FINANCIAL CENTER AND CAPITAL MARKET

9

Image
SIX Swiss Exchange, Zurich

Accounting for 9.4% of GDP and employing around 218,400 people (5.3% of the employed population in Switzerland), the Swiss financial sector is of key economic importance. The main areas of expertise are private banking, asset management, and insurance. Switzerland's long tradition of economic and financial stability is reflected in low inflation, low interest rates, and the significant international role that the Swiss franc plays, particularly in the asset management and issue underwriting business.

9.1 BANKS

9.1.1 Structure and General Conditions

In Switzerland there are some 250 banks, 200 insurance companies, and 1,800 pension funds. Apart from the two major global banks, UBS and Credit Suisse, which together hold just under 50% of total assets, the cantonal, regional, and savings banks also play an important role. In addition, there are many smaller financial institutions and private banks, some of which offer highly specialized services such as commodity trade finance. The group of 24 cantonal banks, which are either entirely or partially under state ownership and most of which offer a government guarantee, have a domestic market share of about one third. Their share of the total assets of all Swiss-based banks in 2018 was about 18%. Another 97 foreign-owned banks with a share of 9.4% of the total assets can be added to this number. Switzerland is a center for professional asset management for private clients and institutional investors. With a market share of 27% in 2018, it is the world leader in the cross-border asset management business. Overall, Swiss banks managed assets totaling 6,943.5 billion Swiss francs at the end of 2018.

Switzerland's success as a financial center is due to many different factors. Its political and macroeconomic stability are the basic foundation upon which the trust of clients is built – trust which is so important in the financial business.

Global Financial Centers, 2019

Overall score from 1 to 1,000

(FIG. 32)

1	New York	790
2	London	773
3	Hong Kong	771
4	Singapore	762
5	Shanghai	761
6	Tokyo	757
7	Beijing	748
10	Sydney	738
11	Toronto	737
14	**Zurich**	**734**
15	Frankfurt	733
17	Paris	728
25	Luxembourg	708
26	**Geneva**	**706**
36	Seoul	677
37	Amsterdam	675
48	Milan	655

Sources: The Global Financial Centres Index (GFCI 26), 2019

The Swiss franc, with its status as an important international reserve and diversification currency, also contributes to this. Strong global integration and an efficient financial infrastructure allow market players to manage assets and risks profitably and diversify them internationally. Switzerland enjoys a good reputation abroad as a financial center, and it is an attractive location for businesses and an international clientele.

www.swissbanking.org
Swiss Bankers Association (SBA)

9.1.2 Supervision

In comparison with other countries, the regulatory obstacles and burdens in the Swiss banking system are relatively low. A permit is required to open a bank, trade professionally in securities, manage a fund, and in some cases to operate as an asset manager. The Swiss Financial Market Supervisory Authority (FINMA), currently supervising over 550 financial institutions, can provide detailed information about specific requirements.

As an independent supervisory authority, FINMA protects financial market clients, namely creditors, investors, and insured persons, thus strengthening public trust in Switzerland as a functioning, reliable, and competitive financial center. In addition, self-regulation has proved itself as an additional form of governance for the Swiss financial market. FINMA is required by the legislature to support self-regulation and to provide it with the necessary space. Corresponding regulations are proposed, for example, by the Swiss Bankers Association and are approved and implemented by FINMA.

All banks operating in Switzerland require a license. The supervisory standards applied in Switzerland not only govern the capital resources and adequacy of the banks but also include the whole range of prudential rules and codes of conduct. As an additional safety cushion, Swiss law specifies higher capital requirements than the Basel Capital Accord (Basel I-III).

www.finma.ch
Swiss Financial Market Supervisory Authority (FINMA)

9.1.3 Services

Banks in Switzerland offer a vast range of financial products and services for both private and corporate clients. As the Swiss banking system is based on the universal bank principle, the banks can offer all banking services, such as:

- Credit or lending business
- Asset management and investment consulting
- Institutional investment business
- Payment transactions
- Deposits (savings accounts, etc.)
- Securities (stock exchange trading)
- Issue and underwriting business (bond underwriting)
- Financial analysis

Despite this, very different groups of banks and areas of specialization have developed.

Generally speaking, any adult may open a bank account in Switzerland. However, the banks reserve the right to refuse to accept a client. Most Swiss banks do not require a minimum deposit for normal savings or current accounts. Many banks offer accounts in euros, U.S. dollars, or other currencies, in addition to Swiss francs.

If clients have a specific complaint against a bank that is domiciled in Switzerland, they may approach the Swiss Banking Ombudsman, who provides neutral, free information and mediation.

www.ubs.ch
www.credit-suisse.ch
Major banks

www.kantonalbank.ch
Cantonal banks

www.raiffeisen.ch
Raiffeisen banks

www.regionalbanken.ch
Regional and savings banks

www.vav-abg.ch
Association of Swiss Asset and Wealth Management Banks

www.abps.ch
Association of Swiss Private Banks

www.swissprivatebankers.ch
Association of Swiss Private Banks

www.foreignbanks.ch
Association of Foreign Banks in Switzerland

www.bankingombudsman.ch
Banking Ombudsman

9.1.4 Protection of Deposits

Swiss deposit insurance esisuisse insures customer deposits with banks and securities dealers in Switzerland. If the customer deposits are no longer available as a result of bankruptcy, customers receive up to a maximum of 100,000 Swiss francs of their money from the liquidator. This applies per customer and institute.

Privileged deposits

In the event of bankruptcy, deposits of up to 100,000 Swiss francs per client and financial institution are privileged (in any currency). "Privilege" in this case means that the deposits are assigned to the second bankruptcy class and thus paid out in liquidation before the claims of the third bankruptcy class. To secure the liquidation, the financial institutions must hold 125% of the privileged deposits in the form of liquid assets in Switzerland.

Secured deposits

esisuisse protects privileged deposits with a Swiss office up to 100,000 Swiss francs per client and financial institution. These deposits thus benefit from priority payout and the protection provided by esisuisse.

Function of deposit insurance (esisuisse)

If FINMA closes a financial institution (bank, securities dealer), the available liquid assets of the financial institution are initially used for the immediate payment of privileged deposits. esisuisse is only activated if the available liquid assets are insufficient to repay the secured customer deposits. esisuisse asks its members (all financial institutions are necessarily members) for the necessary funds via LSV and forwards them within 20 working days to the liquidator commissioned by FINMA. esisuisse provides a maximum of 6 billion Swiss francs. In addition to the liquidity required by law, financial institutions must constantly hold liquid assets amounting to half of their maximum contribution obligations to esisuisse.

www.esisuisse.ch
Deposit Protection of Banks and Securities Dealers

9.2 SWISS STOCK MARKET: SIX SWISS EXCHANGE

SIX Swiss Exchange is one of Europe's most important stock exchanges. It has outstanding liquidity in Swiss securities trading and connects companies from around the world with international investors and trading participants.

Switzerland is a very attractive financial center for capital-seeking domestic and foreign companies, as it is well manageable, closely networked, and internationally oriented. It is thus hardly surprising that the financial center of Switzerland boasts an extraordinary number of global corporations, financial service providers and strong investors. This gives SIX Swiss Exchange a natural competitive advantage and gives listed companies access to an experienced and well-capitalized Swiss and international group of investors and high liquidity.

Thanks to its self-regulatory competence, the Swiss Exchange creates market-friendly conditions for the listing and trading of domestic and foreign shares, bonds, ETFs, ETPs, funds, and structured products.

The SIX Swiss Exchange combines the locational advantages of the Swiss financial center with first-class services and is the ideal listing location for companies of all origins, size, and sector affiliation. It sells its own index range, which includes the SMI,® Switzerland's most important stock index.

With the world's most efficient trading technology and a broad selection of connection options and interfaces, SIX Swiss Exchange offers its participants outstanding trading conditions. It maintains a close dialogue with its domestic and foreign customers and works with them to create the optimal environment for its success. It also offers access to a strong global network, which includes the market data provider SIX Exfeed AG and the fund database Swiss Fund Data.

The SIX Swiss Exchange is part of the SIX Group, which offers services in the area of trading and processing as well as financial information and payment transactions.

www.six-swiss-exchange.com
Swiss Stock Market

Switzerland's financial center and the country's appeal as a location make the SIX Swiss Exchange very attractive to domestic and foreign businesses.

9.3 BUSINESS LENDING AND REAL ESTATE FINANCING

Establishing a business is generally a medium to long-term objective. As a rule, significant up-front investments and project financing are needed. Swiss banks place great emphasis on thorough market analysis and professional management.

9.3.1 Financing of Current Business Activity

To finance current business activities, banks grant various types of short-term loans. These can take the form of unsecured loans or loans secured by collateral. The primary sources of credit for commercial finance are market performance, profitability, prospects, and the quality of the company's leadership. These factors are important for the bank in assessing whether the company can repay the loan. Whether or not the company can provide securities is of secondary importance in the commercial business.

As digitization (Industry 4.0) increasingly compels many companies to shift financing resources away from the acquisition of tangible capital goods and towards a fundamental redesign of their production processes, financing requirements are also changing. Banks are required to properly understand and assess business models and their potential in the digitized world while companies must be able to provide the banks with the relevant information.

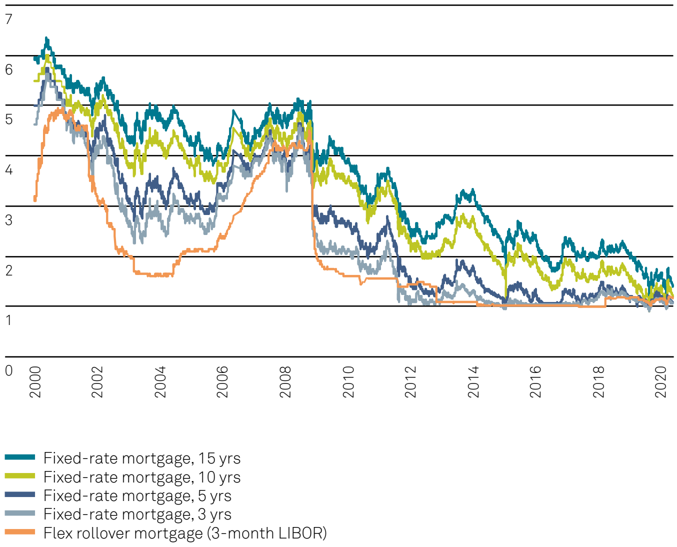
The variety and quality of service providers in Switzerland offer excellent conditions for corporate clients to receive the right financing solution from a wide range of offers. In addition to common products such as operating loans, investment loans, and leasing, special products such as start-up financing, commodity trade finance, convertible loans, guarantees, and equity loans are provided by business angels, venture capital companies, and private equity investors.

In addition, banks provide companies with the full range of derivative instruments (futures and options) that enable companies to selectively manage financial risks (such as interest rate or currency fluctuations).

Mortgage Rates, 2000–2020

Interest rate in %

(FIG. 33)



Sources: Credit Suisse, 2020

In 2019, 2.3 billion Swiss francs were invested in innovative new companies in Switzerland.

Source: www.startupticker.ch/en/swiss-venture-capital-report, Swiss Venture Capital Report, 2020

9.3.2 Mortgages

If the acquisition of real estate or the building of a production facility accompanies the foundation or establishment of a business, mortgages can be an important credit instrument. There are three main types of mortgage in Switzerland: fixed-rate, variable-rate, and money-market mortgages (also called Libor mortgages). While the interest rate for a variable-rate mortgage is continually adjusted to the prevailing capital market rate, the interest rate on a fixed-rate mortgage is typically fixed for one to fifteen years. The interest rate on a money-market mortgage is based on the Libor rate for the euro money market. Providers add a margin on top of this rate, which depends on the creditworthiness of the borrower. Up to 80% of the property's market value may be borrowed; up to 65% of this is taken as a first mortgage, which does not need to be amortized as is usual in other countries; any amount in excess of this is borrowed under a second mortgage, which must be amortized. The bank checks the quality of the property and the creditworthiness of the borrower on the basis of its guidelines. Generally speaking, a minimum requirement is that purchasers should provide at least 20% of the purchase price from their own assets. Secondly, the annual cost of the purchase (interest, repayments, and maintenance) should not total more than one third of the purchaser's gross income. Interest rates are negotiable, so it is worthwhile to request offers from a number of lenders.

For commercial real estate, the collateral value depends increasingly on the earning-power value. For industrial projects, normally 50% of the total plant value (market value or construction cost, including machinery and equipment) can be financed against real estate pledges at very attractive rates. For office and service buildings, the loan-to-value ratio is normally around 70%, but it also depends on the (property-specific) risks. Interest rates and terms generally applied to business investments today depend on the creditworthiness of the company and the rating it is given by the lending bank. Recognition of the risk and of future prospects is therefore crucial.

Owners of residential property must pay federal and cantonal taxes on their property as notional income. The rule of thumb for federal tax is an imputed rental value of at least 70% of average market rental, and for cantonal and communal taxes an imputed rental value of at least 60%. In return, homeowners may deduct mortgage interest and maintenance costs. This is the reason why the first mortgage is rarely ever amortized.

www.hausinfo.ch > Finance & taxes
Financial aspects of home ownership

www.hypothekenrechner.ch
Financial feasibility calculator

9.4 RISK CAPITAL

In 2019, venture capital companies invested over 2.3 billion Swiss francs in innovative new companies in Switzerland. This represents more than twice the volume of investment since 2012. Alongside the state development programs and loans from business banks, venture capital (VC) is an important pillar of innovation in Switzerland with between 80 to 150 transactions per annum. The federal authorities also support the creation of venture capital through the Federal Act on Venture Capital Companies (RKG), which provides two tax incentives:

- Recognized venture capital companies are exempt from securities issue tax on their capital at the time the company is founded, or for any subsequent capital increase. With respect to direct federal tax, they also have a lower threshold value for claiming the equity participation deduction.
- Private individuals who assist in the foundation and development of new companies as business angels are entitled to relief from direct federal tax if they grant subordinated loans for the formation of start-up companies from their private assets.

The availability of venture capital and similar financing may fluctuate and therefore lacks transparency. Universities, consultants, and the business community jointly provide a number of platforms, some of them online, to bring entrepreneurs and investors together.

www.startupticker.ch > Assets > Swiss Venture Capital Report
Online platform for start-ups

www.seca.ch
Swiss Private Equity & Corporate Finance Association (SECA)

9.4.1 Venture Capital

Some financial companies specialize in providing risk capital or venture capital. Venture capital companies contribute to the share capital of a company, with the aim of making large profits if it flourishes or goes public. They provide financial resources without requiring the traditional forms of security. Only fast-growing young companies which are likely to generate significant revenue in a short period of time and have sales potential and a capital requirement of several million Swiss francs are normally considered for this kind of financing. Venture capitalists consider themselves to be guides during the development phase of the financing project. After their job is done, they withdraw and sell their investment to the company founder or other investors.

www.kmu.admin.ch > Practical knowledge > financial > financing
Overview of financing sources

www.swiss-venture-club.ch
Information platform, network for businesses

State Support Schemes

(FIG. 34)

INSTRUMENT	BENEFICIARY	REGIONS	MEASURES
New Regional Policy NRP	Industry, production-related services	Economic regeneration areas	Tax relief in respect of direct federal tax
Commercial guarantees	SMEs, commercial undertakings	All of Switzerland	Bank loan guarantees (max. 500,000 CHF)
Guarantees for mountain regions	SMEs, commercial undertakings	Mountain regions	Bank loan guarantees (max. 500,000 CHF) Interest cost subsidies
Hotel credit	Hotel industry	Tourist and mountain regions	Direct loans Guarantees Interest cost subsidies (partial)
Measures to support independent professional activities	Unemployed	All of Switzerland	Daily allowances (max. 90 days for planning phase) Bank loan guarantees (max. 500,000 CHF)
Commission for Technology and Innovation (CTI)	Projects for research collaboration at universities and businesses	All of Switzerland	Payment of researchers' salaries

Sources: various federal government agencies, information collated by Generis

9.4.2 Business Angels

During their start-up phase, many promising young companies need seed financing of less than 2 million Swiss francs. Although risk capital is increasingly available these days, the minimum size of financing transactions has risen correspondingly for both risk capital providers and investment companies. Very few professional risk capital providers consider financing deals of less than 2 million Swiss francs. More and more often it is so-called "business angels" – individual investors – who finance start-ups. Typically, business angels have experience and connections in addition to capital that they have ideally acquired as an entrepreneur, which is why they are often also consultants and mentors to young entrepreneurs. Business angels generally invest twice or even three times over in the companies: they invest their capital, experience, and time, which gives young entrepreneurs their "smart money." Essentially business angels also follow clear return prospects just like venture capital investors. The aim is to start, develop, and establish new companies and to ultimately make them attractive for future investors. Consequently, young entrepreneurs are usually closely supported by business angels, who also demand corresponding access to the business plans.

www.businessangels.ch
Business Angels Switzerland (BAS)

9.4.3 State Support

Although there is relatively little direct financial assistance available in Switzerland, where the state mainly restricts itself to creating favorable operating conditions, the country does offer a wide variety of tools to support companies, ranging from administrative assistance and tax relief to guarantees.

The cantonal economic development agencies (see Annex page 144f) also tend not to take direct stakes in companies, although they can offer assistance in finding affordable construction sites or can provide tax relief during the start-up phase or during a planned expansion.

One rare exception is the Swiss Federal Foundation for the Promotion of the Swiss Economy (Eidgenössische Stiftung zur Förderung schweizerischer Volkswirtschaft), which grants interest-free loans and, in exceptional cases, may also provide a share of the risk capital subject to a personal financial commitment on the part of the company founder.

www.kmu.admin.ch > Practical knowledge > financial > financing
State support on financing

9.5 INTEREST AND CAPITAL COSTS

Switzerland is one of the most economically and politically stable countries in the world and is regarded as a "safe haven". The country is in a healthy financial situation. This applies to the finances of the central state – at the federal level – as well as the cantons and municipalities. The public balance in Switzerland was positive at 3.1 billion Swiss francs (0.4% of GDP) in 2019. By contrast, the euro area and the OECD member states had a negative reference value (–0.8% and –3.2%, respectively). The Maastricht government debt-to-GDP ratio fell below 40% of GDP in 2006 and has since been further reduced thanks to the debt brake. In 2019, it remained at 26.9%.

Credit Rating: Top Ten Most Secure Countries, 2019
Maximum = 100 points
(FIG. 35)

1	Switzerland	88.16
2	Singapore	87.86
3	Norway	87.80
4	Denmark	86.90
5	Sweden	84.72
6	Luxembourg	84.52
7	Finland	84.08
8	The Netherlands	83.85
9	Australia	81.21
10	New Zealand	80.32

Sources: Euromoney, December 2019

Switzerland's high credit standing, together with its high savings rate, leads to large amounts of foreign funds and therefore to low interest rates when compared to other countries. Business and investment activities can thus be financed relatively inexpensively. In recent years, the average difference in money and capital market rates between Swiss francs and euros has been between 1.5 and 2%. The IMD management institute in Lausanne also highlights the positive effect of capital costs on economic development, with Switzerland coming out in first place in its ranking (Fig. 36).

www.lik.bfs.admin.ch
National Consumer Price Index (CPI)

www.efv.admin.ch
Federal Finance Administration (EFV)

9.6 INFLATION

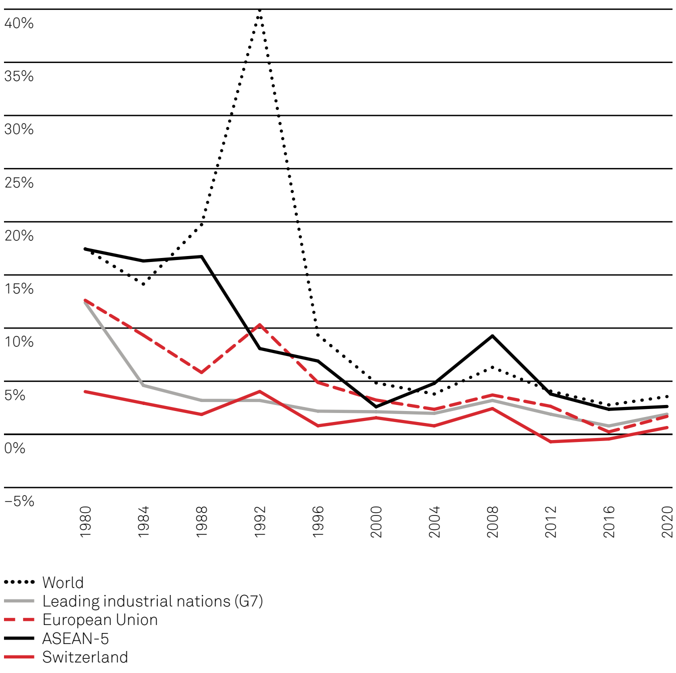
Switzerland has always lived up to its reputation as a stable country. The rate of inflation, as measured using the Swiss consumer price index, has consistently remained well below those of the EU and the major industrialized nations. While it has remained in negative territory for years, it has been moving at rates of 0.5% since the beginning of 2017.

Capital Costs, 2019
1 = hinders economic development
10 = promotes economic development
(FIG. 36)

1	Switzerland	7.84
2	United Arab Emirates	7.83
3	USA	7.74
4	The Netherlands	7.66
5	Sweden	7.57
10	Singapore	7.01
11	Germany	6.99
12	Hong Kong	6.88
13	United Kingdom	6.87
14	Luxembourg	6.85
15	Irland	6.73
23	France	6.40
25	Japan	6.39
27	Canada	6.29
41	India	5.23
43	Italy	5.19
45	South Korea	4.99
51	China	3.98

Sources: IMD World Competitiveness Center 2019

Inflation, 2020
(FIG. 37)



Sources: IMF WEO Report, 2020