has been lifted, following concerted international pressure after a decade-long debate, there is no doubt. Swiss banks are unlikely to hold a pre-eminent position, based purely on unfair legislative advantage, ever again.

Following this dramatic reversal, there are now three key questions which the wealth management industry is keen to know the answers to: How will Swiss banks re-invent themselves to maintain a market leading position? Will key competitors in other countries benefit from the Swiss turmoil? Which other international financial centres are likely to reap rewards from the uncertainty?

"It is clear from the pronouncements at the G20 that the era of banking secrecy is finally over," says Xavier Isaac, managing director of Investec Trust in Geneva.

There was a sense of shock across the Swiss banking and financial planning houses of Geneva and Zurich earlier in the year, after the G20 let it be known in April that Switzerland, along with Singapore, was a prominent name on its 'grey' list, somewhere between the 'black' list of worst offenders against a transparent and honest global financial system, and the 'white' list of supposedly squeaky clean jurisdictions.

### GoInG BEHInd The SceneS

but a careful look behind the headline impact of the G20 statement has some very good news for Switzerland, reports Mr Isaac, who believes the traditionally neutral mountainous country is being targeted by those jealous of its success in scooping up more than a third of the world's so called 'offshore' wealth.

"There is a distinction between tax havens and other financial centres within the grey list," says Mr Isaac. "Switzerland is categorised as a financial centre, not a tax haven. This is a very important element, and runs contrary to what surrounding countries have said about us."

both competing centres of Singapore and Luxembourg, an EU member, are included on the same list, so the playing field between Switzerland and these two has finally been levelled.

Moreover, Switzerland is also looking to demonstrate a global sense of responsibility by signing new agreements on exchange of certain information and taxation details to reach the 12-treaty threshold required to be a 'model' nation under OECD standards.

Banks in the nation will start to build "a slightly different Switzerland," no longer relying on banking secrecy as the cornerstone of wealth management, but through consolidating their position as centre of expertise for handling the assets of wealthy families.

More business may even seek a Swiss home as private clients begin to question the fiscal stability of countries such as the UK.

"The initial reaction of a number of more typical Swiss banks was that the level of international pressure against them was unfair and that we were a scapegoat. Their first



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**Xavier Isaac, Investec Trust**

instinct was to fight for Swiss banking secrecy, but they very rapidly realised that it is a lost battle," says Mr Isaac.

Larger Swiss banks have suffered some staff defections to other international institutions, in the belief they were not ready for the big change and far too complacent about their market leading positions. Yet the main players claim they saw the change coming and had adjusted their business models accordingly.

"Like many others in the industry, we have been fully aware, for many years of the globalisation of private banking. We adhere to all relevant rules and regulations in terms of servicing clients in the most appropriate manner," says Paul Sarosy, head of product and sales management at Credit Suisse Private Banking.

### onShore FocUS

What Mr Sarosy sees, and banks like Credit Suisse and its competitors are incredibly keen to explore, is the new desire from clients to have their assets serviced 'onshore' in their own domestic markets. This domestic model of basing client relationship managers in regional offices is clearly the growing one, particularly with the traditional advantages of banking in Switzerland being virtually exhausted, although the old "offshore" model is far from dead, believes Mr Sarosy.

"What you will find is that the need for products that are being offered to a certain type of client living in a given geographic region must be transparent and regulated in that given market," says Mr Sarosy.

"Have we been seeing a trend to handling servicing and delivery solutions to these clients onshore? Yes we have. Are

we ignoring those clients on our Swiss platform? no we are not," he adds.

rather than relying on tax-led products or services sold on confidentiality, credit Suisse has been developing specialisations in discretionary and advisory private banking, through asset allocation led investment models, often incorporating investment banking products.

## THEMATIC FOCUS

Many Swiss banks, including Pictet, Lombard Odier and Julius Baer, have been moving towards a thematic led approach to differentiate themselves, offering funds investing in water, energy and socially-responsible investments.

"We have had a thematic focus at credit Suisse now for some time and have been able to offer solutions based on our research," claims Mr Sarosy.

It would be a mistake to link all of Switzerland's problems with those of the world's largest wealth manager, credit Suisse's key rival, Zurich-headquartered UBS, which agreed to pay \$780m (€560m) in fines and hand over some customer names to the US government back in February, after admitting helping clients evade taxes.

Prior to this, UBS wound down its Swiss-based offshore

## 'Switzerland must take the emphasis off the banking secrecy and confidentiality issue and sell itself for private banking expertise'

Mike Bussey,  
Arbuthnot Latham

banking unit for US clients following US regulatory pressure after an ex-UBS private banker turned whistleblower. The bank's wealth management arm, already hit by problems overflowing from its neighbouring investment banking unit, suffered record outflows, although UBS said these were not purely connected to the US government's actions.

Speaking to PWM, the bank's head of wealth management, Juerg Zeltner, said poor asset allocation and incorrect selling of structured products also contributed to the problems of UBS and other banks in the industry.

## JULIUS BAER SPLITS FUNDS AND PRIVATE BANKING TO STAY ON THE FRONT FOOT

**The swift end to the "war of regulators" by creating an international level playing field in tax matters will ultimately put the focus back on the real, tangible offering of wealth managers and their ability to supply this on a global scale, believes senior management at Bank Julius Baer in Zurich.**

**As a consequence, business models will have to be adopted to bridge the gap between personalised private banking and full service-providers, favouring mid-tier banks.**

**According to the bank, headed by youthful CEO Boris Collardi, Switzerland and Swiss banks will continue to benefit from their long tradition, scope and quality.**

**Despite OECD measures, Switzerland's economic, political and legal stability, its wealth management know-how and internationally-oriented employees will help the financial sector to win through.**

**Julius Baer recently announced plans to split its private banking and**



**Boris Collardi**

**asset management businesses into two distinct, individually listed companies, claiming it will become "a fully independent pure-play private banking group with a truly open product and service architecture."**

**According to management, this will finally give the bank full independence and "unquestioned credibility", plus a broad international presence to capture the diversification and revenue potential of international private banking.**

## OUTFLOWS

"outflows in an institution are primarily due to the strength of an institution and the potential problems they are having are certainly to do with the changing personnel they are going through, more so than regulatory issues," believes Mr Sarosy.

Switzerland's central bank has now threatened to force the shrinking of both UBS and credit Suisse through "direct and indirect measures" in order to limit risks to the country posed by their size. In 2008, the collective assets of the two banks were equivalent to six times Switzerland's gross domestic product (GdP).

Government officials understand it is difficult to separate the success or failure of UBS, whose officials declined to co-operate with this feature, from the fortunes of Switzerland.

As the country's largest bank, it is the nation's flag-bearer and Swiss dominance of the sector has always been linked to huge deposits and managed assets supervised from a chain of offices in Zurich's picturesque centre.

because UBS was the Swiss industry's undoubted leader, its

## ‘We have been aware for many years of the need to adhere to rules and regulations for servicing clients in the most appropriate manner’

**Paul Sarosy,**  
Credit Suisse



difficulties have automatically affected the rest of the sector, believes Patrick odier, senior partner at Lombard odier in Geneva and one of the best-known figures in Swiss private banking.

Yet he is convinced clients will not look too far away for an alternative, rather than defecting to other financial centres, with only “one or two” banks from 330 having suffered any significant financial difficulties. The big beneficiaries have been the Kantonal banks, representing distinct Swiss regions, which are guaranteed by the state, and the private partnerships, which have managed to re-invent themselves as thematic-led investment boutiques.

### r eMAnInG deSlr AbLe

There is little doubt that the image of the financial sector has suffered both abroad and at home in Switzerland, where it accounts for 15 per cent of GDP, employs 250,000 people, making 20 per cent of the country’s social contributions, and boasts productivity at least twice as high as any global rivals.

In order to remain attractive to wealthy clients, Switzerland can no longer be based on fiscal activities and typical facilities – including secrecy, company law and low withholding tax – previously offered there. “no financial market can live only from that type of characteristic,” believes Mr odier.

Previously, the Swiss had protected the concept of banking secrecy, but objected to tax fraud, confirms ray Soudah, founder of Millennium Associates, one of the country’s best-known banking consultants. “The automatic nature of bank information exchange is what the Swiss objected to, that by pushing a button, you could send an internet message to the tax authorities of the respective home country.”

Information was only exchanged if money laundering or tax fraud had been judicially proved. otherwise, tax was deducted from interest, with lump sums of several hundred

million euro paid out annually to other european nations under the eU Savings directive, negotiated until 2013. “The Swiss thought they had compromised,” admits Mr Soudah. “Their attitude to the eU was: ‘You can’t complain that you are not getting the tax.’ but their Pr has been poor. They have not been able to explain to the world that they have been collecting withholding tax. There was a concession, but they have not benefited from it.”

### Per MAnenT cHAnGe

The financial crisis changed the situation for good, believes Mr Soudah, with the added impetus of newly elected US President barack obama becoming fed up with offshore centres luring US citizens into excessively tax friendly arrangements, depriving the US state of much needed revenue.

“The momentum has now built up from the Germans and the G20. They are all saying: ‘We have millions of unemployed, but you guys are encouraging our citizens to hide their money.’ It is a social phenomenon more powerful than most offshore centres can resist,” says Mr Soudah.

The new practicality is that Switzerland will comply with requests from other countries’ authorities requesting information about foreign assets held in Switzerland or income generated there. “This is no longer about money laundering and terror. It is about normal citizens, whose states want income tax,” he adds.

“Irrespective of UbS, this was always going to happen. People say UbS was caught helping people to hide money, but that’s what Swiss banking has been doing for the last 200 years.”

The current state of flux has already led to operational problems among Swiss banks. “Many bankers in Switzerland are suffering severe travel restrictions. They can’t travel to any areas outside where they are based,”

says a senior manager at a US institution with significant Swiss operations.

"Under the current climate, if a Swiss banker wants to see a client in the UK, he has to sit a test set by the UK Home office to show he understands UK marketing constraints."

Yet despite these problems, the top-down regulatory change imposed by the international community is the best thing that could have happened to Swiss banking, believes Mr Soudah.

"This is good news for the country's banking system. We may have to kick some clients out, but one way or another, our banks will be regulated, so the business will change and they can concentrate on adding real value."

### A PoSITive FUTUr e

expertise in asset management, combined with lack of sovereign risk, lack of scandal, neutrality and quality of life will finally put paid to any potential competition from the channel Islands, caribbean centres and Singapore, believes Mr Soudah, with the outlook for UbS in particular, boasting a newly installed management board, looking hugely positive, now that these changes have been accepted.

This will be especially true if the troubled investment banking division is separated from the organisation's private banking core, reckons Mr Soudah, citing the move currently being made by UbS's smaller Zurich-based competitor Julius baer (see box). "We see a continuous need to segregate asset management and investment banking from everything else."

A prominent London private banker, Mike bussey, who has previously run Swiss wealth management divisions for Rothschild and Schrodgers, and is now CEO of Arbuthnot Latham, agrees on the positioning of Switzerland as a financial services centre.

"Switzerland, if it sells itself right, must take the emphasis off the banking secrecy and confidentiality issue and sell

## KEEPING THINGS PRIVATE

**Respect for privacy still remains the natural state of affairs in Switzerland, according to the Swiss Bankers Association (SBA), which is representing most institutions on this thorny, highly political issue.**

**While Switzerland has indeed agreed to extend international administrative assistance to include cases of tax evasion, so-called "fishing expeditions" in the form of indiscriminate and unwarranted trawling through bank accounts remain ruled out, so the privacy of clients innocent of any wrongdoing remains protected.**

**Secondly, while bank-client confidentiality is undoubtedly a competitive advantage for Switzerland as an international financial centre, no Swiss bank relies on this as a unique selling point, claims the SBA. "International clients come to Switzerland in search of stability and security for their assets, for competent advice with regard to managing these assets and for the general high-quality service they find in the classic Swiss private banking relationship," reads a statement prepared for PWM.**

**With regard to changing business models, the SBA believes Swiss banks are constantly seeking out new business opportunities in the form of niche markets as well as responding to demand from clients, as witnessed by the booming interest in areas such as sustainable investment, family offices and Islamic finance. "We see no evidence of international clients moving their funds from Switzerland to competing financial centres," says the SBA.**

itself for private banking expertise, for the international family to manage its global wealth there. Singapore has not quite got the track record of social and political stability, but it is setting itself up as a credible alternative."



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**Ray Soudah,  
Millenium Associates**

Now that there should be equal competition between Swiss banks and those in neighbouring countries and island centres, in which direction will the private clients' money flow?

Across the borders from Switzerland, German and French banks, hugely affected by the financial crisis, are still waiting to evaluate the situation. "There will be a levelling between the different states," suggests Joerg Brock, head of private client portfolio management at Dresdner Bank in Frankfurt. "The experience of German clients is that their banks have lost them money and generated costs, leading to a huge loss of confidence in their banks. This will lead to a flight to quality of advice."

However, this does not necessarily mean Swiss banks will benefit. "This is a country with a home turf. Germans still trust German banks a lot more than international banks," he warns.

In Paris, the mood is more optimistic, with the head of private banking of a major institution claiming there have already been flows into the French capital. "We are now opening accounts for foreigners. Something has already changed," says the senior

private banker. "The end of banking secrecy is a big, structural move, which will reinforce onshore

business and weaken offshore business. The ultimate client and customer will perceive higher risk and difficulties and be unconvinced of the ultimate advantage of being offshore."

Most island centres, still under attack from European and US governments and keen to avoid being found on government lists of unwelcome trading partners, appear to be re-inventing themselves as niche players, servicing front and back office needs of wealth management groups, rather than deposit taking centres.

### CARVING A NICHE

Located off the UK's North West coast the Isle of Man, has been carving a niche as an operations and asset management centre for hedge funds. Attracting 'alternatives' managers Charlemagne Capital and Bridge Asset Management has helped boost funds managed on the island from \$7bn ten years ago to \$43bn (€30bn) today, peaking at \$53bn in 2008.

"Our costs of operating are favourable compared to the Caymans, Dublin and the City of London, and we can still bring people in when we need to," says John Spellman, director of Isle of Man Finance, which has backed diversification into fund administration in order not to be concentrated on one specific area during market swings. Administrators on the island include BNP Paribas, HSBC and Fortis.

Many hedge fund managers feel they are badly serviced in the European timezone, and welcome the emergence of European island centres to rival Caribbean favourites Cayman and BVI. Financial services is playing an increasing role in the economy of the semi-

independent island of 80,000 people, now accounting for 36 per cent of GDP.

The Isle of Man has recently announced plans for automatic exchange of tax information to steal a march on other offshore centres. Locals were aggrieved when their island was dismissed last year by UK Chancellor Alistair Darling as a "tax haven sitting in the middle of the Irish Sea."

Along with the Isle of Man, the other British-connected offshore centres, Jersey and Guernsey, are competing to boost asset management and asset servicing businesses, to help replace any offshore banking or Trust businesses, which may be edged out by UK regulations or G20 pressure.

"We are facing huge amounts of competition and it is getting more hectic by the day," suggests Peter Niven, chief executive of Guernsey Finance, whose department is working on two priorities: introducing businesses interested in joining Guernsey-based players, such as subsidiaries of wealth managers Credit Suisse, Kleinwort Benson and Rothschild; and combating currently fashionable anti tax haven rhetoric from US and European governments.

Guernsey has signed tax information exchange agreements with 13 jurisdictions, including the US, UK, France, Germany and the Netherlands. As requested by the OECD, the

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# LIVING WITHIN THE NEW GUIDELINES

**Gibraltar was one of a number of jurisdictions to be placed on the OECD 'grey' list following G20, a move that did not surprise Chief Minister Peter Caruana, writes Elliot Smither**

Gibraltar was not surprised to find itself placed on the OECD 'grey' list of jurisdictions that came out of the G20 summit in April, according to the Chief Minister of the self-governing British overseas territory, Peter Caruana.

Explaining how he believes the world has changed as a result of the financial crisis, he says there is now a global appetite for more transparency and greater levels of regulation, and that the G20 had to be seen to take action against perceived tax havens and the more secretive jurisdictions.

The requirement for Gibraltar and other grey-listers to sign 12 tax co-operation agreements with some key countries was an inevitable development, said Mr Caruana, as politicians had to take some kind of action to deal with the global situation, although he believes that the figure 12 was decided on the spot.

He claims the government had realised that a new financial order would have to emerge from the crisis, and says he is not uncomfortable with

the 'grey' status. "There was no prior notification from the G20. I think that 12 was a figure pulled from a cloud. But I am confident that we will get them all," he says.

Mr Caruana claims to see the list as a kind of progress report, and says much of the work to comply with the directives is well underway as Gibraltar, which is a member of the European Union, has been trying to reposition itself as a financial centre over the last 15 years.

"Gibraltar has made a successful transition from a tax haven to an onshore financial European mainstream centre," he says. Financial services account for approximately 33 per cent of GDP in Gibraltar, which has a population of 30,000.

## NEW TAX RATE

Mr Caruana's government is planning to introduce a new 10 per cent flat corporate tax rate next year, having previously had a 30 per cent rate for corporations located there, although most took advantage of the tax system and paid an effective rate of zero per cent.

Gibraltar is not a major banking jurisdiction but does attract a number of high net worth individuals.

Mr Caruana believes the effects of G20 will be widespread and that all financial centres have to be prepared to work within the new guidelines. "G20 has changed the world forever. Any financial centre that doesn't get that will come a cropper sooner or later," he explains.

He states that Gibraltar is not challenged by the list but that those territories who refuse to meet the

new standards, "whether they have been rightly or wrongly set", will suffer.

"Companies with mainstream interests and corporate reputations want to go to places that meet the standards. Those that don't will have to operate around the fringes."

Gibraltar is still seeing applications for insurance and funds business, despite the tough economic climate, according to Marcus Killick, CEO of the Financial Services Commission (FSC), the financial regulator in Gibraltar. "I thought we would take a hit as a result of the financial crisis, but Gibraltar's reputation and the EU status means we are attractive. We are still seeing applications for insurance and funds."

## THE OECD 'GREY' LIST

**Andorra  
Anguilla  
Antigua and Barbuda  
Austria  
Aruba  
Bahamas  
Bahrain  
Belize  
Belgium  
British Virgin Islands  
Brunei  
Cayman Islands  
Chile  
Cook Islands  
Costa Rica  
Dominica  
Gibraltar  
Grenada  
Guatemala  
Liberia  
Liechtenstein  
Luxembourg  
Malaysia  
Marshall Islands  
Monaco  
Montserrat  
Nauru  
Neth. Antilles  
Niue  
Panama  
Philippines  
St Kitts and Nevis  
St Lucia  
St Vincent & the Grenadines  
Samoa  
San Marino  
Singapore  
Switzerland  
Turks and Caicos Islands  
Uruguay  
Vanuatu**



Peter Caruana