# Competitiveness, Talent and Innovation are the Lifeblood of the Geneva Financial Financial Centre

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*Check against delivery*

Ladies and Gentlemen,
Members of the Press,

Thank you for your presence today at the Geneva Financial Center's traditional press conference. Like every year around this time, we are delighted to share with you our vision of the challenges facing the Geneva financial centre.

The banking sector is a major contributor to the GNP of both Switzerland (9.1%) and the canton of Geneva (12%). For the financial centre to continue to play its role as a driver of the economy, it needs rich soil and plenty of fertilizer. When all the right conditions are present, the sector is able to flourish, benefiting society as a whole.

**Competitiveness** is the soil in which the financial centre's growth and prosperity are rooted. **Talent** nourishes it and enhances its attractiveness. Lastly, **innovation** provides the vitamins necessary to its dynamism.

I will now address each of these three concepts in greater detail.

## Competitiveness: Encouraging Signs

Those of you who joined us last year may remember that we expressed alarm over what we saw as a lack of awareness regarding the central importance of optimal framework conditions. The role of the Geneva Financial Center (GFC) is to anticipate the evolution of this framework, in light of the way our competitors are positioning themselves.

As the only country in the world with two top-20 financial centres, Switzerland is especially fortunate. The September 2017 issue of the Global Financial Center Index ranked Geneva and Zurich 15th and 9th respectively. Both cities have moved up the list over the past six months, reflecting their improved attractiveness.

The Index still considers Geneva a 'Global Leader'. The city by the lake stands out from its competitors thanks to its human capital. Indeed, its greatest assets are its highly educated labour force, flexible labour market and quality of life.

The financial centre has undergone more changes in the past decade than in the entire previous century. It has had to contend with major paradigm changes in the areas of tax and regulation. Yet thanks to its diversity and its capacity for innovation, the financial centre has shown remarkable resilience throughout that period.

I can now say it loud and clear: the settlement of the past is no longer a central concern. Instead, banking and financial institutions are now clearly focusing their efforts on developing strategies for the future.

Of all the ingredients that contribute to our international competitiveness, I would like to focus on the following three:

- Market access;
- A measured and differentiated approach to regulation, in line with international standards; and
- An attractive tax system grounded in a high degree of legal predictability and security.

According to our 2017-2018 Economic Survey, which will be presented to you shortly, the recent growth in net assets can be attributed to clients outside of Switzerland. Swiss banking is thus an export industry first and foremost. Consequently, improving access to foreign markets is a strategic priority, not only to enable us to continue to serve these clients from Switzerland but also to create jobs domestically.

The European Union remains Switzerland's main trading partner, and this is true for the banking sector as well. Good relations with the EU are therefore essential. However, the relationship has been sorely tested in recent years on a number of topics, many of which remain unresolved. Chief among these are discussions on an institutional agreement and the issue of free movement of people.

There are three possible approaches to end this period of uncertainty.

In the long term, it is imperative that we reach an agreement on financial services in order to allow banks to benefit from the necessary legal security. However, negotiating such an agreement will likely take several years. Moreover, this approaches assumes that Switzerland will adopt the entire package of EU financial law, a prospect that is hard to countenance from a political standpoint. A better option may be to explore other ways to improve market access in a more step-by-step manner.

A second possible approach, therefore, is to negotiate bilateral agreements with individual EU member states in areas that fall within their remit. In 2013, for example, Switzerland and Germany signed an agreement allowing Swiss banks to offer cross-border services to German clients from Switzerland, with no obligation to establish a local presence. Unfortunately, there is a lack of political will on the part of other European countries at present, due in large part to concerns over the respect of free movement of people, as well as a tendency towards protectionism.

The third approach is to provide Switzerland with a regulatory framework that the EU will recognize as equivalent to its own. This is known as the equivalency approach.

The Federal Financial Services Act (FFSA) and the Federal Financial Institutions Act (FinIA) attest to the progress already achieved towards the adoption of a regulatory framework in line with international requirements and practice.

Following a chaotic start in 2015, both bills are now on the right track. The perseverance of stakeholders in the financial sector and Parliament should be saluted. In their current form, the two bills meet the need for modern investor protection.

The FFSA and FinIA thus reinforce the legal security, transparency and reputation of the Swiss financial centre. Coming into force in 2019 at the latest, they will bring Switzerland's financial legislation into conformity with European regulations, a prerequisite for access to EU markets.

Furthermore, the new laws show that it is possible for all the various economic players to find common ground in the interest of safeguarding our competitiveness. We hope that they will again mobilise their efforts in support of a competitive tax framework.

On the latter point, a central issue for our organisation is whether Switzerland (and Geneva) will succeed in passing the much-needed reform of corporate tax, recently renamed 'Fiscal Project 17'.

On February 12, 2017, the Swiss people rejected the third Federal Corporate Tax Reform (CTR III) by a 60% majority. Ten days later, the Federal Council asked the Federal Department of Finance to draw up a new proposal, the outline of which was unveiled at the end of the summer. A consultation procedure has been launched, in which the Geneva Financial Center will of course participate, taking particular care to ensure the proposed bill safeguards our fiscal competitiveness.

Our credo remains unchanged: the new tax code should put all businesses on an equal footing, creating a system that is transparent, sustainable, and enjoys broad international acceptance.

Learning from the defeat of the CTR III, the Fiscal Project 17 does away with 'notional interest deduction', or NID. The GFC is delighted that this concept has been abandoned, as it crystallised much of the opposition to the CTR III, so much so that the Geneva cantonal authorities decided to discard it.

'Fiscal Project 17' includes several other hotly debated changes:

- The tax on dividends would be increased to 70% for natural persons at the federal and cantonal levels.
- The cantonal share of Federal Direct Tax would go from 17% to 20.5%. As a reminder, the CTR III proposed a rate of 21.2%.

Although these are clearly important points, they must not be allowed to obscure the overall goal of the reform, which is to protect our competitiveness and the jobs that depend on it. Companies with special tax status figure prominently in the order books of many small and medium-sized businesses in Geneva. The 'FP 17' establishes a reassuring and flexible framework, allowing each canton to apply its provisions according to its specific needs. It would be detrimental, therefore, if opposition to the reform were to focus on a few isolated aspects at the expense of the common interest.

Framework conditions are important, but the future of the financial centre depends also on the men and women who work there.

### Talent: the DNA of the Geneva financial centre

You have no doubt already had a chance to read the World Economic Forum's recently published 'Global Competitiveness Index 2017-2018'. Switzerland tops the list for the 9th year in a row, thanks in large part to its flexible labour market and excellent education system. Few financial centres offer such a high-quality labour force and broad range of expertise.

To foster talent, investing in education and training is more of a priority than ever.

The financial centre relies on its ability to attract talented professionals from around the world in order to meet the needs of its international clientele. That is why the Geneva Financial Center closely follows proceedings in Parliament concerning the application of the initiative 'against mass immigration' of February 9, 2014. The pragmatic solution adopted by both Chambers last December should go some way towards improving legal security in this area.

That is all I will say on the topic, as Pascal Besnard, a Member of the GFC Board, will go into greater detail later regarding our activities in the field of education and training.

According to the WEF Index, the capacity to innovate is, along with education, a key factor of competitiveness. Some of you recently asked if Geneva is capable of inventing the finance of the future. I would like to make a few points in response.

## Finance Innovates

Innovation is the mantra on everyone's lips nowadays. I believe that innovation should be seen less as an end in itself than as a means to strengthen the foundations on which the success of our financial centre was built. At the same time, innovation has opened up some promising new avenues, including:

- FinTech;
- Sustainable finance; and
- Philanthropy.

**FinTech** is a trendy concept, but what exactly the term refers to is not always clear. Digital technology has become the main driver of innovation in most industries, and finance is no exception.

The fact that there are no numbers available for the FinTech sector in Switzerland perpetuates the myth that Swiss banks are lagging behind their foreign competitors. In fact, contrary to common belief, the Swiss financial centre pioneered digital solutions long before the word FinTech was coined. The first digital initiatives, such as online banking, appeared in the early 2000s.

In Geneva today, there are as many approaches to FinTech as there are types of bank. Some have chosen to develop tools in-house, others have decided to purchase mature solutions, while others again have set up digital platforms to integrate independent wealth managers. Not to mention a small number of institutions who have opted for a fully digital business model.

We also note that attitudes in the FinTech sector have evolved. Relations among financial innovation players have improved, and start-ups now understand that banks have access to the clients and data they so desperately need. We firmly believe that this inclusive and collaborative mindset is the key to their success.

Like FinTech, **sustainable finance** is another new avenue currently being explored by the Geneva financial centre.

Over the past 20 years or so, many financial intermediaries have chosen to adopt socially responsible investment strategies. Is innovation really the right word in this case? I believe it is. Indeed, interest in this investment style has grown significantly in recent years, for two reasons. On the one hand, its investment criteria can now be applied to a variety of different strategies. On the other, 2016 was marked by a growing awareness of sustainable finance, both in Switzerland and abroad, lending it a new impetus.

Three numbers are worth quoting:

- According to a recent study by Swiss Sustainable Finance, sustainable investments in Switzerland totalled CHF 266 billion in 2016, up 39% from 2015.
- More than 220 companies active in sustainable finance are based in Switzerland.

In Geneva, sustainable finance contributes to the diversity of the financial centre by attracting complementary new skills. Thus, it represents not only an important source of growth, but also a factor of differentiation from competiting financial centres.

The GFC has supported Sustainable Finance Geneva since it was founded in 2008. The non-profit association recently published a book whose title perfectly encapsulates my point: 'The World Changes, Finance Innovates'.

There is but a small step from sustainability to **philanthropy** – a step that many banks have already taken.

In 2016, there were 1,714 foundations in Geneva, making it the canton with the most rapid growth in non-profits. In French-speaking Switzerland alone, the 3,438 foundations registered with the relevant supervisory authorities of the cantons of Geneva, Vaud, Fribourg, Jura and Neuchâtel, controlled assets worth CHF 13.4 billion in 2014, according to Swiss Foundations.

The financial sector's expertise in wealth management, combined with the presence in Geneva of many international organisations, has contributed significantly to the development of philanthropy. Grant-making foundations support a broad variety of causes, from education and medical research to culture and development assistance.

Several Geneva banks have developed asset management services tailored to the needs and challenges of foundations. With its concentration of both capital and skills, Geneva is one of the few financial centres in the world that offers the multidisciplinary approach and specific know-how required by foundations.

## Conclusion

Competitiveness, talent and innovation are the lifeblood of the Geneva financial centre. These assets need to be further strengthened by putting in place effective framework conditions. To do so, cooperation among all economic and political stakeholders is essential. That is also one of the conclusions of our economic survey, which Edouard Cuendet will now present to you.