Swiss banks steer closer to transparency

By Yuri Bender

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Uncertainty still surrounds whether or not **UBS** will be forced to reveal the identities of 52,000 US taxpayers holding offshore accounts in Switzerland, in spite of **claims** that a deal has been reached between the US and Swiss governments.

Rather than wait for a ruling, most Swiss banks are going ahead and restructuring their business models to adjust to the post-secrecy reality.

“Some people are predicting the end of offshore banking, but this is very premature,” says Jeremy Jensen, lead wealth management partner for the Emea region at PwC, the professional services firm. “The era of absolute banking secrecy has gone. We are now moving into a period of ‘compliant confidentiality’.”

The regulatory backlash against the current financial crisis – including a flurry of initiatives from the G20, the Organisation for Economic Co-operation and Development and individual governments attacking offshore banking – may still be in its early stages. But banks must find new ways of operating to satisfy both increasingly demanding clients, who have witnessed the wholesale destruction of their wealth, and increasingly intrusive regulators, that have unwittingly overseen it.

“High net worth individuals want oversight and a degree of transparency over their holdings which they never had in the past,” reckons Mr Jensen. “This will require a level of systems and automation that most private banks simply do not have.”

Although it is unclear how requests for information from foreign governments to Swiss banks will work in the future, business models must also incorporate the cost of frequent information searches, correspondence with outside bodies and compliance with local and regional regulations and customer mandates.

Following the G20’s bracketing of Switzerland, together with Luxembourg and Singapore, on a “grey list” of countries, the Alpine nation has agreed to sign new agreements on the exchange of tax information, aiming to reach a target of 12 treaties required to become a “model” OECD nation.

The new rules of engagement are yet to be set in stone. Earlier in 2008, UBS handed over more than 250 client names to US authorities. Washington’s legal battle with the Swiss bank is expected to elicit further concessions. The new practicalities will require Switzerland to 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,” says Ray Soudah, founder of Millenium Associates, one of Switzerland’s best known banking consultancies. “It is about normal citizens, whose states want income tax.”

Indeed there is a feeling in the country that, while through the UBS case, Switzerland has once again hit the headlines for the wrong reasons, the levelled playing field will eventually do a huge favour to Swiss wealth managers. The new regulatory environment will free them up to concentrate on allocating assets and managing client portfolios, rather than simply trading on an unfair, tax and secrecy-led advantage to entice money looking for a clandestine home.

“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,” believes Mr Soudah.

While Credit Suisse, along with UBS, has lost key staff who believed the Swiss giant’s model was not ready to adapt to the new playing field, the bank acknowledges that the value proposition for wealth managers has changed dramatically. With confidentiality and secrecy becoming largely irrelevant, the quality of investment service and advice will now be the key differentiator when it comes to attracting and keeping clients.

Credit Suisse, along with other Swiss banks, plans to move away from the old notion of finding a vein of rich foreigners and luring them to book their assets into a Swiss hub. The new approach is to put large numbers of advisers close to the pools of clients, and then to handle the assets through products in a way that must be “transparent and regulated in that given market”, says Paul Sarosy, head of product and sales management at Credit Suisse Private Banking.

Moving away from tax-led solutions, the trend among Swiss banks – including Credit Suisse and UBS, but embracing smaller rivals such as Pictet, Lombard Odier and Sarasin – has been to adopt a thematic investment focus to attract increasingly socially aware wealthy families. These banks have pioneered funds investing in water, energy and “socially responsible” investing.

Lombard Odier, Geneva’s oldest private banking house, dating back to 1796, sealed a partnership with Generation Investment Management in 2007 as part of a move to reshape itself from an old-fashioned, white-gloved wealth handler into a futuristic investment boutique.

A range of profitable, but politically correct investment funds – encompassing “what is best for the people and the planet” – was unveiled by the bank together with Generation founders David Blood and Al Gore last year.

When it comes to reinventing themselves, Swiss banks have no lack of ideas, but the transformation will be a gradual one. “The Swiss will move as fast as they need to but as slowly as they can,” says one well placed private banking consultant. “We will still be having this conversation in 20 years’ time. They will respond and their business will continue to flourish. But there’s a lot for them to work through right now.”