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The competitiveness of the Geneva financial centre cannot be decreed

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Check against delivery

An electric shock for the Geneva financial centre

The Swiss banking sector has experienced profound changes over the past few years, caused by an unprecedented wave of regulation and fierce competition among financial centres in a globalized world.

A twice-yearly ranking by a British think tank evaluates the effects of these changes for major international financial centres.

The September 2016 ranking places London at the top of the list, ahead of New York. However, this does not reflect the consequences of the Brexit referendum.

Among other salient points, the study confirms the influence of Asian financial centres, led by Singapore and Hong Kong. Western European countries achieved mixed results, depending on whether they are in the European Union or not: while Luxembourg, Frankfurt and Dublin maintained their place in the ranking, Zurich and Geneva fell.

The Geneva financial sector tumbled to 23rd place, due mainly to legal uncertainties, which hinder the development of a favourable business environment. Conversely, the stability of Geneva's banks, which are better capitalised today than before the global financial crisis, means the city is still considered a "global leader".

A study published by KPMG in August 2016 reaches similar conclusions. It notes that 10% of Swiss private banks did not survive 2015 and recommends that Swiss banks comprehensively review their service offering to ensure they are providing additional value to clients. The report also points out that reliance on antiquated IT systems prevents many financial institutions from successfully penetrating the digital banking market.

The economic survey conducted this past summer by the Geneva Financial Center, which will be presented to you next by Edouard Cuendet, indicates a clear deterioration of the environment in which banking institutions in Geneva operate.

We would be well advised to heed the warning signs contained in these recent studies. They reaffirm a truth that is too often ignored: competitiveness cannot be decreed!

The attractiveness of the Geneva financial centre depends first on the human factor, and hence on its ability to attract talent.

Second, it depends on a stable legal framework, an essential condition to persuade taxpayers to remain in Geneva, be they individuals or companies bringing investment and jobs.

Finally, Geneva's attractiveness depends on its capacity for innovation.

There are still many sources of uncertainty today, namely in the areas of taxation and market access. Overcast autumnal skies, pierced by an occasional ray of sun, have replaced the storm clouds of yesterday. Geneva banks can respond in two ways: either wallow in defeatist self-pity, or take the bull by the horns and make use of their many assets.

I am convinced that the Geneva financial centre will emerge stronger than ever from this period of fundamental change. Political authorities should foster greater awareness of this situation of flux by making the right strategic decisions. With this in mind, the Geneva Financial Center will continue to act as a catalyst to ensure that talent, legal certainty and innovation remain key priorities.

Allow me now to address each of these issues in greater detail.

Talent: the bedrock of the Geneva financial centre

Careers in banking are essentially people-oriented. The reputation of the financial centre depends primarily on the quality of the services it offers, which in turn depends on the expertise and skills of the 37,000 people working in finance and banking in Geneva. They are the foundations that holds our financial centre together.

According to our economic survey – which you will hear more about shortly – banks today require a very different set of skills than in the past. The growth of compliance, tax and risk management departments reflects a real necessity. In a globalized world, the Geneva financial centre faces a twofold challenge: first, its competitors are determined to increase their market share at any cost; second, banks must adapt to an environment of constant technological change.

One of the Geneva Financial Center's main priorities is therefore to ensure that the sector is able to attract talented professionals and ensure excellence in training.

For the Foundation's efforts to reach fruition, close collaboration with political authorities and partners from business is essential. In particular, a pragmatic response to the vote against mass immigration on February 9, 2014 is needed. Parliament is currently debating a solution but the outcome is still uncertain. In principle, the financial centre is in favour of a Europe-compatible immigration regime that does not threaten our relationship with the European Union.

More broadly, however, we will need to clarify our relationship with Brussels at some point and reach a democratic decision on whether we want to maintain strong bilateral agreements with the EU or not.

This leads me to a second factor that is crucial to the financial centre's success:

Legal certainty: the engine of Geneva's prosperity

Two questions need to be asked: was 2015 synonymous with legal certainty? And how did 2016 perform in this respect?

As I remarked earlier, the cloud has not yet lifted. Sources of uncertainty multiplied in 2015 and continue to linger in 2016. Their negative effects have already impacted companies' balance sheets, as our economic survey indicates.

Rather than bore you with a detailed account of these effects, allow me to focus briefly on one pressing issue:

Will Geneva adopt the necessary Corporate Tax Reform, more generally known as the CTR III?

Corporate taxation is one of the most important points of comparison between business centres. Before relocating to Geneva or expanding their existing operations here, companies need to ensure that they can count on a high level of predictability and legal security.

The CTR III would do away with special corporate tax regimes and enshrine the principle of equal treatment for all types of companies, thus laying the groundwork for a sustainable, transparent tax system that is likely to gain broad international recognition.

The European Commission's recent decision to slap Apple with a 13 billion euro penalty for unfair tax advantages granted to the company by Ireland vividly demonstrates the importance of a stable taxation regime.

Geneva-based companies – banks and financial institutions included – compare the business and legal environment provided by various business locations.

Moving to a single corporate tax rate of approximately 13%, as proposed by the Geneva Council of State on August 30, 2016, would put Geneva in a strong position both internationally and vis-à-vis other Swiss cantons.

The returns generated by a decrease in the corporate tax rate from 24% to 13.49% would not go to waste. These tax savings could be invested in another crucial challenge, innovation, which I will turn to next. Banks would also be able to devote more of their resources to hiring and training staff. These new jobs would generate additional revenue from income tax, often at a high marginal rate, given the progressive nature of individual taxation in Geneva.

The conclusion is clear: the CTR III presents a unique opportunity to reinforce the attractiveness of the Geneva business and financial centre at a crucial time. The neighbouring canton of Vaud has clearly understood what is at stake. In a vote on March 20, 2016, its citizens approved the principle of a single corporate tax rate of 13.79% by an 87% majority. If Geneva's corporate tax reform were to fall through, it would be much easier than many imagine for companies to simply move to the other side of Versoix. For this reason, the Geneva Financial Center wholeheartedly supports the proposed reform.

Another legislative reform also deserves our full attention.

Those of you who attended the "Journée des banquiers" no doubt recall the Swiss Bankers Association's message endorsing the proposed Federal Financial Services Act (FFSA) and Financial Institutions Act (FinIA). We support both of these new laws, as they establish equivalence between Swiss legislation and the regulations enforced by our neighbours and main trading partners, the member states of the European Union. The concept of equivalence is essential to ensure access to markets, especially with regard to institutional clients. The two draft laws will also reinforce the certainty and predictability of our legal framework. Lastly, they seek to level the playing field for all financial sector participants. On the latter point, we welcome the fact that independent asset managers have come out in support of a compromise solution on the FinIA.

Considering that the entire financial centre is likely to rally behind this legislation, Parliament should finalize its discussions as soon as possible in order to provide Switzerland with a coherent and predictable legal framework.

The above issues take up much of our time and attention. However, we also need to focus our efforts on more innovative projects. This is the third message I would like to deliver today: our future prosperity depends on our ability to innovate.

Innovation: part of the Geneva financial centre's DNA

Innovation in the banking sector takes many forms. One consists in adjusting a bank's service offering to encourage new approaches to client relationships. Another is to modify processes in order to better manage costs.

Education is the first area to benefit from innovation. The Swiss financial centre enjoys access to first-rate human resources. Skilled, multilingual staff, who understand their clients' needs, enable Swiss banks to offer best-in-class services. This expertise has positioned Geneva as the world leader in private wealth management. Training and education should therefore reflect the evolution in the banking sector. The requirements included in the new Federal Financial Services Act (FFSA) will be a first test in this regard.

Furthermore, this underscores the need for training that specifically addresses promising areas such as asset management. Although London, New York and Hong Kong still claim the lion's share of institutional assets, Geneva has seen steady growth in recent years.

Lastly, innovation in training should respond to changes in client behaviour, which is growing increasingly "phygital": clients now interact with banks through both physical channels, such as teller or client advisory services, and digital channels, such as web and mobile applications.

FinTech is a second important area of innovation. It is no coincidence that the Geneva Financial Center, in partnership with the Canton of Geneva, invited 24 start-ups to present their ground-breaking solutions to the global banking community at Sibos this past September as part of a "Swiss FinTech Corner".

Not so long ago, Switzerland was crowned "most competitive country in the world" by the World Economic Forum (WEF). However, WEF also noted that in order to maintain the nation's capacity to innovate, Swiss political authorities must commit to eliminating causes of uncertainty.

This is particularly relevant to asset management, where innovation requires the free movement of talent and ideas.

Regarding FinTech, political and government authorities should be incited to push through regulatory changes. The Federal Council recently adopted its "Digital Switzerland Strategy", which calls for close cooperation between all sectors of the economy. FINMA's proposals for a "licence light" and for allowing online or video identification of clients, demonstrates a new awareness of the growing importance of technology.

Conclusion

Ladies and Gentlemen, I have now almost reached the end of my speech.

I began by warning against the dangers of inaction and the belief that our financial centre will remain attractive forever.

The British people's historic decision to leave the EU is no cause for hope, however. No amount of magical thinking will bring about a massive exodus of financial firms from London to Geneva. The likelihood of banking activities relocating from Britain as a result of the Brexit depends on many different factors, which are both objective (regulation, taxation, labour costs, security, quality of infrastructure) and subjective (such as how the financial sector is perceived by the media, politicians and the general public). The City of London's resilience is not to be underestimated. And we must not forget that a presence in Luxembourg, Dublin or Frankfurt provides access to European markets, whereas Geneva does not.

Access to European markets is far from being a theoretical concept. On the contrary, lack of, or limited, access has already impacted jobs in the banking sector. The Swiss Bankers' Association's "Banking Barometer 2016" makes this abundantly clear: overall, Swiss banks have reduced staff in Switzerland while hiring abroad. This is also one of the conclusions reached by our economic survey, which Edouard Cuendet will now present to you.