FONDATION GENÈVE PLACE FINANCIÈRE
GENEVA FINANCIAL CENTER

The Geneva financial centre: A force for economic recovery

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Ladies and Gentlemen,
Members of the press,

Thank you for your presence here today for the Geneva Financial Center (GFC) traditional press conference. Like every year around this time, we are delighted that you have been able to join us as we discuss the main challenges facing the Geneva financial centre.

For the second year in a row, this event takes place under the sign of the Covid-19 pandemic, which has permanently disrupted all our personal and our professional lives. I will of course address the economic impact of the pandemic, the challenges it has placed in our way as well as the potential opportunities it presents.

The resilience of the banking and financial sector

Geneva and Switzerland as a whole, were thrown into a serious economic crisis by the pandemic. Some sectors suffered more than others. Banking and finance were among those that weathered the crisis with remarkable resilience.

At the national level, that resilience is illustrated by the figures published by the Swiss Bankers Association (SBA) in its "Banking Barometer" of August 31, 2021. In 2020, banks grew their consolidated income by 5.8% to a total of CHF 69.9 billion. Over the same period, despite a roller-coaster year for markets, assets under management remained stable at CHF 7.8 trillion, a level unchanged since 2019.

More importantly, the solidity of the Swiss banking industry enabled it to play its primary role as a provider of credit to companies. In 2020, Swiss banks made around 139,000 loans totalling over CHF 17 billion through the Federal government's pandemic credit scheme. Public awareness of the role of banks in supporting businesses also increased: according to the SBA's 2021 opinion poll, 91% of respondents agreed that banks provide strong support to SMEs.

In the context of this pandemic, we need to be able to count on a reliable and predictable legal framework. That is why the GFC firmly backs the Covid-19 Law, which will be put to the popular vote on November 28.

The Geneva financial centre has contributed significantly to the economic recovery. The main commercial banks present in Geneva provided around CHF 1 billion in Covid-19 credits, thus demonstrating their commitment to the local economy.

The results of our 2021-2022 Business Survey, which Edouard Cuendet will discuss in greater detail next, indicates that the Geneva financial sector is in good health. That trend is supported by the impressive financial results reported by a great many Geneva-based institutions.

When presenting the canton's 2022 budget, the Geneva Council of State underlined the major contribution made by several industries, including banking and finance, which have resulted in a CHF 460 million increase in tax revenue forecast for 2022.

Geneva: A hub for sustainable finance

The robustness of the Swiss banking and finance industry is no excuse for complacency. On the contrary: to meet the challenges ahead, the industry needs to build on its strengths. One of the key challenges we face is to redirect financial flows to more sustainable investments.

The figures published by Swiss Sustainable Finance (SSF) speak volumes: sustainable investments increased by 31% in Switzerland between 2019 and 2020 to reach CHF 1.5 trillion in total.

Swiss banks and asset managers have developed a broad range of sustainable investment products. These employ a variety of strategies to determine sustainability, including ESG criteria, impact, the exclusion of selected industries and shareholder engagement.

It is important to note that the financial sector is not solely responsible for facilitating the transition to more sustainable investments. In the final analysis, the decision over how assets are invested lies with private and institutional investors.

To avoid claims of greenwashing, however, banks must do all they can to ensure a good fit between what their clients are looking for and the sustainable investment products they offer. To do so, they need to be able to refer to international standards that transparently define, classify and describe a product’s sustainability characteristics.

To meet this need for greater transparency, in August 2021 the Federal Council adopted a set of climate reporting guidelines which large Swiss companies will be required to follow going forward. The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) are expected to come into force from 2024.

Geneva is playing an active role in this global movement. Our canton is uniquely positioned to act as a hub of expertise for sustainable finance, thanks to the presence of a diverse ecosystem comprised of financial institutions, asset managers, international organizations, numerous NGOs and world-class universities.

The main actors of the sustainable finance community, In partnership with the Federal government and the city and canton of Geneva, have joined forces to organise the second edition of the Building Bridges Summit, from 20 November to 2 December 2021. The shared objective is to accelerate the financing and implementation of the United Nations' Sustainable Development Goals, which were born right here in Geneva.

In fact, Geneva is becoming a magnet for sustainable finance. After the Swiss Bankers' Association in 2020, the Asset Management Association of Switzerland opened a Geneva branch in the offices of the Geneva Financial Center (GFC) this year. It will focus mainly on sustainable finance, thus contributing to the emergence of a centre of expertise.

Accelerating technological innovation

The Covid-19 pandemic has also acted as a catalyst to accelerate the digitization of the banking and finance industry.

The pandemic forced us to overcome several challenges at once: securely enable work-from-home for thousands of colleagues, stay in close contact with our clients in their home countries around the world, and process tens of thousands of Covid loan applications.

Interestingly, more than two-thirds of people polled by the SBA in its most recent survey believe that banks stand to benefit from digitization.

Geneva is currently well placed in the race between global financial centres for leadership in Fintech. According to the Zug-based Institute of Financial Services' Fintech Study 2021, It is currently ranked 4th most attractive centre of expertise.

To meet the needs of this promising new sector, however, Switzerland needs to adopt the appropriate laws. An opportunity was missed in March 2021, when the Swiss people and the cantons rejected the Federal Act on Electronic Identification Services. It is now incumbent on the Federal Government to implement a reliable e-ID system in a reasonable time frame, lest our country be seen as a digital dinosaur.

Leaving digitization to grow completely unchecked is not an option either. The financial community therefore welcomed the adoption, at the end of 2020, of the revised Federal Act on Data Protection (FADP), which is broadly inspired by EU rules.

Data protection is intimately connected to the fight against cyber threats. Banks and financial institutions are regularly targeted by hackers. As a result, they invest considerable resources in cybersecurity. For these efforts to be more effective, however, better coordination across the financial community is needed. With that aim in mind, the financial centre is working closely with the Federal authorities to create a new Centre of Competence for Cybersecurity.

Still on the topic of digitization, the adoption of the Act on the Adaptation of Federal Law to Developments in Distributed Electronic Register Technology, also known as the DLT Act, which came into force in August 2021, represents a significant step forward. The law provides greater legal security for blockchain-based operations. Among the public, blockchain is often associated with Bitcoin, a cryptocurrency notorious for its speculative nature. As a reminder, Bitcoin is not backed by any underlying asset, and therefore has no intrinsic value. Short of banning the use of such private virtual currencies, it is important to inform investors about the risks involved.

Fiscal attractiveness is still the name of the game

However, all the financial centre's efforts to develop sustainable finance and support innovation will be in vain if Switzerland fails to provide an enabling tax environment.

The first reason for concern lies with the OECD. On July 1, 2021, 133 countries and jurisdictions reached an agreement of principle on the two pillars of the organisation's propose tax reform. The first pillar relates to the equitable allocation of the right to tax the profits of multinational companies over a certain size. The second pillar provides for the introduction of a minimum tax rate of 15%. This tax revolution is scheduled to enter into force in 2023. It will require multilateral agreement, new rules at the national level and a revision of double taxation agreements. It bears mentioning that the oil and mining sectors, as well as financial services, are in principle not covered by the agreement.

In this context, the Federal Government must take special care not to negatively impact the international competitiveness of the Swiss economy.

At the national level, first, we welcome the rejection by a large majority of the Swiss people and the cantons of the 99% Initiative, which proposed to tax income from capital and assets above a certain threshold at a rate of 150%. The initiative specifically targeted capital gains, which are not taxed in Switzerland, due to the fact that it is one of the few countries in the world to levy a wealth tax.

Of similar importance to the continued attractiveness of the financial centre is the reform of the withholding tax and stamp duty. At present, withholding tax presents a major obstacle for the issuance of green bonds in Switzerland.

The numbers speak for themselves: over 500 billion Euro of green bonds have been issued in Luxembourg compared to 10 billion in Switzerland, and that with difficulty. The Federal Council proposes to maintain withholding tax on interest from assets deposited in Swiss banks by persons domiciled in Switzerland, while abolishing it for all other types of interest and for all investors. Hopefully, the Parliament and the Swiss people will understand how essential this measure is to revitalize the Swiss capital markets.

Reforming the stamp duty is equally important and is currently under discussion by the Swiss Parliament.

At the Geneva cantonal level, taxation remains a concern, as always. Our tax pyramid is particularly unbalanced: according to recent figures, 4.2% of taxpayers account for nearly 50% of income tax collected, and 1.2% provide more than 67% of wealth tax. Lastly, 0.2% of taxpayers generate just over 54% of corporate tax.

Moreover, many proposed laws and popular initiatives relating to taxation are currently awaiting a decision in the cantonal parliament. These include, in no particular order, proposals to raise taxes on income and wealth, to introduce double taxation of dividends, to bring back the inheritance tax and to significantly revise property valuations for tax purposes.

This plethora of proposed legislation sends a very negative message to taxpayers. In the face of this constant fiscal threat, they may be tempted to permanently leave Geneva for more tax-friendly skies.

A perpetually absent European Union

In my brief overview of the main challenges of today, I have described a financial centre that is flourishing, determined to support the transition to a more sustainable economic model, and embracing the digital revolution.

On taxation, the signs are encouraging and all that is missing is a decision on withholding tax and stamp duty to confirm that we are heading in the right direction. Their abolition would no doubt restore Switzerland to its rightful place in capital markets.

Conversely, there has been a deafening silence on the question of bilateral relations with the European Union since the Federal Council broke off negotiations on May 26, 2021.

The Federal Council has laid out its three-point strategy for the EU. First of all, Switzerland will unilaterally eliminate divergences between Swiss and European law. Second, the government will resume dialogue with Brussels. Third, it plans to release a second "cohesion payment" of one billion francs destined for selected EU member states.

Whether these declarations of intent will satisfy the EU is doubtful. Brussels is clearly waiting for a new offer from Bern. In the meantime, the EU has not renewed the mutual recognition agreement for medical devices and has relegated Switzerland to the status of a "third country" under the Horizon Europe research program.

For the financial centre, the crucial issue is still access to the European market. Without any substantial progress towards this goal, Swiss banks and financial institutions will continue to expand in Europe so as to serve their clients locally.

This is exactly what is happening, according to the ASB Banking Barometer: in the past year Swiss banks added six times more jobs abroad than at home, growing staff numbers 1.8% internationally versus 0.2% in Switzerland.

It is high time to get negotiations with Brussels back on track!