The banks in Switzerland 1998 - Preprint

Press release of 2 June 1999

The Swiss banks again look back on a very positive year. They succeeded, in 1998, in lifting their gross profit by 8% to Sfr 23.3 billion, thus even exceeding the unprecedented high level of Sfr 22.6 billion recorded in 1993. At Sfr 14.5 billion, the annual profit was actually double the 1993 figure. The balance sheet total of the 376 reporting banks rose by 16% (1997: 19%) to Sfr 2,058 (1,782) billion. This development was largely attributable to the banks' foreign business, notably claims and liabilities vis-à-vis banks and trading portfolios in securities. By contrast, the banks again exercised considerable restraint in granting credits to domestic nonbanks. Credit balances and liabilities denominated in foreign currency increased by 22% and 13% respectively whereas Swiss franc business stagnated.

For the first time, at the end of 1998, complete statistics were compiled on the securities portfolios of customers managed by domestic banks. Overall, these totalled Sfr 3,000 billion; Sfr 1,400 billion were accounted for by domestic customers, Sfr 1,600 billion by foreign customers.

At the end of 1998, 376 (1997: 394) banks submitted their financial statements to the Swiss National Bank (SNB). The decrease by 18 banks was the net result of takeovers, closures and the establishment of a number of new institutions. This development reflects the ongoing restructuring process in the banking sector. The merger between Union Bank of Switzerland and Swiss Bank Corporation announced in autumn 1997 was completed on 26 June 1998 after the competition commission had agreed to the merger subject to certain conditions being fulfilled and after the EU competition authorities and the foreign supervisory authorities (notably the British Financial Services Authority [FSA] and US Federal Reserve) had given the green light.

The big banks, which are becoming ever more strongly oriented to foreign business, again considerably influenced the business activity of the banks in Switzerland. They accounted for a two-thirds share in the balance sheet total of all institutions at the end of 1998. Interbank business, notably business conducted with foreign banks, is the predominant sector. In the past year it again showed an above-average increase. Claims vis-à-vis domestic and foreign banks grew by 26% (38%) to Sfr 520 billion, and liabilities by 32% (26%) to Sfr 522 billion. Only trading portfolios in securities (+50%) rose even more markedly though in terms of volume they are less significant than interbank business. The latter is also particularly characterised by the continuous and conspicuous rise in the holdings reported under the item securities lending. Overall, these expanded to Sfr 159 billion (+121%) on the assets side and Sfr 264 billion on the liabilities side (+160%). A substantial proportion results from the fact that individual institutions have changed their method of entering their repo transactions in the books. In consequence, this extremely rapidly expanding line of business is overstated.

Customer business exhibited distinctly slower growth than interbank business. Several positions vis-à-vis domestic customers were even on the decline. Claims vis-à-vis domestic and foreign customers rose by 14%, mortgage claims by 4%. Claims vis-à-vis domestic customers diminished by 4%. Liabilities vis-à-vis customers in the form of savings accounts and special accounts - almost exclusively domestic business - decreased by 1% in each case. Outstanding medium-term notes contracted by as much as 20%, while bonds issued expanded by 5%. "Other Liabilities" vis-à-vis customers also mounted: sight liabilities by 7% and time liabilities by 25%.

The international involvement of the Swiss banking system continued to strengthen significantly: the banks expanded their credit balances vis-à-vis other countries by Sfr 244 billion (+28%), their liabilities by Sfr 230 billion (+31%), and consequently their net position by 13% to Sfr 119 billion. Foreign business is continuing to be concentrated on the industrialised countries, primarily the financial centres London and New York. The countries in Asia and Oceania account for 13% (1997: 16%) of total foreign credit balances and 7% (11%) of foreign liabilities, a proportion that affected the Swiss banks, albeit to a bearable degree. Particularly striking is the rise in balances vis-à-vis Japan, which resulted in an increase in the net surplus by 44% to Sfr 82 billion.

At the end of 1998, fiduciary credit balances and liabilities stood at Sfr 331 billion, falling short of the previous year's level by 2%. In the preceding two years this line of business had exhibited two-digit growth rates. As usual, funds flow into Switzerland from abroad and are then invested by the banks almost exclusively in European financial centres - in the United Kingdom, in Luxembourg, the Netherlands, Belgium and France. Fiduciary business is primarily the domain of the category of foreign-controlled banks and of the big banks.

Despite serious losses incurred by some institutions in certain lines of business, the Swiss banks presented an income statement that surpassed all previous results. The gross profit rose by 8% to Sfr 23.3 billion. The annual profits (gross profit minus write-downs, etc.) soared to Sfr 14.5 billion (1997: 6.0; 1996: 3.4); at the same time, annual losses declined from Sfr 2.8 billion (1996) and Sfr 1.9 billion (1997) to Sfr 0.1 billion. On the one hand, earnings in most lines of business showed favourable development. On the other hand, the positions valuation adjustments, provisions and losses as well as extraordinary expenditure declined markedly from the year-earlier level, while the position extraordinary income almost doubled and general business expenses stagnated.

At the end of 1998, the banks (bank categories 1.00-5.00) had more capital resources - at Sfr 105 billion - than at the end of the previous year (Sfr 102 billion). The legally prescribed amount in this period was Sfr 73 (76) billion. Thus, at Sfr 32 billion, the capital resources that count towards the capital ratio of 8% of total risk-weighted positions according to the Banking Ordinance (Art. 12) and international standards was even more clearly exceeded than in the previous year at Sfr 27 billion.

In the personnel sector, the big banks' share diminished to 51% (1997: 53%), falling considerably short of their share in the balance sheet total of all institutions combined (67%). The banks' total staff declined more markedly than in the preceding two years, i.e. by 1,004 jobs (-1%) to 118,687. The facts behind these figures, however, reveal an even larger decrease in the staff numbers of the big banks, while other categories of banks added to the number of their employees. Other than in the past seven years, total domestic jobs did not fall any further, but stagnated (+0.1%), in 1998. By contrast, after many years of strong growth the number of employed persons abroad diminished by 9%.