Bourne to survive

Despite the woes of UBS, Swiss private banking remains in reasonable shape.

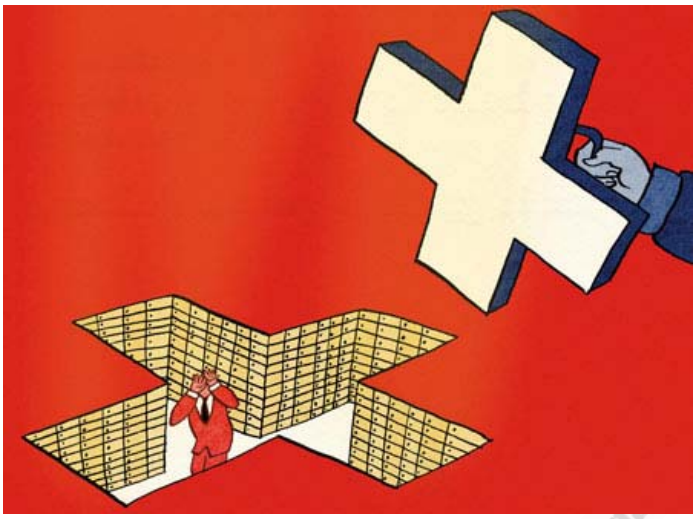

Illustration by S. Kambayashi

After visiting his bank in Zurich, Jason Bourne, an amnesic assassin, wonders: “Who has a safety-deposit box full of money and six passports and a gun?” In the popular imagination as well as Hollywood films the answer is clear: customers of Swiss banks do.

If this reputation for skulduggery is right, Switzerland, home to about one-quarter of the world’s offshore money, is in big trouble. After nearly going bust, UBS, its biggest bank, is now being pistol-whipped by America’s Internal Revenue Service (IRS), which wants it to hand over the names of tens of thousands of alleged tax dodgers. A preliminary settlement between the two was agreed on July 31st, although its details have yet to be made public. In March Switzerland agreed to comply with an OECD tax code that will oblige it to reveal information on clients that other governments say they need to enforce their laws. Where will crooks, despots and war criminals go now? And what will Swiss private banks do when they leave?

Put those questions to Swiss bankers and they will explain—very smoothly, of course—that you are decades out of date. They are calm in part because the concessions on privacy are expected to be limited. Both the OECD code and, they hope, the UBS settlement will endorse the principle of “no fishing expeditions”. Foreign states would have to provide clients’ names and some evidence of wrongdoing before getting information on them. Even if the IRS remains on the warpath and goes beyond the OECD rules, perhaps only 5% of the $2 trillion of offshore assets in Switzerland comes from America.

For the bulk of customers, Swiss bankers claim, tax is in any case not the main draw. They marshal some surprisingly good arguments. UBS has been haemorrhaging funds, with an outflow of SFr30 billion ($28 billion) so far this year (see chart). But the country’s next four biggest listed banks, Credit Suisse among them, have had private-bank inflows of SFr31 billion. Clients have fled a bank, not a country. Perhaps one-third of offshore funds in Switzerland are from places where the wealthy may not pay much tax anyway, including Russia and the Middle East. They are mainly in Switzerland for its political stability and well-run banks.

More vulnerable are the roughly 40% of assets gathered from the traditional hunting grounds of high-tax European countries, in particular Germany and Italy. Tax relations between Switzerland and the European Union have been fairly cordial—a limited agreement on co-operation in 2004 allows client confidentiality. Things could get more fractious, though. Germany has beaten up tiny Liechtenstein over secrecy. Italy and Britain are proposing tax amnesties to attract money back home. “We are emptying the cave of Ali Baba,” says Guilio Tremonti, Italy’s finance minister. But even if money leaves Switzerland, it may not leave Swiss banks. When Italy last held a tax amnesty in 2003, an astonishing 80% of the funds taken out of Credit Suisse returned to it as clients opened accounts with its Italian operation. Today, many private banks are building up their European operations to help mitigate the impact of any new amnesties.

Finally, as Swiss bankers point out, “there is nowhere else to go”. All mainstream offshore banking centres have committed themselves to the OECD rules, as have exotic upstarts such as Liberia and Brunei. Some argue that Hong Kong and Macau may become the destinations of choice for tax evaders. They are, it is said, less likely to enforce the OECD rules or to kowtow to foreigners. But the flip side for customers may be higher political risk. The offshore centres of the future will probably be politically stable, with good legal systems and firms and a strategy of non-confrontation with big economies on tax. Stefan Jaecklin of Oliver Wyman, a firm of consultants, reckons that Singapore and Switzerland are most likely to fit the bill. Indeed, emerging-market banks continue to set up in Switzerland. Recent arrivals include firms from Brazil and China.

If a tax-related exodus from Switzerland seems unlikely, business is hardly plain sailing. Fewer people are getting very rich. Margins are under pressure as clients shy away from buying complex bull-market products. In response private banks are expanding into emerging markets and consolidating at home, says Huw van Steenis of Morgan Stanley. Zurich-based Vontobel has bought Commerzbank’s Swiss operation, for example. There are similar pressures in Germany, where Deutsche Bank is mulling taking a minority stake in Sal Oppenheim Jr & Cie.

That still leaves one outstanding thorny question: whether the modern trend to stick private banks together with riskier investment banks and hedge funds still makes sense. In theory, being a conglomerate makes it easier to meet rich people and create complex products to tempt them with. In practice, it can scare them off. The crisis has “vindicated the traditional Swiss model,” says Nicolas Pictet, a partner at Pictet & Cie. Julius Baer, another medium-sized bank, sold its institutional stockbroking arm in 2003 and is now spinning off GAM, its volatile hedge-fund operation.

Of the two giant conglomerates, Credit Suisse is in rude health and maintains its investment bank is helping to boost its private bank's margins. By contrast, on August 4th Oswald Grübel, the boss of UBS, reported yet another loss at its investment bank and cautioned that client outflows would continue. Reputation, he said, is crucial to the private-client business. Like other Swiss banks, UBS is not keen on having assassins as customers. Amnesiacs are a different matter.

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