Pressure on Swiss bankers to disclose more about their tax-evading foreign clients has opened a deep rift in the fiercely independent nation.

The battle for the Swiss soul

BY EMMA THOMASSON
ST. GALLEN, SWITZERLAND, APRIL 18, 2013
Of fshore assets held in Switzerland
Swiss banks’ holdings of the offshore wealth of Americans and Europeans have fallen since 2008

By origin, in percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Europe</th>
<th>Asia-Pacific</th>
<th>Latin America</th>
<th>Middle East and Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>7</td>
<td>55</td>
<td>10</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>2009</td>
<td>7</td>
<td>55</td>
<td>10</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>48</td>
<td>11</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>2011</td>
<td>2</td>
<td>48</td>
<td>11</td>
<td>12</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: The Boston Consulting Group (BCG)

“...you can’t trust a Swiss banker, what’s the world come to?” asked James Bond in the 1999 film “The World is Not Enough”.

It has come to this: Swiss banks, under pressure from countries such as the United States, France and Germany, have been giving up their secrets, in some cases handing foreign tax authorities the names of their account holders. To avoid being blacklisted by the Organisation for Economic Cooperation and Development, the Swiss government has agreed to share more information with foreign authorities hunting tax cheats.

The foreign assault has opened up a huge rift inside the fiercely independent Alpine nation.

Some bankers, as well as many academics and centrist and left-leaning politicians, think the country should bow to the inevitable and abandon strict secrecy. The pragmatists include big banks like UBS AG and Credit Suisse Group AG, which argue that to survive they have no choice but to surrender more information about their customers and close the accounts of those who won’t come clean.

But a conservative old-guard, including politicians from the powerful right-wing Swiss People’s Party and the heads of smaller private banks, sees such a surrender as a betrayal not just of clients but of core Swiss values. Client confidentiality – the “duty of absolute silence” – has been part of Swiss law since 1934, and a tradition for centuries, helping Switzerland prosper as its neighbours were repeatedly wracked by war.

This conservative faction fears that the very notion of what it means to be Swiss is under threat.

Josef Ackermann, the former boss of Deutsche Bank who recently returned to Switzerland to take up a job as chairman of Zurich Insurance, has expressed alarm at the discord and called on Switzerland to resist international attacks.

“It must not be that the big powers chip away at the legal order of the small ones,” Ackermann said in a March speech to Zurich’s business elite. “Our biggest problem seems to be that we sometimes allow ourselves to be intimidated unjustifiably under pressure from abroad and we don’t have sufficient confidence in our own strengths.”

Thomas Matter, a banker and politician from the Swiss People’s Party, is blunter. “Swiss people love freedom,” he told Reuters. “The state was always for the citizen and not the other way round.”

The debate, which has included personal attacks and accusations of betrayal, has hamstrung the coalition government as it attempts to settle tax disputes and restore the reputation of the financial industry.

Last week’s announcement by Luxembourg that it would lift bank secrecy rules from 2015 for EU citizens only adds to the pressure.

UNWRITTEN CODE
A sign on display in UBS’s museum, from a bank founded in 1747 in the Italian-speaking part of Switzerland, could almost be Switzerland’s mantra: “MASSIMA DISCREZIONE” it promises.

Swiss bankers have long adhered to an unwritten code similar to that observed by doctors or priests. Bankers do not acknowledge clients in public for fear of exposing them as account holders; they often carry business cards with just a name, rather than...
bank or contact details; and, at least until the 1990s, they never advertised abroad.

That code was written into law after 1932, when French police arrested two Swiss bankers who were entertaining members of Parisian high society in an apartment near the Champs Elysees. The police seized a list bearing the names of hundreds of French clients who had hidden their wealth in secret accounts, including two bishops, several generals, top industrialists, two newspaper magnates and several politicians. The ensuing scandal helped usher in the Swiss Banking Act, which made it a punishable offence for bankers to divulge information on their clients unless they suspect a crime.

Even today, few Swiss like to discuss the fact that much of the country’s prosperity was built on bankers helping foreigners evade taxes. Visitors should avoid personal questions, advises Communicaid, a consultancy which advises businesses on cross-cultural awareness. It would also be wise to steer clear of discussing “Swiss banks, money or Switzerland’s military role in World War One or Two.”

Neutral Switzerland’s self-image as a safe haven for the persecuted and their assets was punctured in the 1990s, when a national commission found it had refused entry to many Jews escaping the Nazis. Its banks had even emptied Jewish accounts left dormant after World War Two.

ST. GALLEN FRATERNITY

While Zurich and Geneva are Switzerland’s main financial centres, the once close-knit banking fraternity had its roots in the ancient hermitage city of St. Gallen. Networks were forged during compulsory military service; an education at St. Gallen University cemented those ties.

Philippe Mastronardi, a retired law professor, has led a group of Swiss academics in calls for the government to agree to an automatic exchange of bank client data with foreign authorities. Transparency is necessary, he says. Switzerland faces a “paradigm shift. We need to change deeply rooted beliefs and myths of Swiss autonomy.”

Until recently, St. Gallen was home to Wegelin & Co, founded in 1741 and Switzerland’s oldest private bank. Last year the U.S. Justice Department indicted Wegelin on charges that it enabled wealthy Americans to evade taxes on at least $1.2 billion hidden in offshore...
accounts. In January the bank pleaded guilty. Wegelin executives, who had already sold the non-U.S. business to fellow St. Gallen bank Raiffeisen, announced they would close what was left of the bank.

The guilty plea was a crucial turning point in the Swiss debate, because in admitting fault Wegelin’s executives also incriminated their fellow bankers.

From about 2002 to about 2010, the bank’s managing partner Otto Bruderer told a U.S. District Court in Manhattan, Wegelin had agreed with certain U.S. taxpayers to evade U.S. tax obligations. “Such conduct was common in the Swiss banking industry,” Bruderer said.

Prominent conservative politician Christoph Darbellay publicly called Wegelin executives “traitors” and accused Bruderer and his co-owner, Konrad Hummler, of dragging Swiss finance through the dirt.

Hummler sued Darbellay for libel. The pair settled out of court in January, but the public spat – unusual in a country which favours consensus over conflict – underscores the strength of feeling.

Hummler, Bruderer and Darbellay declined to talk to Reuters for this story.

The sense of betrayal was keen among conservatives, because Hummler, a straight-talking former head of the Swiss Private Bankers’ Association, had long been one of the most ardent public defenders of bank secrecy. In 2009 he told Der Spiegel magazine that tax evasion by Germans was a “legitimate defence by citizens” against a “disastrous social welfare state.”

The St. Gallen banker who bought Wegelin’s non-American business has broken with that philosophy. Raiffeisen boss Pierin Vincenz raised heckles early last year when he became the first top banker to say Switzerland will ultimately have to accept the automatic transfer of bank client data to foreign tax authorities.

“We are in a real transformation process,” he told Reuters. “We grew up with bank secrecy and it is hard for us to open up, even if it is just about clearing up this tax evasion question.”

Sergio Ermotti, chief executive of UBS, has echoed that, saying automatic transfer of client data could be a solution if adopted worldwide. “Bank secrecy as we knew it a decade ago is over,” he told the TagesAnzeiger newspaper in October. UBS, Switzerland’s biggest bank, declined to comment for this story; the bank introduced a compliance policy in 2012 demanding its bankers request verbal confirmation from new clients that they have paid their taxes.

At the St. Gallen playhouse through March, a satire called “The End of Money” portrayed a Swiss banker as the bad guy. The playwright wanted the show to open in Zurich, the financial capital, but the main theatre turned it down. Swiss media blamed the banks which sponsor the playhouse; the show’s artistic director denies they interfered.

“SPIRAL OF LIES”

Washington, Paris and Berlin have really turned up the heat on Switzerland in the past few years. In 2009, UBS agreed to hand the United States the names of more than 4,000 American clients and pay a $780 million fine to avoid prosecution for helping Americans evade taxes. Other big banks such as Credit Suisse and Julius Baer have handed over information on their employees involved in U.S. business, while Credit Suisse has made provisions in its accounts for hefty fines.

German states have bought data on secret Swiss account holders and both Credit Suisse and Julius Baer have paid fines to settle German tax investigations; France has raided Swiss banks and their clients and is investigating a scandal involving Swiss bank accounts held by former French budget minister Jerome Cahuzac. Cahuzac has been charged with fraud.

“I was caught in a spiral of lies and I did wrong. I am devastated with remorse,” he said in his blog on April 2.

Julius Baer and Credit Suisse declined to comment for this article, but Credit Suisse pointed to remarks made by Chairman Urs Rohner in September. Swiss banks need to embrace a business model based on tax-compliant money, he told a conference; any approach that rests on different standards will fail. “It is economically stupid and morally unacceptable.”

The old guard is having none of it.

“Automatic exchange of information is not a global standard nor will it become a global standard any time soon,” Zeno Staub, head of mid-sized Swiss bank Vontobel, told Reuters in February. “If it does not become a standard, but just an isolated European solution, we should not adopt it ... There is no reason to lapse into panic and search frantically for a Plan B, C or D.”

Patrick Odier, president of the Swiss Bankers Association (SBA) and senior partner of Geneva-based private bank Lombard Odier, also defends the code of secrecy.
“Automatic exchange of information goes against the core values of not only the Swiss banking service but against the core values of the Swiss people in general,” Odier said. He added that automatic exchange of information with the European Union is not an option for Swiss banks because Switzerland is not an EU member, so the bloc can only demand equivalent measures such as a withholding tax on savings income that is already in place with all EU states.

On this basis, banks were prepared to discuss broadening the existing agreement, he said, adding: “Swiss banks always comply with global standards and their developments.”

In February, Odier wrote to members of the cabinet urging them not to lose sight of the interests of bank clients. His confidential letter was leaked to Swiss radio, prompting questions about his stated commitment to making sure banks only accept taxed assets in future.

Odier says he is committed to that change: “We pursue the objective of a financial centre that does not allow the misuse of privacy laws.”

Many Swiss see foreign attacks on the banks as part of an economic war against a wealthy but relatively powerless small state.

“There is this deep feeling that we are not treated right and the only reason Switzerland is being picked on is because we’re so successful,” said Martin Naville, head of the Swiss-American Chamber of Commerce.

Figures from the Boston Consulting Group for 2012 show that the United Kingdom, along with the Channel Islands and Ireland, have $1.9 trillion in offshore wealth, a close second behind Switzerland’s $2.1 trillion. The United States banks about $600 billion, predominantly in Miami and New York.

TOO SMALL TO SQUEAL
Swiss politicians have been drawn into the brawl.

Philipp Mueller, head of the liberal Free Democrats, the party traditionally closest to the banks, recently complained to Odier about confused messages from his organisation.

“It can’t go on like this,” he told Reuters. “We hear one thing from the private bankers and another from the big banks.”

Matter, the banker-politician, agrees: “The internationally orientated banks are making no noise, no complaints. They are following the path of least resistance,” he said. “But this is not just about the future of the financial centre, it’s not just about the banks, it’s about the freedom of citizens.”

The potential loss of secrecy hurts big banks – together UBS and Credit Suisse expect European customers to withdraw up to 65 billion francs ($70 billion) in coming years due to tax issues. But that represents just a fraction of their total assets; they are far more diversified and less dependent on secrecy than small private banks, many of which may struggle to survive. A study by KPMG and St. Gallen University showed the number of Swiss private banks already fell to 148 in 2012 from 169 just four years earlier.

Odier admits there were competing views in his organisation, but insists the Swiss industry is united in its core values. “There is no dissension on the fact we want to remain a very credible, safe, stable and predictable financial centre for the future as we are today and we want to make sure that business-friendliness prevails.”

Raiffeisen’s Vincenz, who sits on the board of the Bankers’ Association, has called for more assertiveness. “We have to be more political. That is difficult for the typical banker. For years, what was wanted here was discretion,” he told a February conference organised by St. Gallen university alumni. His bank has set up a new subgroup of the Bankers’ Association to represent the interests of Swiss domestic banks.

BATTLE OF THE COMMITTEES
As the fight drags on, Finance Minister Eveline Widmer-Schlumpf has struggled to get agreement on a strategy to make sure Swiss banks stop accepting untaxed assets.

It doesn’t help that conservatives have resented her ever since 2008, when she broke ranks in the Swiss People’s Party to form a centre-right splinter party.
In November, she set up a working group to examine how much bank information Switzerland shares abroad. The conservatives pounced: a deputy from the centre-right Christian People’s Party complained that the panel excluded banks, persuading the parliament’s upper house to vote for a rival task force that would include bank representatives. The lower house still has to vote on this motion. Widmer-Schlumpf said in an emailed statement she was working with bankers towards a compromise.

So far, Switzerland has sought bilateral agreements with countries, for instance offering to have its banks tax the assets of foreign citizens without naming them. Britain and Austria have agreed to this, and the government is in talks on similar deals with Greece and Italy. But Germany – the country with the most offshore Swiss bank accounts – threw out the idea last year, in part because the German Social Democrats oppose a system that lets tax evaders stay anonymous.

Mueller and other Swiss politicians have vowed that there will be no repeat of an emergency law that allowed UBS to hand over its client data to Washington. As a result, the United States and Switzerland have yet to agree a deal to halt U.S. investigations of Swiss banks. Switzerland said on Wednesday it was considering a solution likely to involve many banks paying hefty fines and revealing client names, but any deal will face a rocky ride in parliament.

Martin Landolt, the head of Widmer-Schlumpf’s centrist BDP party, says the banks have to reinvent themselves. “There are conservative forces in Switzerland who think they are doing something good when they defend the status quo, when they defend bank secrecy ... and don’t understand that this is an upheaval that we cannot evade.”

Landolt, who also works part-time as a political consultant at UBS, concludes: “When a tsunami is coming, we can’t just say tsunamis are banned and think it won’t happen anyway.”

Additional reporting by Katharina Bart and Oliver Hirt. Edited by Sara Ledwith and Simon Robinson