

“Foreign banks are important partners for the Swiss economy”

Raoul Würgler discusses the importance of international financial institutions in Switzerland, the long reach of ignorance well into the political sphere, and the local financial sector.

Michael Baumann



“An integral part of the financial sector”: AFBS Secretary General Raoul Würgler.

UBS's takeover of Credit Suisse ushered in a major shift in the balance of power in the Swiss banking market. Raoul Würgler, Secretary General of the Association of Foreign Banks in Switzerland (AFBS), sees the moment as a turning point – and a good reason to discuss misunderstandings, opportunities and new tasks ahead for these international institutions.

Weltwoche: Mr Würgler, many people associate foreign banks primarily with private wealth management. Are they right?

Raoul Würgler: That was the predominant impression for a long time, and it's not been entirely incorrect in the past. Many international banks set up shop in Zurich, Geneva or Lugano after the Second World War in order to serve mainly high-net-worth clients. But those days are over. Our members operate in different segments nowadays – corporate banking, commodities trading, stock exchange issues, financial infrastructure services and retail banking – with some of them employing innovative digital models. In

other words, the foreign banks are much more broad-based than people often assume.

Weltwoche: Could you give some detail about the benefit that a foreign bank typically brings to Switzerland?

Würgler: One key example is international corporate banking. Many Swiss companies, even the small and medium-sized ones, operate on the global stage. They export to ten, twenty countries, or have suppliers in Asia, customers in South America or production sites in Eastern Europe. Foreign banks that have a presence in these parts of the world will be familiar with the local customs, have their own branches there and be able to handle hedging transactions or payments efficiently. You wouldn't get these services from a cantonal bank or even every major Swiss bank, because it doesn't have the international links or enough total assets.

Weltwoche: What role did Credit Suisse used to play in this context?

Würgler: For many years, Credit Suisse was an important bank for corporate clients with a clear focus on companies, including those operating internationally. That changed significantly when it was acquired by UBS, which has a different strategy. It's much more risk-averse and concentrates more on private banking. For many ex-CS clients, this means that they no longer fit the profile, are having to re-orient themselves – and are hunting around for alternatives. And it's precisely here that foreign banks come in.

Weltwoche: Are foreign banks ready to fill this gap?

Würgler: Many are, yes. Some are already expanding their corporate banking departments in a targeted way, while others are currently weighing up how they can better serve the SME segment. This isn't an easy process, because it calls for structural change. The processes and systems that you use for large corporations can't be transferred 1:1 to a company turning over CHF 50 million a year. But the awareness is there, and change is afoot. But let's take the example of the subsidiary of a French universal banking group that provides commodity trade finance in Switzerland and has a presence in a very large number of African countries where the commodities come from. Or a Spanish bank that operates in Latin America, in Turkey and in other Central Asian countries where the Swiss machinery industry sells its products. It's links like these that our members are there for. There aren't any forex transactions, there aren't any time or procedural delays, just a global, all-encompassing offering.

Weltwoche: What do the general public think about foreign banks, would you say?

Würgler: There's a lot of catching up to do in that regard. Many people have no idea what foreign banks do. They don't know any names, haven't got a clear image in their mind or base their ideas on old preconceptions. So it's all the more important for us as an association to raise

Foreign banks in Switzerland

Deep roots, new opportunities

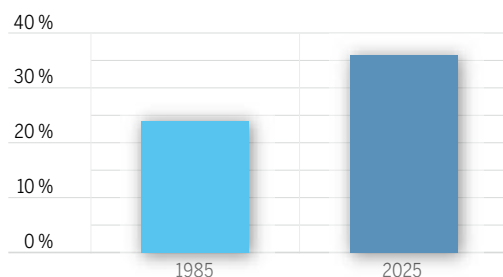
The Association of Foreign Banks in Switzerland (AFBS) was founded in 1972 in response to the increasing regulation of the financial sector and in order to uphold the shared interests of the international financial institutions based in the country. The AFBS now has around 90 members, almost all of them foreign-owned banks with branches in Switzerland. It organises about 80 events a year and sees itself as a platform for dialogue, regulatory coordination and promoting Switzerland as a place to do business.

The significance of the foreign banks to the Swiss economy is considerable: they make up about a third of all the banks in the country and employ roughly 16,000 people. Their business activities extend well beyond traditional wealth management. Many of them are active in corporate banking, handle commodities trading, provide capital market, issuance, payment or custody services and boast a global network that offers much more than banks with a merely local presence can.

Foreign banks in Switzerland go back a long way. Paribas opened a branch in Geneva in 1872 at the same time as ones in Paris, Brussels and Amsterdam. It was joined in the 1930s by the first institutions to arrive in Zurich, which dealt in the stock market business. A major expansion kicked off in the 1960s and 70s, encouraged by what was still a largely open banking system at the time. The financial crisis of 2007/08 and the global debate over tax transparency caused the withdrawal of many institutions and a degree of consolidation, while regulatory requirements imposed by the Swiss Financial Market Supervisory Authority FINMA necessitated a market restructuring.

These days, the foreign banks are eyeing up new opportunities. The demise of Credit Suisse left gaps in corporate banking that international banks are now filling. At the same time, some institutions are driving forward digitalisation or introducing new distribution models to Switzerland, e.g. by partnering with Swiss Post or offering tailored online services. Despite an increasingly complex regulatory jungle, the foreign banks are positioning themselves more and more as stable, reliable partners for the Swiss economy – in an environment that is becoming ever more global. (mbm)

Foreign banks in Switzerland as a percentage



Increased importance.

our public profile. We want to show that, rather than being players that are coming in from outside, we're actually an integral part of the Swiss financial sector – bringing a long history, a strong commitment and a clear benefit for the economy.

Weltwoche: How far back do foreign banks actually go in Switzerland?

Würgler: The oldest foreign bank still operating in Switzerland was set up in Geneva in 1872 – by Paribas, at the same time as it was also expanding to Paris, Brussels and Amsterdam. It was joined in the 1930s by the first institutions to arrive in Zurich, most of which dealt in the stock market business. At the time, you had to be present in person if you wanted to place an issue in Swiss francs. Switzerland was an attractive place to go – a stable currency, low interest rates, high liquidity.

“UBS is much more risk-averse and concentrates more on private banking.”

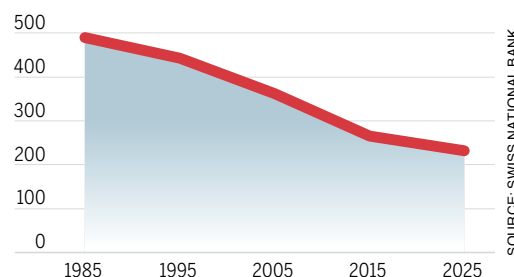
Regulations were then tightened up in the 1960s and 1970s, increasing the need for these banks to club together in some way. Thus our association was born in 1972 with 30–40 members to start with.

Weltwoche: How many members does your association have now?

Würgler: Currently we've got about 90 members from 27 countries. When I took over as Secretary General in 2020, we actually had significantly more. There are many reasons for this decline in numbers, such as mergers, market shakeout, withdrawals caused by the financial crisis and the debate over tax transparency. It's an ongoing process of consolidation that you can also see in other countries. It's happening in the EU, in America, everywhere. What's interesting is that there are now more foreign banks in Switzerland in relative terms, i.e. their percentage share has grown – from about a quarter to a third, in fact, and this trend is set to continue. At the same time, the quality and commitment of our members has increased significantly. These days, almost all foreign-owned banks that do business in Switzerland are part of our association.

Weltwoche: How has the regulatory environment changed?

Number of banks in Switzerland



Consolidation and structural change.

Würgler: Drastically! The financial crisis, the automatic exchange of information, FATCA, local legislative systems in the target markets – all of these have piled much, much tougher requirements on the banks. Banks used to be able to serve clients from 60 countries, something that's virtually impossible nowadays. A third of a bank's staff now work for its compliance department, and the fixed costs for operations are huge. This has led to a market shakeout but also to many institutions these days they are setup to be much more focused. Many have undergone a complete restructure, while others have concentrated on specific markets and left Switzerland because they couldn't see where any more business was coming from or were simply too small.

Weltwoche: What role does politics play in all of this?

Würgler: An important and, unfortunately, often problematic one. There's still a great deal of ignorance around – and some of it reaches well into the political sphere. We've seen this in the debate over custody of the compensation fund for old age and survivors' insurance, or OASI. Efforts were made on an emotional level to foment opposition to a decision that was based on facts. This wasn't about managing funds, it was a question of custody. And a global bank can often do that more efficiently and safely than a smaller provider. It's important to remember that the entire OASI fund has much more money in it than the balance sheet of, say, many Swiss banks. SBB's pension fund assets are also held in custody at a foreign bank, as are Suva's. Keeping such large sums of money in safe custody requires infrastructure and volume, both of which are extremely expensive to build up. There isn't a Swiss bank left which can compete with that.

Weltwoche: What's needed in order to get the public to understand this better?

Würgler: Awareness-raising, transparency and a willingness to engage in conversation. This is why we in the association have decided to bolster our communication efforts. Younger faces on our Board and in our management team are also bringing a new understanding of public debate. We want to show that the foreign banks are partners for Switzerland. In the past, we more or less

only dealt with private-banking-related issues. Nowadays, we're an advocate for all the sectors in which we have members, including commodity trade finance, corporate banking, securities services and retail banking.

Weltwoche: How closely do you work with other associations and institutions?

Würgler: Very. We're a member of the Swiss Bankers Association and send delegates to some of its committees and working groups. We also have

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good connections with the associations that represent wealth managers and private banks. After all, we share many of the same challenges, such as cross-border market access, regulatory developments or questions of what makes a location an attractive place to do business. What's more, our

members have a good relationship with the Swiss banks on the ground. Although they're competing in the same market, they're often on the same side when it comes to issues about location.

Weltwoche: What role do you see the foreign banks currently playing on the Swiss market?

Würgler: They're systemically important, not because of their size but because of what they do. They bring expertise, competition and investment and often serve as a bridge between Switzerland and the rest of the world. They also play a big role in areas like clearing, securities and stock exchange issues. For instance, many people don't know that the second biggest clearer of Swiss francs is a foreign bank or that international issues by global banks increase both the liquidity and the importance of the Swiss market.

Weltwoche: How would you assess the future of the Swiss banking sector in general and that of your association's members in particular?

Würgler: I can see a lot of potential. If Switzerland holds on to its underlying liberal beliefs, its banking sector will remain attractive. New busi-

ness models, new client groups and new partnerships are coming on board. And each new international company that sets up a branch in Switzerland increases the demand for banks with an international outlook. The foreign banks will need to offer these firms the right services, otherwise they'll take their financial requirements to another country. That'd be a loss for Switzerland as a place to do business.

Weltwoche: What would Switzerland be like without any foreign banks?

Würgler: An island – and a less high-performing one at that. Our country would lose parts of its value chain, and many SMEs would lose the ability to finance or hedge their global activities efficiently. And the financial infrastructure would suffer too, from clearing and custody through to capital market access. In a nutshell, there'd be a palpable vacuum, because the foreign banks are more than just a sideshow – they're an important part of the Swiss model for success.
