FINANCIAL NEWS

Switzerland on a roll - for now

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Switzerland has been on a roll following a string of announcements that suggest its future as a wealth centre will remain intact for years to come.

News of a potential tax deal with the UK and Germany suggests its bank privacy laws will remain intact for years to come. US prosecutors have applied to withdraw a civil lawsuit against UBS over alleged tax evasion by some of its clients. And in today's third quarter results, UBS, the country's biggest wealth manager, saw its first net inflow of business since 2008.

The devil, however, is in the detail. And there are a particularly large number of details to be hammered out surrounding of talks on the privacy deal, which could, one day, embrace France as well.

The deal is important because Swiss banking privacy – or secrecy as non-Swiss prefer to call it – has been enshrined in law since 1934 when France raided a Swiss bank’s office in Paris in pursuit of citizens depositing money abroad. It has become a badge of honour, as far as the Swiss banking sector is concerned.

In the noughties, however, tax authorities across the world became vengeful. They took the view that the Swiss were making it possible for far too many people to evade tax, or justice, or worse. The Swiss vigorously denied any wrongdoing, but decided it would be prudent to strike deals to avoid sanctions against their banks. In March 2009, they undertook to implement a standard put forward by the Organisation for Economic Cooperation and Development, regarding the exchange of information in tax matters. They have now agreed 30 double tax agreements with different countries.

Maintaining good relations with members of the European Union is absolutely crucial, which explains why the Swiss have been so keen to do a deal with the UK’s new coalition government, keener to trumpet a success on taxing the wealthy in the name of "fairness" than campaign against Switzerland’s obsession with secrecy.

The Swiss were rejoicing today at this apparent negotiating coup, which could see a withholding tax being levied on Swiss bank accounts held by wealthy Brits, as well as penalties on accounts inherited from previous generations. It has been suggested in the UK that this could yield tax at 50%. But this looks a little unlikely – 25% - roughly in line withholding tax in Jersey and a tax deal being discussed with the Germans – would be more to the taste of the Swiss.

The final figure has yet to be determined. But Ronnie Ludwig, a partner at accounting firm Saffery Champness, thinks a deal will raise £1bn for the UK. He added: "The interesting point about the deal is that the taxman can now effectively reach people beyond the grave."

Andreas Kolb, partner of law firm Eversheds in Switzerland, is more concerned the Swiss will end up at a disadvantage in their desperation to maintain privacy. He points to proposals which suggest UK authorities should be allowed to submit a request for administrative assistance stating the name of the client, but not necessarily the name of the bank: “This could go much further than the OECD standard.”

Kolb warned pressure on Swiss bank secrecy could be ramped up again in a few years time. One UK lawyer said: “Most of my wealthy clients are concerned about this. They are tending to bank in Singapore these days.”

The dropping of legal proceedings against UBS is also less impressive than it looks, now that the bank has been forced to handover details on 4,000 client accounts. US tax legislation has become ferocious and a range of banks in Switzerland, and elsewhere, have become reluctant to handle US accounts, knowing that their banking interests could be damaged by going out on a limb to protect them.

UBS came up with encouraging data today on wealth inflows totalling Sfr1.2bn in its third quarter to September, against outflows of Sfr8.1bn over the previous three months. But it concedes it needs many more quarters of positive inflows to feel it has turned its back on the credit crunch.

As an international bank UBS, like Swiss exporters, has to contend with a strong Swiss franc, which is now worth more than a dollar, despite the valiant attempts of the Swiss central bank to hold it back. Again, it would appear that the Swiss can only achieve success at a price.

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