Getting out of Swiss banks?

A number of foreign banks operating in Switzerland are being sold or merged as the rationale for owning a bank in the Alpine nation is increasingly questioned. ***PBI*** looks at whether it is still worth it

Greater regulation and pressure on offshore banking is making a Swiss banking operation a luxury for many players now it is so tough to hide client money.

Quietly, foreign banks are slipping away from Switzerland, an exodus led by Italian institutions in the Ticino region on the Swiss-Italian border. In the latest Swiss banking pull-out, BCV, the Vaud cantonal bank, has repurchased Banque Franck Galland, a company which it originally sold seven years ago. The seller is Johnson Financial Group, a Wisconsin-based institution that said it wanted to concentrate on its core US market.

Galland will be merged with BCV's subsidiary, Piguet, and renamed Banque Piguet & Cie Galland. It will have about CHF8 billion ($8.4 billion) assets under management.

Most exits have taken place in Ticino, the canton where some 40 banks operate. In the past two years, about eight banks have closed or been sold, half of them Italian-owned.

Italian insurer Fondiaria-Spa recently sold its Banca Gesfid private bank to Switzerland's PKB Privatbank for CHF134 million. The banking unit manages about CHF1.4 billion of client assets.

Earlier this year, Sarasin sold a subsidiary, Sarasin Colombo Gestioni Patrimoniali, back to its Italian founders. Regulatory changes prompted Sarasin to change its strategy with respect to Italian clients, a spokesman explained.

Apart from the offshore clampdown, what has hurt banks in the Italian-speaking Ticinio region is the success of a series of tax amnesties by Italy, aimed at luring flight money back home. The last amnesty, concluded in April last year, led to the declaration of €97 billion ($133 billion) abroad – much of it in Switzerland – and the repatriation of €39 billion.

regulation and costs stress small players

The historic business model of many banks – centred on tax arbitrage and the murky offshore management of client funds – no longer has a strong appeal after the intense pressure on Switzerland to join in the international effort against evasion, say experts.

In addition, there is the tougher competitive environment in Switzerland for client business, plus the increased overheads coming from greater regulation both from Swiss and global authorities.

"There will be further market consolidation in Switzerland," says Andreas Toggwyler, partner of KPMG in Geneva. A number of banks are finding it too expensive to remain independent because of margin requirements, regulatory changes and back office system upgrades, he says.

"To absorb that as a small private bank is not always easy," he points out.

consolidation continues

Toggwyler's consolidation prediction is backed up by the findings in an Ernst & Young Bank Barometer survey *(see page 2)*. It found 74 percent of private banks expected consolidation before the end of the year.

"In the new environment, successful banks will be those who have the significant resources needed to upgrade their regulatory and compliance procedures, not only in their Swiss operations but globally," says Ray Soudah, founder of the M&A boutique Millenium Associates.

"[Those banks] will need a network to garner the collection and servicing of new assets without breaching cross border regulations and without breaching national onshore rules," he adds.

As a consequence of the new realities, those Swiss banks, locally or foreign-owned without the resources or local and international supportive networks, will be pressured to capitulate and sell out or merge with similar or larger rivals, says Soudah.

In a Swiss survey, PricewaterhouseCoopers estimated the extra burden of complying with new banking and tax regulations would increase costs by 10 and 30 percent.

In addition, the expense of hiring staff and setting up infrastructure abroad for onshore enterprises is also prohibitive for all but the biggest banks.

Still, for some banks, Switzerland retains its attractions. JP Morgan plans a big Swiss expansion, which will involve adding more than 400 jobs. Last year, Brazil's Itaú set up a private bank in Switzerland.

■ Foreign Players

By the numbers

- 156 Foreign banks operating in Switzerland
- 110 Swiss banks with a foreign shareholder
- 91 Foreign banks with Swiss subsidiaries, a further 21 acted as Swiss branches of a foreign bank
- CHF355.4 billion ($377 billion): total balance-sheet of these combined institutions – or 11.5 percent of the total in Switzerland – at the start of 2009. ■

Source: Swiss National Bank; Association of Foreign Banks, Switzerland

For Millenium's Soudah, Switzerland has overcome the pressure on banking secrecy and the bad press depicting it as a tax evasion stronghold.

"Switzerland has become the most attractive international and safe financial centre for wealth management on a global basis, for clients and service providers alike," he asserts. "This is due to the practical and widespread adoption of improved governance and compliance practices in respect of OECD and numerous bilateral international agreements."

In addition, Swiss-based banks, both foreign and Swiss-owned, have "embarked on procedures in anticipation of the changed, more correct business models which focus on security, investment management and client service rather than banking secrecy and implicit tax evasion".

Still, the outlook for smaller banks remains clouded, experts acknowledge. A number of banks are up for sale and the gossip in Geneva is that the Franck Galland operation had been on the auction block for many months before a buyer appeared.

For KMPG's Toggwyler, smaller banks will need to become very focused on a particular market or client segment to survive.

"These smaller banks are able to remain in the game if they operate in a specific niche, for example, focusing on the ultra high net worth segment with CHF50 million plus," he adds. ■