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Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

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Quality strategy for wealth management in Switzerland

Ladies and gentlemen

I would also like to welcome you to our annual press conference. Today I am going to talk about quality. In the past, on the same occasion, I addressed other topics: recession risks and their impact on loans in bank balance sheets, and the issue of low interest rates and its repercussions on the mortgage market. These topics have not lost their topicality and have, to some extent, even become accentuated or perpetuated. Nevertheless, today I am going to focus on the strategy of quality for wealth management in Switzerland and I want to look, in particular, at what regulation and supervision can contribute to this.

Quality must be at the forefront in the financial sector

Quality in wealth management means to offer financial products and provide financial services that are transparent, not too expensive and correspond to the risk tolerance and yield expectations of the clients. One thing is certain: it no longer suffices to remain at a level which, by international comparisons, does not go beyond the minimum standards. In global competition, only those banks, insurance companies, fund managers and asset managers who have high quality standards will be successful.

Great challenges lie ahead for Switzerland's financial sector, above all for the private wealth management business. In 2010, wealth management generated a value added of CHF 15.5 billion, with managed assets amounting to CHF 5,500 billion, the half of which come from foreign clients. This makes Switzerland the global market leader in cross-border wealth management, with a market share of 27%, which places it a few percentage points ahead of Great Britain and the Channel Islands, clearly leaving financial centres such as Hong Kong, Singapore and Luxemburg in the shade.

An impressive result indeed, but quantity should not be confused with quality. Following a history of success which began over a century ago and made our country the largest manager of foreign assets, the Swiss wealth management industry is now facing enormous changes. Many banks and asset managers only realised late that, in these economically difficult and uncertain times, the wind has turned. They also did not recognise early enough that a business model focusing primarily on untaxed assets could be their downfall. What was once considered as quality is no longer the case today or it has been markedly relativised. However, it is still not too late: the financial sector and politicians still have time to adapt to the new circumstances and to actively position themselves.

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Prerequisites for quality are at hand

In principle, the Swiss wealth management sector is well-equipped. In terms of quality, Switzerland can in the future still live up to being one of the world's best financial centres. Thanks to the quality of the services offered, the sector still enjoys a good reputation worldwide: wealth management in Switzerland provides a high level of security and reliability, and mostly offers good returns.

Moreover, several other factors outside the direct control of banks and asset managers come into play. We have economic stability especially in comparison to the situation in many other European countries. We also enjoy political stability that is unique to only a few countries around the globe. Our local communities have relatively little debt. We have an efficient, modern and well-maintained infrastructure in all areas, transport, real estate and information technology. And, in particular we have – not least because of our long tradition – a cluster of financial services providers, a large amount of know-how and many experienced, well-qualified employees.

Hence, there are many good reasons to remain confident. The prerequisites are good, very good in fact. Nevertheless, I very much question if wealth management in Switzerland can remain a world market leader. It takes a very good strategy to remain at the forefront, one which, in my opinion, must be based on three pillars: first, on the quality of services provided, a challenge that faces the financial services providers. Second, the quality of the political and economic environment also counts, and third the quality of supervision and regulation. I intend addressing the third pillar.

Supervision protects the system and its clients

What exactly does financial market supervision contribute? Let me firstly put it in a *negative* context. It is not our duty to shape financial market policy. It is also not our duty to promote the sector's competitiveness at the international level. Our role in the political arena is rather to set out our ideas from the perspective of our daily supervision work and with our knowledge of how the market operates. It is our duty to point out possible risks and collateral damages at the political level.

First and foremost, it is our duty to directly ensure the smooth functioning of the Swiss financial market and the protection of its clients – in other words, we protect the system and its clients. In doing so, we contribute to the stability and reputation of the financial centre. We mainly do this in our day-to-day supervisory activities and through an intensive and direct exchange of information with the supervised institutions. Our role as 'financial police wardens', which we refer to as *enforcement*, is another means to this end. We step in wherever financial centre stakeholders breach supervisory rules, and we intervene where the stability of the system and the interests of clients are endangered. We act in line with clear rules which formulate our expectations and provide the institutions supervised with a given framework. We address unpleasant topics, throw light on the problems, expose contradictions, reveal any shortcomings and take action where the law has not been respected. Be it the low interest rates, the cross-border business, the institutions' capital base, we often point out existing or emerging risks to those supervised. This does not mean that we release them from carrying out their own risk assessment and taking responsibility for it. Our aim is that the institutions themselves deal with the challenges and develop their own business strategy. Of course it is clear that this approach is not going to gain us many friends. That is why it is important for FINMA to be a credible, independent and strong supervisory authority. This is the way in which we contribute to safeguarding the quality of the financial centre as well as Switzerland's position as a hub for wealth management activities.

Regulation sets the guidelines

At the same time, regulation needs to be intelligent, internationally compatible and accepted in Switzerland since quality also means conformity with requirements. And whether these requirements - be they at the legal or moral level - are enhanced or changed, the financial sector must also follow suit. This is why I have little sympathy for the more recurrent criticism of overregulation. I firmly believe that there is ground to be made up in the financial sector following the exaggerated deregulation in the nineties and in the early years of this millennium.

What we do not want, however, is to increase the legal framework by another thousand pages as has been the case in certain other countries where it has also come into force. The more detailed regulation is, the easier it is to circumvent it. I am convinced that fewer, but effective rules are adequate – standards which are principle-based and which we can really control by enforcing orders if necessary. We need rules that allow the Financial Market Supervisory Authority to intervene at the right time at the right place and with the right means, and, needless to say, by imposing harsh sanctions if required.

Client protection: Switzerland is lagging behind

In my opinion, when it comes to protecting clients and investors, I see much room for improving the level of quality. This is where Switzerland lags behind many other countries. The situation is particularly bad with regard to the documentation provided on financial products, but also the behaviour of financial services providers towards clients needs to be improved. In order to reduce the power imbalance between financial services providers and clients, we published a month ago a position paper on the 'Regulation of the production and distribution of financial products' in which we propose creating a new 'financial services act', aiming at improving the quality of the advisory services, providing for clear and transparent information and enhancing the supervision of asset managers.

We are confident that the Federal Council will take up this proposal and that it will seek to reduce the gap between Switzerland and abroad, because, in recent years, in almost all other countries, client protection has in fact been strengthened. Only in Switzerland has very little been done in this respect.

If we do not improve our legislation on the protection of clients and investors, we risk two things:

1. First, Swiss clients will stand at a disadvantage as opposed to those abroad. When investing in financial products, they risk being less protected. There is a danger that they are not provided with adequate and transparent information or that their assets are not invested in line with their needs and risk tolerance. This would damage the reputation of the financial centre, especially at the *national* level.
2. Second, there is the risk that Switzerland may become a global alternative offshore financial centre that attracts dubious market players. This would seriously damage the reputation of the Swiss financial centre, particularly *vis-à-vis the rest of the world.* For, as the latest examples have shown, if we swim against the current tide of international regulation, all financial services providers may

soon be confronted with considerable difficulties, for instance, when it comes to gaining access to other markets.

Regulation is a prerequisite for quality

Regulation thus creates the basis the Swiss financial sector needs to pursue a strategy of quality.

- It prevents market abuse and provides a level playing field.
- It compels providers to keep the quality of their own products and services high or indeed improve it.
- It fixes guidelines and is thereby responsible in the best-case scenario for keeping bad providers off the market in the first place and in the worst-case scenario for ensuring that they do not stay on the market for very long.
- It separates the wheat from the chaff and prevents unfair competition.

Regulation sets minimum standards and embeds principles that should really be self-evident. It lays a foundation on which every quality-oriented provider can build. Adequate, internationally recognised regulation strengthens the reputation of the Swiss financial sector as a mark of quality and thus also that of its market participants. Reputation is essential in winning clients' trust, which is at the very heart of the wealth management business.

Untaxed assets are no longer a viable business model

The issue of cross-border wealth management is also ultimately about quality. A legal framework that permits tax evasion has nothing more to do with quality in today's world. It is no coincidence that the Swiss banks and their wealth management operations have come under such heavy pressure. Increased access to bank data is unavoidable. Some may regret this, but that does not change the fact at all. This applies just as much to supervision as it does to tax. To be trustworthy, we must cooperate with our partners, supply information and continually foster dialogue with other supervisory authorities. As regards international collaboration between authorities especially, it is clear that Switzerland's restrictive approach is no longer meeting international expectations. Restricting administrative assistance as much as possible and only supplying the client details that are absolutely necessary to foreign partner authorities in both the tax and supervisory fields was a conscious and politically accepted decision enshrined in law for many decades.

However, the risks in cross-border wealth management have increased sharply in recent years, as a result of which FINMA is watching over the business activities of the institutions it supervises with a careful and critical eye in terms of risk management. We have been doing this for some time in our day-to-day work by warning of the risks in cross-border business not only behind the scenes, but publicly as well. In some cases, we have already intervened with enforcement proceedings, and we will remain vigilant and active. Facilitating or quietly tolerating tax evasion by foreign clients cannot be a viable business model. This is not what we mean by 'quality'. FINMA therefore supports efforts to gear the Swiss financial sector to taxed assets. Stepping up the banks' due diligence obligations might be one way of doing this. At the same time, however, it is important for us to stress that this is just the first step. A more radical rethink is needed because the worldwide trend is clearly moving towards increased exchange of information in both the supervisory and tax areas. As a supervisory authority, we have a considerable interest in receiving information from other countries, too.

Professionalism is a seal of quality for Swiss wealth management

Regardless of how the problem of untaxed assets ends up being solved, the process of adaptation in the wealth management industry has already begun and is set to speed up. Sweeping changes are inevitable. FINMA's task is to ensure that clients and investors do not suffer as a result and that the financial system as a whole remains stable.

This necessitates proper regulation, which in turn requires a professional and independent supervisory authority that warns people when they are taking on too much risk, asks the right critical questions to avert mistakes and can exert pressure on the institutions it supervises in a competent and credible manner so that they operate correctly and adhere to the rules.

I can assure you that we are keeping a very close eye on things, even though we do not tend to communicate this publicly. We are bound by official secrecy, which usually prevents us from making public statements. In our direct discussions with the institutions we supervise, however, we are authoritative and not easily led. This is FINMA's contribution to the quality of the Swiss financial sector. We contribute to upholding and improving its reputation through attentive and incorruptible supervision that is carefully measured and internationally respected. This is beneficial not only to the banks, but also to asset managers and insurers. I am convinced that quality-oriented providers want credible supervision as well as high minimum standards and clear regulations and laws. Only with these can we preserve Switzerland's strong appeal as a financial centre.