FONDATION GENÈVE PLACE FINANCIÈRE GENEVA FINANCIAL CENTER

The Financial Centre is holding its breath

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Ladies and Gentlemen,
Members of the Press,

Thank you for your presence here today at the Geneva Financial Center Foundation's annual press conference. Like every year around this time, we are delighted that you have been able join us to review the main challenges currently facing the Geneva financial centre.

Our annual Business Survey, which Edouard Cuendet will present to you in greater detail later, shows a financial centre that is holding its breath. Among the uncertainties hanging over its head are major decisions that will determine the future of Switzerland's relationship with the EU. Similarly, it remains on edge with regard to the risks generated by negative rates, which look to be here to stay. At local level, the future of the airport hangs in the balance. On a more positive note, the financial centre is well positioned to step up its game in sustainable finance and digitalisation.

Bilateral relations with the EU and negative rates

Framework agreement

In December 2018, the Federal Council launched a public consultation on the Institutional Agreement with the EU. The government stresses that the purpose of this treaty is to reinforce the Bilateral Agreements and, more specifically, to secure access to domestic markets.

The bilateral approach is crucially important for both the Swiss and Geneva financial centres, given that their core activity depends in large part on international clients. Close to half of the assets managed in Switzerland come from abroad, and a significant portion of these – around CHF 1 trillion – hail from the EU.

However, the financial centre must contend with protectionist pushback from EU member States, which are putting up barriers to limit cross-border relationships between their residents and banks based in non-member countries (including Switzerland). The legal uncertainty this creates is poison for the economy.

That is why the GFC, along with the main financial industry associations, supports the Institutional Agreement negotiated with Brussels. This treaty outlines a credible way forward for the continued development of bilateral relations between Switzerland and the EU. It is also a necessary precondition for negotiations on a future agreement that would give Swiss banks and financial intermediaries free access to EU markets. Failing that, they will be forced either to relocate or to develop some of their activities in the EU, adversely impacting jobs and tax revenues in Switzerland at both national and local level.

Consequently, The GFC would like the Federal Council to send a strong message of support for this agreement following the elections of October 20.

Free movement of persons

The free movement of persons remains an area of particular concern in the context of Swiss-EU relations.

In May 2020, the Swiss people will vote on the so-called 'limitation' initiative sponsored by the SVP, which aims to denounce the freedom of movement agreement reached with the EU. If the initiative is accepted, due to the 'guillotine clause', all covenants under the Bilateral Agreements I would be automatically abrogated, despite their massive contribution to the prosperity of our country over the past 15 years. Needless to say, the initiative's backers have proposed no credible alternative.

This scenario, if it comes to pass, would have serious consequences for Swiss companies. As a reminder, foreign trade accounted for 93.5% Switzerland's GDP in 2018, while 51.6% of Swiss exports of goods and services went to EU member States.

During its autumn session, The National Council rejected the initiative by an overwhelming majority. The financial centre is of course also firmly opposed to this text.

The initiative does have the merit of allowing Swiss voters to take a clear stand on whether they wish to pursue the bilateral process or abandon it altogether.

Negative rates

Negative interest rates are one of the main factors weighing on the development of the financial centre.

The SNB has decided to maintain negative rates, first introduced in 2015, at -0.75%. Conversely, it has increased the threshold from 20 to 25 times the minimum reserve requirement.

This measure has been widely decried as ineffective. Indeed, the SNB is still intervening just as frequently in the market and its balance sheet continues to expand.

Negative rates have other harmful effects: they drive investors to take greater risks and over-allocate to certain asset classes, such as real estate; they have put Swiss pension funds in a particularly difficult position; and they have encouraged the Swiss Confederation and cantons to increase their debt. Moreover, banks have seen their profitability contract, potentially threatening their capacity to lend.

Any further lowering of rates would be deleterious to the country and its economy. The SNB should instead consider reversing this counterproductive measure as soon as possible.

The future of the airport

In addition to the above-mentioned factors, which affect the Swiss financial sector as a whole, a key area of concern for the Geneva financial centre is the continued development of the Geneva international airport to ensure a high standard of service and connections.

Financial intermediaries rely on the airport to visit their clients and develop new markets, while clients arriving from abroad expect a level of service commensurate with Switzerland's reputation for excellence. Yet the repeated attacks to which the airport has been subjected recently threaten to jeopardize its development, which indirectly impacts the Geneva economy as a whole. Of course, the concerns of local residents are entirely legitimate and should be factored into the equation.

The financial centre is waiting with bated breath for all the above-mentioned issues to be resolved. But that should not overshadow the many opportunities available to the more enterprising of our members.

Sustainable finance

Sustainable finance contributes significantly to the diversity of the Geneva financial centre. By attracting new skills, it not only drives growth in the industry, but also serves as a powerful differentiating factor with regard to other financial centres.

According to the most recent figures from Swiss Sustainable Finance (SSF), sustainable investments in Switzerland totalled CHF 717 billion in 2018, an 83% increase year-on-year. This illustrates the extent to which social and environmental considerations are now influencing investment behaviour.

Geneva is very well placed in this regard, as home to numerous international organisations, large private foundations, world-class research institutions, and unrivalled financial knowhow. The close proximity between international Geneva and financial Geneva represents a unique advantage for our city.

The launch of the Building Bridges Summit on October 10 shows that the bridge between Geneva's left and right banks is more than just a figure of speech. For the first time, all the major players in this ecosystem are coming together to develop practical, innovative solutions to maximise their collective impact.

However, the rigidity of the current legislative framework constitutes a major obstacle to the development of sustainable finance.

To address this issue, the Council of States' Environment, Spatial Planning and Energy Committee (ESPEC) has proposed a series of measures designed to pave the way to more sustainable asset allocation, namely by repealing legal provisions that define which asset classes may be invested in and set limits by category. Additionally, the 'prudent investor rule' should be fully applied so as to encourage diversification.

The second proposal aims to make Swiss capital markets more attractive by abolishing the stamp duty and reforming withholding tax, both of which represent major handicaps at present. These are two essential preconditions for Switzerland to become a large-scale issuer of green bonds.

To promote sustainable finance, therefore, we need to foster dialogue and a sense of shared purpose between all the relevant players within the financial community, government and civil society.

Digitalisation

As for sustainable finance, a supportive regulatory environment is essential to advance the digital transformation.

Several studies show that, long before the term fintech was coined, the financial centre was already innovating in many different areas. The most recent study, published by the SNB this past August, reviews the state of fintech and digitalisation within Swiss banks. According to the report, banks expect a rapid ramp-up of digitalisation in financial services in Switzerland and see this as an opportunity to reduce cost and improve service, among others. At the same time, this shift presents a number of challenges, including intensifying competition between banks and with new market entrants, such as Big Tech (GAFA) and digital banks.

Switzerland has adopted the necessary legal framework to support digitalisation in the financial industry. This is very much to be welcomed. The Federal Council has introduced a new licence for fintech firms. The financial watchdog, FINMA, has published practical guidelines on how to apply for a licence. And the Association of Swiss Banks (ASB) has issued recommendations for banks on opening corporate accounts for blockchain companies.

These changes have not gone unnoticed. In late August, two start-ups specializing in digital securities were awarded a banking licence.

The shift to digitalisation has had several other aftereffects, not the least of which is the heated debate on the taxation of digital services and, more broadly, cross-border services. The financial centre is following this matter closely, given the sizeable impact it could have on its business model.

The OECD has taken a leading role in addressing this question. In an attempt to square the fiscal circle, in May 2019, the organisation adopted a roadmap in two parts. The first examines possible solutions for determining where businesses should be taxed and on what basis. The second proposes a system to ensure that multinational companies, both in the digital industry and beyond, pay tax at a minimum threshold.

The OECD aims to reach an agreement by January 2020. Switzerland will no doubt play an active role in defining the new standards, with the aim of minimising their impact on its fiscal revenues, currently estimated at between CHF 1 and 5 million at the federal level alone.

Several countries have independently introduced measures of their own. France opened fire by proposing a 3% levy on revenues from digital services provided by tech giants. Other services, including financial services, would not be affected. However, Paris was forced to back down in the face of vigorous opposition from the United States.

For its part, the Italian government is seeking to tax profits earned in Italy by foreign firms, including Swiss banks, even when the company has no permanent presence in the country. Switzerland should resist this offensive from Rome, as it contravenes the principles defined by the OECD with regard to double taxation agreements.

Similarly, the Swiss Parliament should refrain from proposing initiatives that are not coordinated with the OECD's ongoing work on the question, lest this place the Swiss economy at a serious competitive disadvantage. The idea, floated by some, of a micro-tax on financial transactions should therefore be ruled out at present.

Conclusion

The Geneva financial centre has amply demonstrated its resilience, weathering both financial crises and the rising tide of regulation.

Today the financial industry is at a crossroads. The way forward will depend in large part on the outcome of the popular vote on the future of bilateral relations with the EU.

The role of local infrastructure, including the airport, as a competitive factor on a global scale should not be underestimated.

Sustainable finance and digitalisation can act as catalysts in this long-distance race, provided that their development is encouraged by a supportive fiscal and legal framework at both Swiss and international level.

Needless to say, this will be possible only if negative rates do not drain all dynamism out of the financial centre and the Swiss economy more generally.

Thank you for your attention. I now leave the floor to Edouard Cuendet, Director of the GFC, who will present the conclusions of our annual Business Survey.