

Speech by Boris F.J. Collardi, Chairman of VAV

Bern, 18 January 2018

The spoken word shall prevail – blocking period until 18 January 2018, 10.00 a.m./p.m.

Wealth management – future vision for an export industry

Ladies and Gentlemen,

In light of the financial crises, the Swiss private banking sector has repeatedly been the recipient of critical attention in the media, which has been either far from flattering or excessively pessimistic. I would, therefore, like to use this opportunity today to dispel any outdated preconceptions, put right any nightmare scenarios about the state of our sector and, in particular, take a look at the future of our industry, which, just like many other export-driven sectors, currently finds itself in a process of transformation. After all, we are working hard to position our sector as one of our country's key export sector.

At the risk of repeating myself, I would like to open my speech with a few words about the importance of private banking for the Swiss banking centre. Overall, the private banking industry generates more than half of all revenues in the local banking sector. It is thus the cornerstone of our financial centre. I would especially like to draw your attention to the significance of the cross-border business, which accounts for around two-thirds of the generated gross revenues.

Also in international comparison, the basis upon which the Swiss wealth management business is built remains very strong despite all the prophecies of doom. With a share of approximately 25 per cent of global assets managed on a cross-border basis, which total is USD 10,000 billion, Switzerland is still the global market leader in this field. Our financial centre manages around twice as many assets as its UK or Singapore counterparts and three times as many as in Hong Kong. This dominant position is not set in stone, however. In particular, above-average growth rates in the area of cross-border wealth management are forecast for our competitor financial centres in Asia up to 2021. Nevertheless, it should not be forgotten that Swiss institutions are also making a significant contribution to the expansion of the Asian financial centres and have the opportunity to benefit directly from this growth. However, this development will hardly benefit Switzerland as a location or its state treasury. To ensure that value added, jobs and tax revenues here in Switzerland can be maintained to the greatest extent possible, it is essential that we can actively export our services from Switzerland to strategically relevant countries and regions. Of particular interest are international markets that boast the requisite size, have a strong growth momentum or a client base that especially values the stability and security of the Swiss financial centre, which offers a protective environment that they do not always find in their own jurisdictions.

Without wanting to belittle the significance of the emerging markets, Western Europe remains our most important export market, accounting for a share of 40 per cent of the total cross-border wealth management business. Around 20,000 people in Switzerland are employed in connection with the management of the almost CHF 1,000 billion belonging to clients domiciled in the EU alone. As a result, our country also generates annual tax revenues of approximately CHF 1.5 billion with this business. For us to continue advising these clients from Switzerland, we are reliant on unhindered and active market access to the European Union as well as an intact and stable political relationship with our most important trade partner. A “stand-alone” policy cannot be an option for Switzerland.

Swiss private banks are currently operating in a challenging environment:

- The high general debt level of governments and economic players, the low-interest environment and repeated bouts of geopolitical tension are continuing to hinder financial market developments. There is therefore a limit to how far financial market stimulation can go over the long term.
- The regulatory framework for banks, which has been shaped by the financial crisis in an essentially sensible manner, will remain demanding over the coming years. Among other things, I am thinking of the stringent compliance regulations, the improvement of investor protection, the comprehensive global accounting standards and the exchange of tax data.
- In our industry, we must also fulfil the expectations of our clients, which are developing on a continual basis. Clients expect more and more from their banks with respect to quality and transparency. And in light of the ongoing process of digitisation and the associated access to new IT platforms, they are becoming ever more autonomous. We are seeing the emergence of completely new needs that require a rapid response.
- Finally, the heightened level of competitive pressure means that, generally speaking, structural margin pressure will remain high and a further phase of consolidation cannot be ruled out. As already mentioned, the players within the Swiss financial industry find themselves in intense competition with providers from foreign financial centres. At the same time, competition is also increasing at a domestic level and new players from the fintech sector are joining in.

As you can see, there is no shortage of challenges. We are, however, convinced that our industry will be successful over the long run, provided that it is well positioned from a strategic perspective and receives optimal support from politicians and the administration in their role as partners. To ensure that our financial centre maintains its position as the leader in the global world of private banking in 2025, we are working proactively to meet the following conditions:

1. Competitive regulatory framework conditions

Firstly, we want to further strengthen our competitive position and establish framework conditions that take account of the export character of the private banking and asset management sectors.

- **Export markets: active access to the EU and high-growth regions**

This includes unhindered market access to the key export markets, meaning that Swiss private banks can actively offer their services abroad. With the transition to the automatic exchange of information, our sector is undergoing a fundamental paradigm shift. Unlike in the past, it is no longer enough for Swiss banks to adopt a passive approach and wait for international clients to contact and visit them or request services on their own initiative. In a ‘transparent world’, it is now necessary to work from Switzerland to provide clients with active and comprehensive advice

locally. In order to achieve this as yet lacking market access, there are three possible approaches: Firstly, bilateral agreements must be concluded with individual strategically important EU countries, providing us with separate market access. Secondly, it must be ensured that our legislation is deemed equivalent to EU guidelines on the key components of financial regulation in order to prevent market access otherwise being denied. Switzerland has done its homework here with the CISA, FMIA, FinSA and FinIA and, in our view, its legislation is clearly equivalent in these areas. It is now the EU's turn and it needs to finally demonstrate that it is a reliable partner. The Brexit negotiations being held in parallel must not be used as an excuse to wait artificially. Thirdly, a comprehensive financial services agreement should be seriously pushed ahead with at a political level if the two other approaches do not allow for sufficient progress to be made within a reasonable period. However, such an agreement should not be concluded at any price and instead should only be reached in the interests of both parties and upon all possible negotiating leeway being exhausted.

- **Human capital: ensuring the best-possible qualifications**

Qualified and well-trained employees, who allow for the management of extremely discerning clients in the first place, are key for the success of Swiss private banks. The generally high level of education in Switzerland fulfils this requirement. At present, however, there is no clear 'lighthouse' institution in Switzerland for education and further training in the financial sector that plays the role, for example, that the hotel management school in Lausanne does for the hotel trade. The Swiss Finance Institute should play a leading role in this regard.

- **Competition between financial centres: a level playing field and no Swiss finish**

Switzerland should refrain from so-called 'Swiss finish' regulations that go beyond international standards and thus put the players within the Swiss financial centre at a disadvantage relative to their international competitors. Conversely, our authorities should work actively at an international level to ensure mandatory compliance with the 'level playing field' principle by our foreign competitors. This applies, in particular, to the implementation of the automatic exchange of information (AEOI) in tax matters (the US sends its regards). It is important that Switzerland does not rush ahead, but rather only begins with the effective exchange of information when its competitor financial centres also do so and legitimate data protection is ensured in the interest of bank clients. In this sense, we welcome the activation clause in the corresponding AEOI agreements, which was recently adopted by Parliament and which we strongly advocated.

2. Positive image

- **Reputation: active promotion of the financial centre**

In addition to competitive framework conditions, we also want to do everything in our power to ensure that the banking sector preserves its good reputation that it has earned in light of its quality and professionalism. It has to do so by turning words into action and stepping up its dialogue with politicians, the administration and the population. I am convinced that we in Switzerland are on the right path, as the sector is learning from its mistakes and is working towards establishing a basis for its business models that is sustainable in every respect as it is the case for any normal export industry. I would like to emphasise that our banks continue to lead the way at an international level when it comes to quality, reliability and profitability. Our foundations are based on a long-standing tradition that stretches back more than 200 years. In

order to better convey these benefits abroad, it is a very welcome development that the federal government is now actively promoting its financial centre together with our sector.

3. Sustainable industry

- **Partnership: stepping up dialogue and cooperation with independent asset managers (IAMs)**

We are also committed to a diverse banking and financial centre. In recent years, industry-wide cooperation with IAMs has unfortunately been a bit neglected. It is thus pleasing to see that, thanks to our initiative, institutionalised dialogue has now been initiated between the banks and the IAM organisations. After all, we belong to the same sector, sometimes find ourselves in competition with one another and, in a certain sense, also have a common destiny, as we both have to master the same challenges, especially those relating to regulation and training.

- **Digitisation: innovative strength as an opportunity for the sector**

I mentioned at the beginning that clients are becoming increasingly autonomous and ever more demanding due to the ongoing process of digitisation. Developments in the fintech sector can help us to fulfil these expectations. There is most definitely potential to further improve the quality and flexibility of our advisory services through the use of new technologies, such as digital identities. Nevertheless, the provision of personal advice to clients will always be at the heart of our business. Digitisation will not change anything in this regard.

- **(Slide 8) Industrialisation**

That already brings me to my final point, namely the opportunities presented by industrialisation. Within the sector, we also need to be attentive, think in an entrepreneurial manner and exploit any chances that arise. We believe that a more intense cooperation between the banks in non-competing sectors offers great potential with respect to boosting efficiency within the industry. The objective should be to prevent unnecessary duplications and also to increase quality standards within the sector. Other industrial sectors, such as the automotive industry, have successfully shown what is possible without compromising the diversity of their offerings. We need to learn from these good examples. I see opportunities, in particular, in interbank cooperation with respect to non-differentiating activities. The use of suitable technological applications and service-provider solutions plays a key role here. I would like to emphasise at this point that we very much welcome the repositioning of SIX Group with the creation of its new “network services” business pillar and should use this momentum to consolidate the strengths of our banks.

Areas specifically prioritised by us for possible industrialisation include legal, compliance, standard banking documentation, procurement and mortgage processing. We are currently analysing possible sourcing scenarios (i.e. the outsourcing of parts of the value chain) and are developing appropriate feasibility solutions and business models with the objective of advancing to the development and implementation phase. The aim of the new SIX innovation unit is to develop specific services for shareholder groups, including those of the Association of Swiss Asset and Wealth Management Banks (VAV) and the Association of Swiss Private Banks (ASPB). We already addressed such issues with SIX one year ago. I would like to take this opportunity to also mention possible solutions for KYC and client background checks as well as for the area of basic research.

To recap: we are working to establish competitive framework conditions that should ensure we have the necessary market access, the talented individuals required and a real international level playing field to operate in. At the same time, the benefits of our financial centre should be promoted internationally as part of a partnership between the federal government and the industry. Finally, our diverse sector needs to pull together more, develop intelligent cooperation models in non-competing areas and fully exploit the potential offered by technological advancements and digitisation. I am convinced that if we do our homework right within our banking institutions and set the regulatory framework appropriately, Switzerland will also remain at the forefront of international wealth management in future. Thank you for your attention.



Swiss wealth management 2025

Future vision for an export industry

Bern – 18 January 2018
Boris F.J. Collardi, Chairman

Vereinigung Schweizerischer Assetmanagement- und Vermögensverwaltungsbanken
Association de Banques Suisses de Gestion
Associazione di Banche Svizzere di Gestione Patrimoniale ed Istituzionale
Association of Swiss Asset and Wealth Management Banks

VAV
ABG

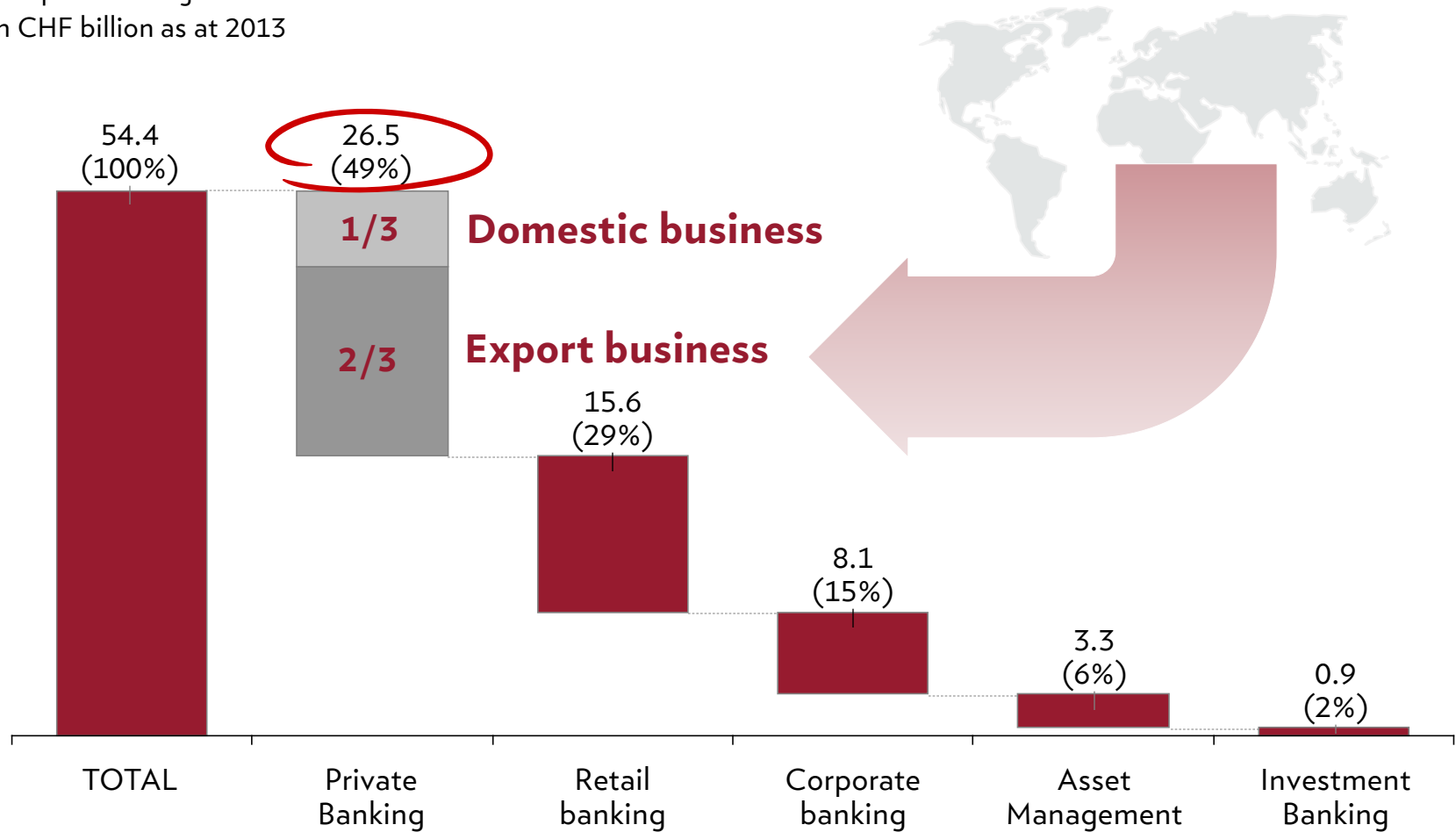
Overview

- Wealth management as a key export industry
- Challenging environment
- Future vision for successful wealth management
- Exploit potential offered by industrialisation

Export business is substantial

Private banking as a cornerstone of the banking industry

Composition of gross revenues in Switzerland
in CHF billion as at 2013



Relative significance of the global export business

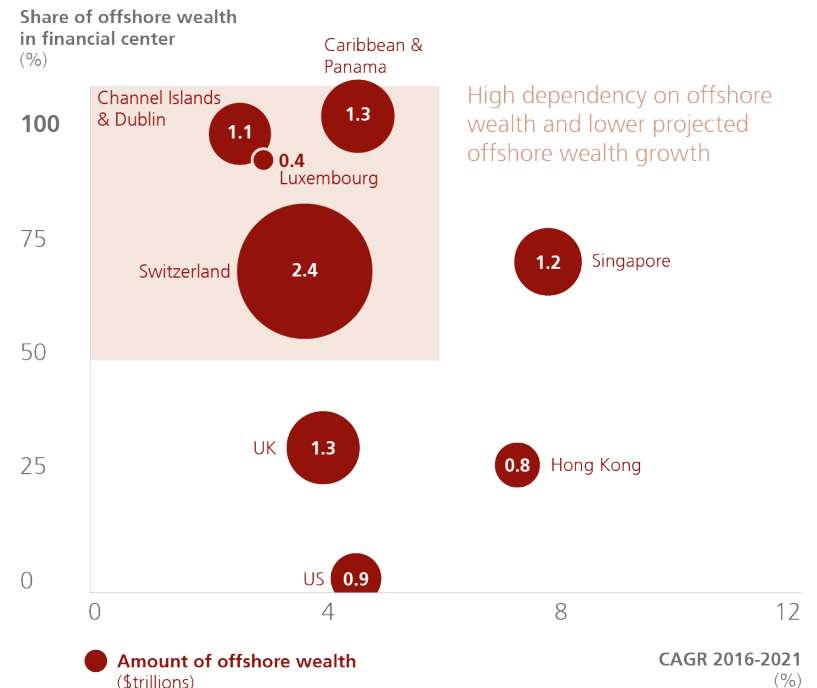
Swiss financial centre remains number one

ASIA-PACIFIC BOOKING CENTERS WILL POST THE HIGHEST GROWTH IN OFFSHORE WEALTH THROUGH 2021

SOURCES OF OFFSHORE WEALTH BY REGION, 2016

	Total wealth (\$trillions)	CAGR 2016-2021 (%)	Share of offshore wealth (%)
Global	10.3	4	6
Asia-Pacific ¹	2.9	6	5
Western Europe	2.6	2	7
Middle East and Africa	1.9	5	23
Latin America	1.5	5	27
Eastern Europe	0.7	3	20
North America	0.7	3	1

FINANCIAL CENTER OVERVIEW, 2016



Source: BCG Global Wealth Market-Sizing Database, 2017.

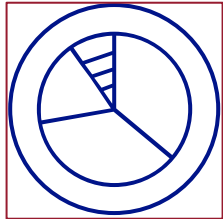
Note: Private financial wealth is measured across all households. Offshore wealth is defined as wealth booked in a country other than a person's country of residence or domicile. All growth rates are nominal. Amounts for all years were converted to US dollars at average 2016 exchange rates in order to exclude the effect of currency fluctuations. Percentage changes and global totals are based on complete (not rounded) numbers. Calculations for all years reflect updates to our methodology.

¹In this instance, Asia-pacific includes Japan.

Export business with the EU...

...economically relevant to Switzerland

Assets under management



Banks in Switzerland manage around CHF 1,000 billion assets of European clients

Jobs and value creation



Around 20,000 employees work on the management of these assets and generate revenues in the amount of approximately CHF 8.4 billion p.a.

Tax revenues for the state

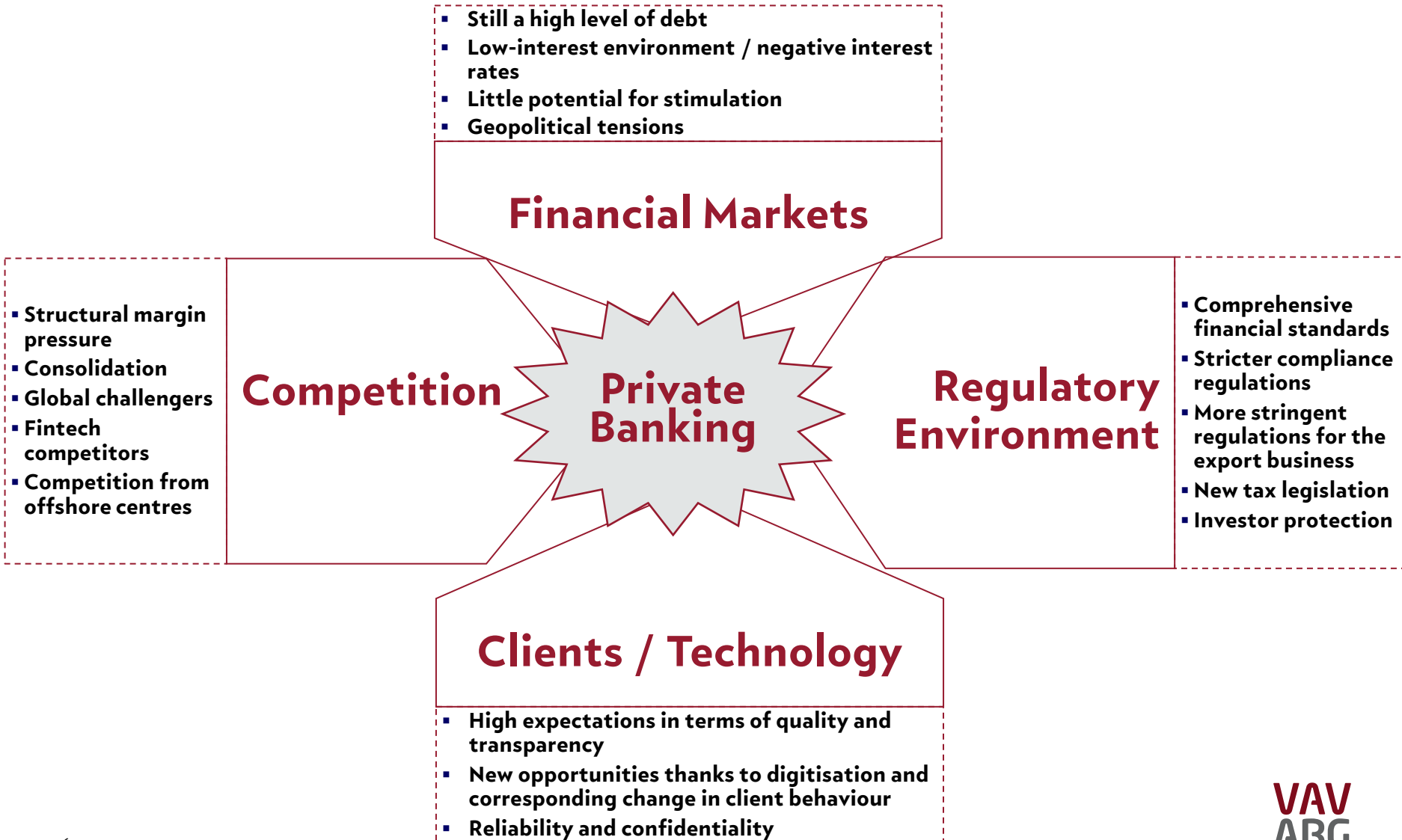


Thanks to the banks active in private banking and the associated jobs, Switzerland achieves tax revenues of around CHF 1.5 billion p.a.

Active market access as a key prerequisite for a successful export business with the EU

Challenging environment

Influencing factors for wealth management



Future vision for successful wealth management

Objective and key factors

1. Competitive framework conditions

- Export markets: active access to the EU and high-growth regions
- Human capital: ensuring the best-possible qualifications
- Competition between financial centres: level playing field / no Swiss finish

2. Positive image

- Reputation: promote financial centre together with Confederation
- Partnership: step up dialogue and cooperation with IAMs
- Digitisation: innovative strength as an opportunity for the sector
- Industrialisation: exploit synergies in non-differentiating activities

3. Sustainable industry

Exploit potential offered by industrialisation

Forms of cooperation / work status

Objective

- Increased efficiency and quality for both individual institutions and the entire wealth management sector → sustainable competitiveness

Why?

- Substantial potential exists within the sector to improve efficiency and quality
- Many non-differentiating activities in the production and value chain
- Learn from other industries and sectors
- “Network services” as a new pillar of the SIX Group strategy: provides momentum for consolidating the banks’ strengths

What?

- Suitable application fields: legal, compliance, basic research, procurement, mortgage processing...
- Analysis of sourcing scenarios and feasibility studies (incl. business models and the use of optimal technologies)