



# FINANCIAL CENTER AND CAPITAL MARKET

# 9

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Accounting for 10% of GDP and employing around 230,000 people (5.4% 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 asset management and issue underwriting business.

## 9.1 BANKS

### 9.1.1 Structure and General Conditions

In Switzerland there are some 300 banks, 200 insurance companies, and 2,000 pension funds. Apart from the two major global banks, UBS and Credit Suisse Group, which together hold approximately 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 which offer a government guarantee, have a domestic market share of about one-third. Their share of total assets for all banks domiciled in Switzerland was approximately 17% in 2014. Another 120 foreign-owned banks with a share of 11.6% 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 27.6% in 2015, it is the world leader in the cross-border asset management business. Overall Swiss banks managed assets totaling CHF 6,656 billion in 2014.

Switzerland's success as a financial center is thanks to the combined effect of 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. 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.

### Global Financial Centers, 2015

Overall score from 1 to 1,000

(FIG. 42)

1	London	796
2	New York	788
3	Hong Kong SAR	755
4	Singapore	750
5	Tokyo	725
6	Seoul	724
7	<b>Zurich</b>	<b>715</b>
10	Washington DC	711
13	<b>Geneva</b>	<b>707</b>
14	Frankfurt	706

Source: The Global Financial Centres Index (GFCI 18), 2015

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. The umbrella organization for the banking industry is the Swiss Bankers Association.

[www.swissbanking.org](http://www.swissbanking.org)  
Swiss Bankers Association (SBA)  
Languages: German, English, French, Italian

### 9.1.2 Supervision

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 alternative form of regulation 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](http://www.finma.ch)  
Swiss Financial Market Supervisory Authority (FINMA)  
Languages: German, English, French, Italian

### 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, all banks can offer all banking services, such as:

- Credit or lending business
- Asset management and investment advice
- Payment transactions
- Deposit business (savings accounts, etc.)
- Securities business (stock market 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. For example, a bank may refuse to enter into a business relationship with “politically exposed persons,” as such clients could represent a reputational risk for the bank. The same applies to companies, irrespective of whether they are domiciled in Switzerland or not. Most Swiss banks do not require a minimum deposit for normal savings or current accounts. Many banks offer accounts in euros, US 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.kantonalbank.ch](http://www.kantonalbank.ch)  
Cantonal banks  
Languages: German, English, French, Italian

[www.foreignbanks.ch](http://www.foreignbanks.ch)  
Association of Foreign Banks in Switzerland  
Languages: German, English, French, Italian

[www.abps.ch](http://www.abps.ch)  
Association of Swiss Private Banks  
Languages: German, English, French

[www.bankingombudsman.ch](http://www.bankingombudsman.ch)  
Swiss Banking Ombudsman  
Languages: German, English, French, Italian

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

#### 9.1.4 Protection of Deposits

Deposits with Swiss financial institutions are protected up to CHF 100,000 per depositor. If the Swiss Financial Market Supervisory Authority FINMA initiates protective measures or forced liquidation proceedings against a bank or securities dealer in Switzerland, the members of the Swiss Banks' and Securities Dealers' Depositor Protection Association provide funds so that the deposits deemed preferential under the Banking Act can be paid out as quickly as possible to depositors. All banks and securities dealers with a branch in Switzerland and which receive privileged deposits are members of the association. However, the maximum amount that members may be required to contribute is capped at CHF 6 billion. By guaranteeing preferential deposits, the association plays an important role in protecting creditors and makes a key contribution to the reputation and stability of Switzerland as a financial center.

[www.einlagensicherung.ch](http://www.einlagensicherung.ch)  
Deposit Protection of Banks and Securities Dealers  
Languages: German, English, French, Italian

#### 9.1.5 Taxation of Savings Income

Switzerland supports the EU system of taxing cross-border interest payments to individuals under the Savings Tax Agreement. Swiss banks operate a system of tax retention (similar to Swiss withholding tax) which is deducted at a rate of 35% on interest income earned in Switzerland by persons subject to EU taxation. This system of tax retention ensures that the EU interest taxation system cannot be evaded by switching to Switzerland, while at the same time ensuring that Swiss laws and banking secrecy are upheld. A mandate for negotiating the agreement was approved by the EU on May 14, 2013. A negotiating mandate has also been approved by the Federal Council.

[www.europa.admin.ch](http://www.europa.admin.ch) > Topics > Bilateral agreements Switzerland-EU  
[www.efd.admin.ch](http://www.efd.admin.ch) > Topics > Taxes > Taxation of savings agreement  
Taxation of savings income  
Languages: German, English, French, Italian

## 9.2 SWISS STOCK MARKET: SIX SWISS EXCHANGE

SIX Swiss Exchange is one of the leading regulated stock exchanges in Europe and the most important European stock exchange in the life science area. As a key pillar of the Swiss financial center infrastructure, it provides the best possible trading conditions and links investors, issuers, and participants from all over the world.

The strength of the Swiss financial center, its position as a world leader in cross-border private asset management, and the associated high level of financing and placement power enjoyed by its banks, plus the general attractiveness of Switzerland as a location, make the SIX Swiss Exchange extremely appealing for both domestic and foreign companies.

Public placement and listing on the SIX Swiss Exchange give a company access to an experienced, financially powerful group of international investors. Every company on the SIX Swiss Exchange benefits from a high level of visibility and attention from investors, analysts, and journalists. At the same time, investors in Switzerland have many years of experience with international sector-oriented investment strategies. Given Switzerland's economic structure, the banking and insurance sectors, the food sector, pharmaceuticals, biotech, medtech, cleantech, as well as the microtechnology and nanotechnology sectors are particularly popular with investors.

In addition, the regulatory provisions of the SIX Swiss Exchange reflect market realities and thus simplify the capital raising process. Under Swiss legislation, the SIX Swiss Exchange has powers of self-regulation and is thus ideally equipped to combine high levels of investor protection with a regulatory environment that is reasonable from a company perspective.

An extensive range of indices includes the SMI® (Swiss Market Index), Switzerland's most important stock market index, as well as other benchmarks such as the SLI® (Swiss Leader Index), the SPI® (Swiss Performance Index) and bond, segment, sector and customer indices. The stock exchange provides its raw data in real time to financial information providers via SIX Exfeed. With investments in Scoach Schweiz, STOXX, Swiss Fund Data, and Indexium, SIX Swiss Exchange runs successful joint ventures to the benefit of all financial market players.

The SIX Swiss Exchange is a company of the SIX Group, which offers services in the area of trading and processing as well as financial information and payment transactions. In addition to its broad product range, the "Swiss Value Chain," the fully integrated and completely automated trading, clearing, and settlement system, is especially impressive.

[www.six-swiss-exchange.com](http://www.six-swiss-exchange.com)  
SIX Swiss Exchange  
Languages: German, English, French

“From 2004 to 2012, venture capital companies invested over CHF 13.5 billion in innovative new companies in Switzerland.”

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.

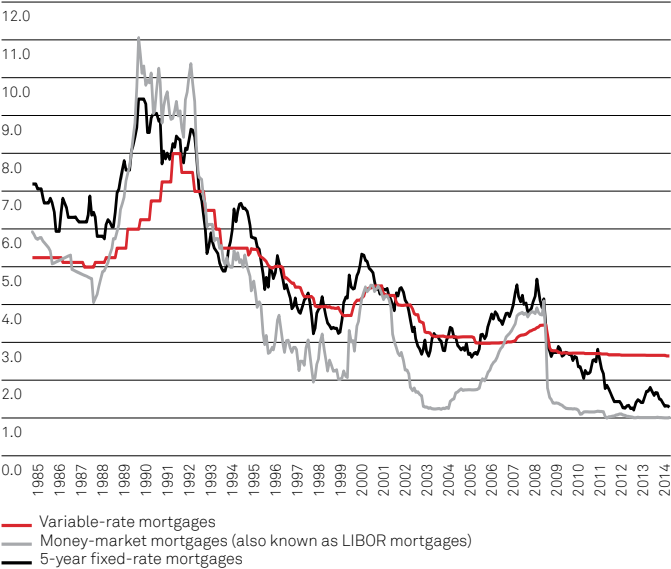
9.3.1 Financing of Current Business Activity

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 amount of the loan granted depends on the trustworthiness and the future prospects of the company. Aside from the usual forms of bank lending, lease financing and forfeiting are also gaining importance. For rapidly growing young enterprises and start-ups deciding on a location, it is important to know what financing possibilities exist for the start-up phase and the second step. The sheer range and quality of financial service providers in Switzerland means that a variety of attractive solutions are available, such as sureties, convertible loans, and equity capital financing by business angels, venture capital and private equity investors.

When a new business is established in Switzerland, financing in Swiss francs should be preferred because of currency considerations. As a rule, it is also more economical than financing in foreign currencies.

Mortgage Rates, 1985–2013

(FIG. 43)



Source: VZ Vermögenszentrum

### 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. 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 three to five 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 requesting offers from a number of lenders.

For commercial property, the collateral value depends increasingly on the earning-power value. For industrial projects, normally 50% of the overall 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 future prospects therefore play a key role.

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](http://www.hausinfo.ch) > Finances & taxes  
Financial aspects of home ownership  
Languages: German, French

[www.hypothekenrechner.ch](http://www.hypothekenrechner.ch)  
Financial feasibility calculator  
Language: German

## 9.4 RISK CAPITAL

From 2004 to 2012, venture capital companies invested almost CHF 13.5 billion in innovative new companies, thereby generating 10 to 20 jobs per company. 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.swissbanking.org](http://www.swissbanking.org) > SME > What do I need to know about financing?  
Information on financing for SMEs  
Languages: German, French, Italian

[www.seca.ch](http://www.seca.ch)  
Swiss Private Equity & Corporate Finance Association (SECA)  
Languages: German, English, French

### 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 on to the company founder or other investors.

[www.kmu.admin.ch](http://www.kmu.admin.ch) > Practical information > Financial > Financing > Equity  
Start-up help from venture capital companies  
Languages: German, French, Italian

[www.swiss-venture-club.ch](http://www.swiss-venture-club.ch)  
Information platform, network for businesses  
Languages: German, French, Italian

## State Support Schemes

(FIG. 44)

INSTRUMENT	BENEFICIARY	REGIONS	MEASURES
Neue Regionalpolitik 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. CHF 500,000)
Guarantees for mountain regions	SMEs, commercial undertakings	Mountain regions	Bank loan guarantees (max. CHF 500,000) 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 benefit (max. 90 days for planning phase) Bank loan guarantees (max. CHF 500,000)
Commission for Technology and Innovation CTI	Projects for research collaboration at universities and businesses	All of Switzerland	Payment of researchers' salaries

Source: Various federal government agencies, information collated by Generis 2014

### 9.4.2 Business Angels

During their start-up phase, many promising young companies need seed financing of less than CHF 2 million. 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 CHF 2 million. More and more often it is so-called “business angels” – individual investors – who finance start-ups. Typical business angels have experience and connections in addition to capital, which ideally they have 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 make them attractive for later investors. Consequently, young entrepreneurs are usually closely supported by business angels, who also demand corresponding access to the business plans.

[www.businessangels.ch](http://www.businessangels.ch)  
Business Angels Switzerland  
Languages: German, French

### 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 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 even provide a share of the risk capital subject to a personal financial commitment on the part of the company founder.

[www.kmu.admin.ch](http://www.kmu.admin.ch) > Practical information > Financial > Financing > Equity  
State support on financing  
Languages: German, French, Italian

Addresses: page 138f.  
Cantonal economic development agencies

## 9.5 CAPITAL COSTS AND INTEREST

Switzerland is one of the most economically and politically stable countries in the world and is regarded as a “safe haven” (Fig. 45). 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 budget deficit in 2011 of 0.7% of GDP was significantly below the average of EU and OECD member states. Total public sector debt (federal, cantonal, and municipal) amounted to 36.4% of GDP in 2012.

### Credit Rating: Top Ten Most Secure Countries, 2014

Maximum = 100 points

(FIG. 45)

1	Norway	89.79
2	<b>Switzerland</b>	<b>88.51</b>
3	Singapore	87.76
4	Luxembourg	84.23
5	Finland	83.21
6	Denmark	83.19
7	Sweden	82.94
8	Netherlands	81.71
9	Canada	81.62
10	Germany	81.32

Source: Euromoney, March 2014

The high credit rating, together with the high savings rate and large inflows of foreign money, leads to low interest rates. Financing conditions for business and investment are thus comparatively favorable. In recent years, the average spread in the money-market and capital-market interest rates in Swiss francs and euros has ranged between 1.5% and 2%. Interest rates and terms may vary widely depending on the creditworthiness of the client. 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. 46).

[www.lik.bfs.admin.ch](http://www.lik.bfs.admin.ch)  
Consumer Price Index (CPI)  
Languages: German, English, French, Italian

[www.efv.admin.ch](http://www.efv.admin.ch)  
Federal Finance Administration (FFA)  
Languages: German, English, French, Italian

## 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, the major industrialized nations and the ASEAN-5 countries in recent years.

### Capital Costs, 2014

1 = hamper economic development

10 = promote economic development

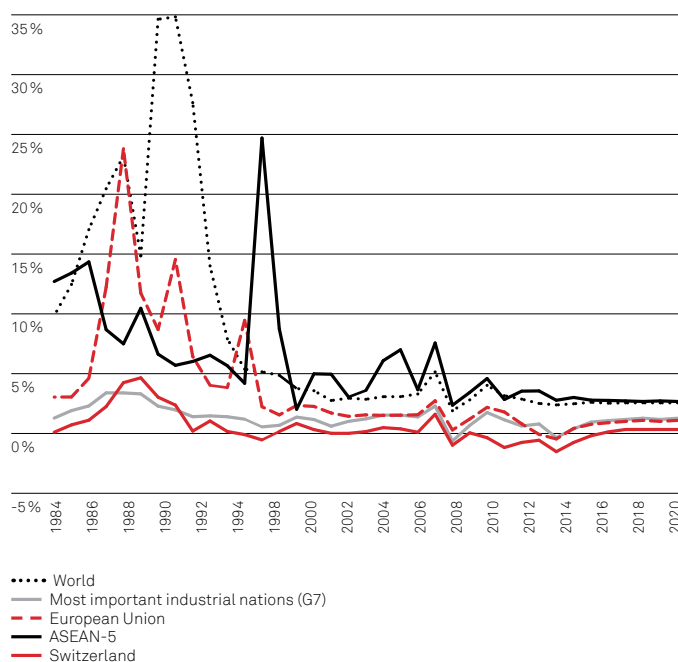
(FIG. 46)

1	<b>Switzerland</b>	<b>8.14</b>
2	Germany	7.68
3	Finland	7.22
4	Hong Kong SAR	7.17
5	Malaysia	7.10
7	USA	6.93
9	United Kingdom	6.52
12	Japan	6.39
13	Singapore	6.36
17	Luxembourg	6.15
20	Denmark	5.93
21	Ireland	5.88
28	Netherlands	5.67
32	France	5.15
36	Belgium	5.11
45	India	4.00
49	Russia	3.51
50	Italy	3.44
51	China	3.43
57	Brazil	2.33

Source: IMD World Competitiveness Online 2015

### Inflation, 2015

(ABB. 47)



Source: IMF WEO Report, October 2015