

FT BIG READ. SWITZERLAND

After the unravelling of its banking secrecy laws, scandal at Fifa and economic pressures dealt a further blow to the country's reputation for stability. But Swiss officials and businesspeople are in bullish mood.

By Ralph Atkins

Rebuilding the brand

To foreigners, Switzerland often means Alpine mountains, cows, chocolates – and tax evasion.

This is especially true in the US. Since the dark side of Switzerland's bank secrecy laws was first exposed by US authorities in 2007, 85 Swiss banks have paid a total of \$5.5bn in penalties and compensation related to claims they helped American clients sidestep tax collectors.

But that did not stop Reyl, a small Swiss bank based in Geneva, opening a branch in Dallas, Texas, this month. "We thought there was a contrarian opportunity," says François Reyl, the chief executive whose father founded the bank in 1988. Clients these days are fully tax-compliant, he says, and are coming to him for help in safely diversifying dollar assets – and for sophisticated Swiss service.

"There is a definite Swiss-ness in our approach," says Mr Reyl cheerfully.

His Texas experiment is an example of how Swiss businesses and entrepreneurs are seeking to reinvent themselves after a series of crises and scandals that have threatened the country's reputation. Switzerland's 8m citizens are the wealthiest in the world and, although not in the EU, the country hosts some of Europe's biggest companies including Nestlé, Novartis and Zurich Insurance.

It is not just the US actions against Swiss banks that have threatened "brand Switzerland". Zürich-based Fifa was last year hit by a corruption scandal that threw its future as football's governing body into doubt and raised questions about how Switzerland polices the many multinational organisations based within the neutral territory.



Perceptions of Switzerland have not changed. Maybe we're even in a better shape' Nicolas Bidou, President Swiss Bankers' Association

Meanwhile, sharp swings in the Swiss franc have undermined its reputation for stability. They have also hurt tourism and its exporters. Swiss watchmakers – already facing a threat from Apple's Watch – have been badly hit. Consumer surveys show Swiss banks' reputation has suffered in the US and UK. "Every time there is a Swiss flag in the news, it does hurt our brand," says a Swiss banker based in the US.

Yet the same surveys show "brand Switzerland" remains strong globally. The country has aspirational appeal and is seen as politically stable in China and emerging markets. UBS and Credit Suisse, its two biggest banks, have ambitious plans to lead the market in managing the wealth of Asia's emerging rich. "Perceptions about Switzerland haven't changed," says Nicolas Bidou, head of Presence Switzerland, a government department that monitors its image. "Maybe we're even in a better shape because we're still here, we didn't give up."

That suggests there is life yet in the country's economic model, even in harder times. Its banks are reeling from market turbulence while the strong franc helped hold back growth in gross domestic product to 0.9 per cent in 2015.

It could also offer guidance for policymakers elsewhere in Europe, especially the UK, where Switzerland is seen as a possible model for the British to vote to leave the EU in June's referendum.

One explanation for Switzerland's resilience is that US action against tax evasion simply reinforced its image as a refuge from intervening politicians, benign or malicious, domestic or overseas. Switzerland's traditional neutrality and economic liberalism make the country a "pirates' harbour," says Mark Pieth, law professor at Basel University. "If you look at the whole range of com-



Global clout, clockwise from left – Rolex, the Swiss National Bank, Fifa and UBS: enterprises and institutions based in the country are having to adjust to changing circumstances

panies and organisations, you have to ask: why do they come to Switzerland?" A more charitable explanation is that Switzerland's banks have reformed their practices, while the country's stability and role as a diplomatic as well as a financial intermediary remains highly valued in a turbulent world, whatever the blows struck by US lawyers.

Safe home

The tax evasion chapter is only a small part of Switzerland's story, argues Dominique von Matt, chairman of Jung von Matt, a brand consultancy based in Zürich. "There is a layer above that which is more important – the aspects of security and accountability, which are really important."

Switzerland has profited from its haven status since at least the second world war. Remaining officially neutral meant its industrial base was not destroyed. As financial markets globalised in subsequent decades, its strict bank secrecy laws "provided a useful marketing tool," says Clive Church, professor of European history at the UK's University of Kent. "When you got foot-

loose capital looking for a safe home, Switzerland came into its own."

But such features were not appreciated elsewhere. Harold Wilson, former UK prime minister, dismissed Swiss bankers as the "Gnomes of Zürich" during a sterling crisis in 1964.

Political stability is ensured by a system of "direct democracy", in which voters are the ultimate decision makers via frequent referendums, and federalism, which leaves power with its 26 cantons. Tax competition between the cantons means Swiss people and businesses pay some of the world's lowest rates, attracting some of the world's biggest commodity trading houses, for instance.

"It is a cohesive system which does not give much power to any one person," says Michael Ambühl, a former

Swiss diplomat who is now a professor at Zurich's Federal Institute of technology.

Organisations such as the World Health Organisation and UN in Geneva, and the Bank for International Settlements in Basel, have benefited from Swiss neutrality, while Fifa developed as a sports "association" unworried by prying official supervision.

Reputational hit

But the Swiss reputation for political sturdiness faced a serious challenge in the 1990s. It underestimated the force of a US-led outcry over its treatment of Holocaust victims' dormant bank accounts, which broadened into arguments about the handling of refugees during the second world war and the extent of its assistance to the Nazi

regime. A \$1.25bn compensation deal was agreed in 1998.

Then came the investigations into Swiss banking by US regulators, spurred by revelations by UBS whistleblower Bradley Birkenfeld. Privately, Swiss bankers and some politicians say Bern gave away too quickly in agreeing a deal on exchanging bank information with the US. A landmark settlement was agreed in 2009 with UBS, which paid a \$780m fine. Credit Suisse took the biggest hit, when it was fined \$2.6bn in 2014.

Switzerland's image in Europe was also damaged by revelations about bank accounts used to hide wealth. Judicial investigations continue in France and Belgium against UBS, while Credit Suisse reached a €150m out-of-court

The need to ensure clients were fully tax-compliant hit Swiss banks hard. Credit Suisse saw more than SF40bn (\$41bn) in outflows from its international wealth management businesses as a result of tax "regularisation" programmes, which continue for clients from Italy.

Although a fresh inquiry into allegations that UBS helped clients evade US taxes was launched by regulators last year, Swiss banks have realised that the rules of the game have changed.

"Swiss banks have thoroughly reinvented themselves," says Mr Reyl. "The multiple settlements with the [US] Department of Justice are clearly part of the past. We have moved to another world." A top banker in Zürich adds: "What's great about America is that you can sink to the bottom – and then make a comeback."

During the latest bout of financial turbulence, Swiss banks have sought to market themselves as sophisticated wealth managers in an economically stable country. The Swiss central bank's reputation was dealt a temporary blow in January last year when it abandoned the franc's cap against the euro, in a bid to counteract aggressive policy easing by the European Central Bank.

Local bankers argue that the unexpected rise in the value of Swiss assets highlighted how Switzerland had become a safe place to put savings at a time of great financial uncertainty. "Probably, the whole world thinks 'if I don't go into gold, I probably want to do something with Switzerland,'" says Iqbal Khan, head of international wealth management at Credit Suisse.

Switzerland's reputation has been further reinforced by its role as a diplomatic intermediary – it acted as a go-between for US and Cuba as well as in the 2008 war between Russia and Georgia, and this year has acted as a liaison between Iran and Saudi Arabia after ties were severed between the two countries over the kingdom's execution of a Shia cleric.

Such diplomacy "is one of the best campaigns you can do for Switzerland – it reflects neutrality, stability, security and reliability as well as international openness," says Mr von Matt.

Prof Ambühl adds: "Nobody in Riyadh talks about Fifa. Nobody in Tehran talks about Swiss banking. They know that we're trying to be correct, neutral and to have no hidden agenda." What will also matter for Switzerland, however, is whether the same will be thought about Swiss bankers setting up in the US.

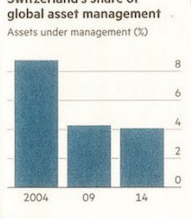
Swiss franc and exports



* Excluding precious metals

Sources: Thomson Reuters Datastream; Haver Analytics; Towers Watson

Switzerland's share of global asset management



'Swiss banks have thoroughly reinvented themselves. We have moved to another world' François Reyl, Reyl Bank

settlement in 2011 with the German state of North Rhine-Westphalia.

The zeal of finance departments in neighbouring countries still grates with the Swiss. "That Switzerland was a haven was nothing new," says Kaspar Loeb, brand expert at Dynamics Group, a Swiss communications consultancy. "But when deficits began to grow and the economic situation changed, these countries started to think: where is there money we can take?"

"We have often had a bad image in Brussels," agrees Prof Ambühl. "It is difficult for a hardcore Eurocrat to understand that a country is functioning well and is wealthy without being in the EU. Some think it must be the result of something else – banking secrecy or taxes. Of course, that's not true."

opened in Singapore in 2005 but began expanding rapidly in 2009. According to BSI's annual report for 2014, the latest available, the Singapore branch "almost doubled its net profit" that year, compared to 2013. BSI was suffering a trend. Between 2009 and 2014 net new assets managed in Singapore grew by \$40bn, according to Deloitte. In the same period, Switzerland experienced an outflow of \$135bn.

In a 2011 letter, a star employee was congratulated for his "immense contribution" to the growth of the Asia business and the group as a whole. The employee was Yak Yew Chee, who is being investigated by Singapore authorities on suspicion of benefiting from "criminal conduct".

Mr Yak, who denies wrongdoing, managed accounts held by Malaysia's IMDB and other linked companies. This business has been valuable for BSI; the

entire proceeds from a \$3bn bond arranged on behalf of IMDB in 2013 were wired into the state investment fund's account at the bank. BSI has previously said that it is strongly committed to anti-money laundering controls and is co-operating with regulators. Mr Yak has left the bank.

Singapore, where \$470bn of private client assets is under management according to Deloitte data, is under pressure to relax its banking secrecy. It has agreed to implement a global agreement on sharing tax information by 2018, but insists other major financial centres including Switzerland must do the same to "minimise arbitrage".

The Monetary Authority of Singapore said that it "does not tolerate the use of our financial centre for any illicit purposes, including serious tax crimes". Jeevan Vasagar