FONDATION GENÈVE PLACE FINANCIÈRE
GENEVA FINANCIAL CENTER

The Geneva financial center: a magnet for talent, clients and institutions

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The Geneva financial center maintains its position

Every six months since 2007, a British think tank publishes a ranking of the world's main international financial centers. Eighty financial centers are evaluated in terms of competitiveness.

The September 2015 index lists London first, followed by New York. The City's more favourable business environment and knack for attracting talent played in its favour, allowing it to regain the top spot it lost in March 2014.

Additionally, Hong Kong, Singapore, Tokyo and Seoul maintained their influence and their position in the top six. Overall, Western European countries performed quite creditably.

The Geneva financial center played its cards well, retaining its 13th place overall and coming third in Europe, after London and Zurich. It is now classified among the "dynamic" centers. Moreover, it is no longer considered a "global specialist" but an "established transnational center".

This ranking leads me to two conclusions.

First, Geneva must not rest on its laurels. The financial centers listed above us on the index are highly developed and offer attractive business conditions. And the ones below us are doing everything they can to catch up.

The economic survey that Edouard Cuendet will present to you next indicates that the business environment has deteriorated over the past year. Many other studies and publications in recent weeks confirmed this observation. Geneva, and Switzerland as a whole, will need to take the right decisions if they want to maintain the value chain that underpins its financial center.

Our city possesses a unique asset: a "cluster" of related activities, from asset management to commodity trading and finance, and from shipping to verification, as well as a dense network of multinational companies. We must cultivate this advantage!

Second, the competitiveness of the Geneva financial center depends on its ability to attract and retain talented professionals, its favourable fiscal environment and its leading-edge infrastructure.

The corporate tax reform (CTR III) is vital for the financial center and its trading activities. Prof. Xavier Oberson, board member of the Foundation, will discuss this issue in greater detail later.

For now, however, allow me to emphasize a few of these points.

1. Attracting talented professionals: maintaining free movement of persons after 2017 is essential

The human factor plays a central role in the competitiveness of a financial center.

To ensure continued access to the best professionals, the financial center must not only regularly retrain existing employees but also constantly attract new talent, including from abroad.

In partnership with the Geneva Department of Education, the Geneva Financial Center (GFC) is committed to fostering high-quality education. It does so also by organising events and supporting fundamental research at the University of Geneva. This is an essential response to the rapid changes occurring in finance.

Although the financial center benefits from the presence of a highly skilled local workforce, the international nature of its business means that it needs to be able to recruit the most qualified professionals from all over the world. Things change quickly, as do the necessary qualifications. The economic survey makes this point very clearly. Three areas are growing: compliance, tax advisory and risk management. Conversely, operational functions (back office) are likely to be most affected by downsizing.

The vote on “mass immigration” of 9 February 2014 added a new dimension to the search for talented employees. If the administrative obstacles become too overwhelming, even the most enthusiastic candidate will likely think twice. We need to find a practical solution to the current state of legal uncertainty, which is highly detrimental to our economy.

2. Attracting clients: access to markets must not remain an empty promise

To say that the Geneva financial center cannot prosper if it is unable to attract clients is to state the obvious. Yet, given the present uncertainty surrounding the question of market access, it clearly bears repeating. International clients will likely hesitate to entrust their assets to a manager in Geneva, if the latter cannot provide service in their country of residence.

It cannot be said too often that the financial sector is an export industry for which market access is essential, especially with regard to the European Union (EU), our main trading partner.

The economic survey confirms this: access is one of the top preoccupations of financial intermediaries, on the same level as banking regulations.

The present lack of any institutional solution with Europe is detrimental to the Swiss economy as a whole, and to the Geneva financial center more specifically. An EU-wide bilateral agreement on free movement of services is clearly not on the agenda; we therefore depend on the outcome of bilateral negotiations with the main EU states for access to their domestic markets. The simplified procedure established with Germany in July 2015 is a step in the right direction. It could serve as a model for agreements with other European countries.

The urgent need for market access isn’t limited to Europe, though. The Geneva financial center takes a much broader outlook, extending for instance to emerging markets in South America and Asia. The Geneva Financial Center welcomes the fact that the Federal Council has established a clear link between the signing of agreements for the automatic exchange of information and improved market access. However, the application of this principle in the agreement reached with Australia falls short of expectations. In fact, the explanatory report submitted for consultation in the summer of 2015 merely states an “intention to pursue technical discussions with a view to improving and simplifying the provision of financial services.” Meanwhile, other financial centers, which rank above Geneva and Zurich in the aforementioned index, are already taking advantage of a more favourable system in their cross-border relations with Australia. Upcoming negotiations will need to set more ambitious goals.

And let us not forget the situation of Geneva. The quality of our infrastructure is fundamental to our competitiveness. Geneva international airport is a key factor, along with the density of its flight network. Further investment is needed. If nothing is done, Geneva will inevitably continue to play catch-up with rivals such as Singapore, Hong Kong or Dubai, all of which are well ranked in financial center indices.

3. Attractive framework conditions: Yes to equivalency, no to "Swiss finish"

The prosperity of a financial center depends on a third ingredient: the legal and regulatory environment in which financial intermediaries operate on a daily basis. If framework conditions become too cumbersome in international comparison, there is a very real danger that companies will choose to relocate.

Given its international outlook, the Geneva financial center must be able to count on a legal framework that is both compatible with international standards and superior to its competitors'. If not, Geneva risks being placed at a disadvantage.

Switzerland has adapted its legislation to meet international standards, namely, by adopting the OECD Standard on the Automatic Exchange of Information on Request, followed by the Standard on Automatic Exchange of Information in Tax Matters. Unfortunately, in a fit of regulatory perfectionism commonly known as a "Swiss finish", the federal authorities decided to add another layer of regulations, the so-called "Weissgeldstrategie".

On 5 June 2015, the government addressed a message to Parliament suggesting changes to the anti money-laundering law, which would introduce "increased due-diligence obligations to prevent untaxed personal assets from being accepted." Yet these extra obligations do not follow any international standard.

That disastrous idea has been rejected twice since it was first proposed in 2013, but it has risen from the ashes again. It is high time the Federal legislature put an end to this saga, which threatens the overall coherence of the Swiss legal framework.

We would be delighted if the Federal Council showed the same determination in advocating for market access.

The Geneva Financial Center noted with satisfaction that the Federal Council and the Parliament adopted the Financial Markets Infrastructure Act (FMIA), which will allow Switzerland to align itself with the EU. The procedures of application are currently being examined, and the deadline for a referendum expired on 8 October 2015.

The Federal Financial Services Act (FFSA) is another important law, as it provides Switzerland with legislation equivalent to the European MIFID II directive. A new version is scheduled to be published in November 2015, with a Federal Council Message. We hope it will no longer contain the incongruous provisions regarding procedures that were included in the last draft. Thankfully, these were widely decried, during the consultation process, as an especially clumsy instance of "Swiss Finish".

An attractive financial center: a commitment from the Canton is needed

Financial intermediaries and political authorities must be equally committed to defending and promoting our financial center.

Our federal government clearly plays a central role; so does the Canton of Geneva. The financial sector alone represents close to 17 per cent of the canton's GDP. After adding the 22 per cent generated by commodity trading to the total, it accounts for around 40 per cent of Geneva's GDP. This explains why the financial center deserves our full attention.

In its economic strategy to 2030, the Geneva Department of the Economy defined several guidelines for promoting the financial center. The Geneva Financial Center supports the Canton's determination to make its presence felt more strongly in Bern. Only in the federal capital can the cantonal government wield real influence; the issue of corporate tax reform (CRT III) is one example. The GFC firmly supports the Geneva government's proposal to move to a single rate of 13 per cent for all companies.

The Department of the Economy's strategy to 2030 very pragmatically emphasises innovation. Our capacity to innovate and our technical knowhow are some of our best assets. In fact, Switzerland ranks as one of the most innovative countries in the world. The Geneva financial center is poised to play a central role as a leader in Fintech.

That would require a specific legal framework. First, however, some fundamental security issues need to be discussed. Accordingly, the first forum dedicated to the digital economy will be organised in late November by the Department of Security and the Economy, in collaboration with the Geneva Financial Center and the FER.

I would like to make a final point before yielding the floor to Edouard Cuendet and Xavier Oberson.

Reaching a settlement regarding the past is still one of the top priorities for Swiss banks. Many are now faced with demands from foreign States, which are using the information provided by client regularisation to come after the banks.

For the sake of financial intermediaries and their employees, settlement of the past is urgently needed. As it stands, they risk being penalised for holding undeclared assets in an account, even if they were unaware that these were undeclared and didn't knowingly assist the taxpayer in hiding them.

This situation is particularly worrisome in light of the fact that the investigations underway have not followed the normal channels for legal assistance.

It is all the more preoccupying that our government appears unwilling to defend its accused citizens.

The settlement of the past should not be a jungle where the law of the strongest prevails.

In conclusion, legal uncertainty is a powerful brake on the development of the Geneva financial center. Companies, but also clients and employees, can be expected to verify whether a country is stable and predictable. The current lack of visibility (on market access, the 9 February vote, taxation or the settlement of the past, to name only a few) is bad news. Jobs, not to mention the prosperity of the Geneva economy, hang in the balance.

Last year, I finished my speech with a call for action. Since then, we have led the way by establishing a permanent dialogue on training with the Department of Education, systematically rejecting all forms of regulatory "Swiss Finish", hosting Chinese delegations looking to set up financial activities in Switzerland, and organising a forum on innovation at the behest of the State of Geneva. We will continue to work tirelessly to ensure an open, competitive, and therefore prosperous, financial center.