1

Message from the President

A resilient financial center, firmly rooted in the economy

This activity report gives an insight into the main developments that have taken place over the past twelve months in areas of interest to the Geneva Financial Center (GFC).

For the second consecutive year, 2021 was marked by Covid-19 and its impact on the economy of Switzerland and Geneva. The pandemic affected some sectors more than others. Banking and finance was one of the sectors that proved to be remarkably resilient.

The economic survey 2021-2022 (see page 5), conducted by the GFC, gives a heartening diagnosis of the health of this sector in Geneva. In wealth management, one of the three pillars of the Geneva Financial Center, together with commercial and retail banking as well as commodity trade financing, the banks and independent wealth managers were able to rely on strong net capital inflows. This trend was confirmed when the annual results for 2021 were published. This increase in net capital inflows was mainly attributable to foreign clients, demonstrating the attractiveness of the Geneva financial center compared to international competitors. Despite an environment of heightened competition, the Swiss financial center managed to maintain its leadership in private cross-border wealth management with a market share of 25% according to the figures published by the Boston Consulting Group.

In the context of the economic crisis caused by the pandemic, the banks played their key role as providers of liquidity to businesses, in particular through Covid-19 loans guaranteed by the Confederation. However, the involvement of the financial center in the economy goes beyond this. The macroeconomic impact analysis published by BAK Economics on November 23, 2021, shows that, in addition to its role in financing, the financial sector is also an important factor in the economy. In 2020 it directly generated gross value added of CHF 66.5 billion, equivalent to 10% of the Swiss economy's total output. Moreover, 5% of all jobs in Switzerland are in the financial sector, equivalent to more than 200,000 highly qualified staff.

When the cantonal budget for 2022 was presented in Geneva, the Council of State drew attention to the major contribution made by the financial center, alongside other economic activities, generating additional tax revenue in excess of CHF 1 billion for the canton. With its 35,000 jobs, the financial industry alone accounts for just under 13% of Geneva's gross domestic product (GDP). With the addition of commodity trading, its contribution exceeds 30% of GDP.

The optimism reflected in the figures must of course be tempered by the war in Ukraine which broke out on February 24, 2022. This geopolitical situation creates uncertainty, but it is still too soon to measure the impact on the financial sector. Through the Swiss Bankers' Association (SBA), the Financial Center strongly condemned this conflict and supported the sanctions imposed by the Federal Council (see page 7). Economic and legal considerations aside, the Geneva Financial Center wishes to express its support for the people of Ukraine and salutes their courage in the face of this aggression.

Focus on an attractive system of taxation

Year on year, particular attention is paid to taxation because it has a substantial influence on the Swiss economic center's attractiveness. At national level, we must first and foremost welcome the rejection of the 99% initiative by a large majority of the people and cantons (see page 15). Reform of withholding tax is also crucially important (see page 15). This levy is a serious handicap for the capital market in our country and more particularly green bond issuance in Switzerland. The figures speak for themselves: over 700 billion euros in green bonds have already been issued in Luxembourg. In Switzerland, the equivalent figure barely reaches CHF 24 billion. We can therefore only hope that on September 25, 2022, the Swiss people will understand the vital need for this reform to bring back to our country activities that create jobs and generate tax revenues, but are for the time being benefiting competing centers. In the international

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arena, the company taxation reform drawn up under the aegis of the OECD is being watched closely (see page 16). It provides in particular for the introduction of a minimum 15% tax rate in 2024. Switzerland will have to work hard to integrate this new standard into its legislation in good time.

Although some signals on the taxation front are encouraging and now simply need to be confirmed, uncertainty has surrounded bilateral relations with the European Union (EU) since the breakdown of negotiations on a framework agreement on May 26, 2021 (see page 17). The Federal Council did not present its roadmap until nine months later, on February 25, 2022. There is no longer any question of a framework agreement, only a sectoral approach. Institutional issues between Switzerland and the EU will therefore have to be resolved on a case-by-case basis. Unfortunately, the banking and financial center is not one of the sectors earmarked for priority treatment. For the financial center, access to the European market remains crucial. As the economic survey 2021-2022 shows (see page 5), financial stakeholders do not move at the same pace as the political agenda. Measures have already been taken by the financial intermediaries to develop their business in Europe with, as the main consequence, an increase in staff numbers employed outside Switzerland. In this matter too, it is entirely up to us to create economic value on our own territory.

Speeding up on digital innovation and sustainability

On the banking and financial scene, fundamental trends are emerging in an endeavour to capitalize on the favourable dynamic that began in 2021 and continues to generate growth. The Banking Barometer published by Ernst & Young in January 2022 highlights a priority for the establishments surveyed that may at first sight seem self-evident: their clientele. In order to maintain their ability to generate added value on a lasting basis, 42% of banks believe that acquiring, fostering and securing the loyalty of this clientele must be a priority. These three pillars are closely followed by a better understanding of clients (38%) and a better client experience (37%).

In the field, the GFC finds that the attainment of these objectives must involve, in particular, continued investments in digitisation with an emphasis on cybersecurity (see page 11), as well as a commitment to sustainability (see pages 12 and 20).

On sustainability, the statistics published by Swiss Sustainable Finance (SSF) prove that the orientation of financial flows towards greener activities is now under way: the volume of sustainable investments made in Switzerland rose by 30% between 2020 and 2021 to exceed CHF 1,980 billion. This transition concerns us all: it is not confined to the financial sector. Private and institutional investors, together with the political authorities, civil society and academia, all have a key role to play. The success of the second “Building Bridges” event (see page 20) testifies to this new collective awareness. Regulations that create incentives and a common definition at international level are vital to expedite this process and avoid the risks of greenwashing. The European Union was the first to issue classification and transparency standards for sustainable products (see page 12). In Switzerland, the federal authorities and professional associations are closely involved and working towards self-regulation (see page 12).

In conclusion, the Geneva Financial Center must make a determined commitment to a favourable environment, enabling the banking and financial sector to play its key role as a driver of the economy (through wealth management and lending services in particular) and in the economy itself (through the creation of jobs and added value in Switzerland). In this undertaking, all kinds of staff training – basic, in-service and academic – must be a priority (see page 23). The ability of the financial center to respond to its clients’ legitimate expectations in the areas of digitisation and sustainable finance depends on the skills of our staff.