

Wealth Management: Industry Analysis

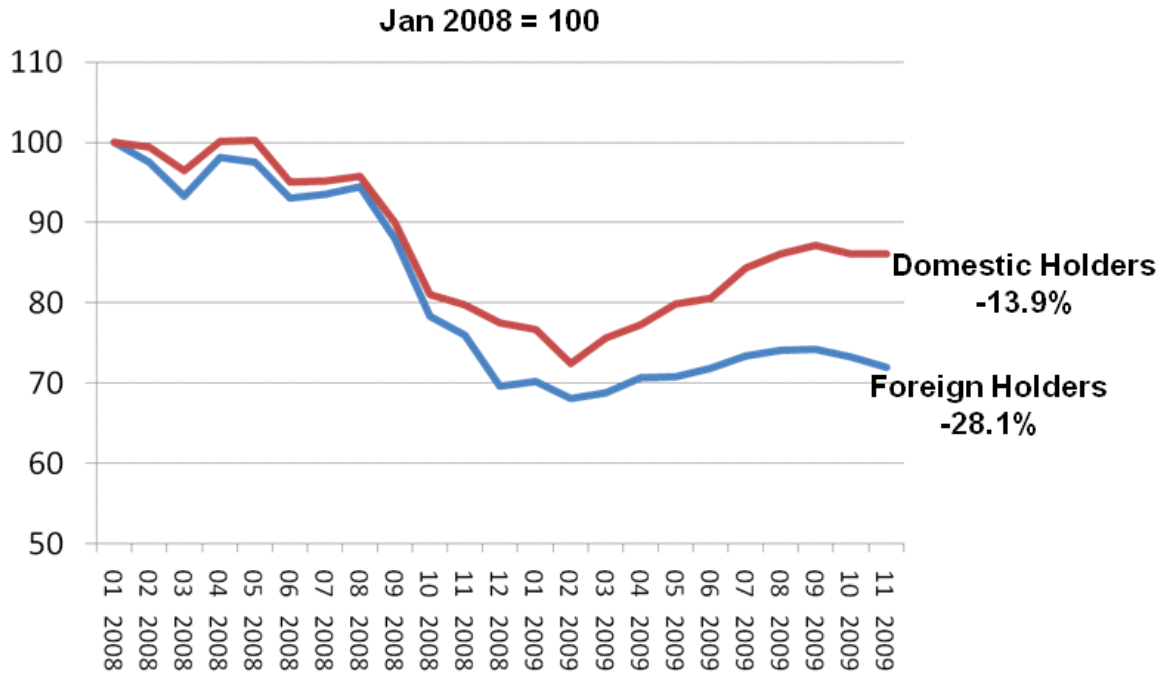
Are Private Foreign Assets Fleeing From Switzerland?

Nov. 11, 2009

Bank Julius Bär has made an [interim management statement](#) announcing that some assets have left the bank in Switzerland because of the difficult regulatory environment.

We are wondering how big the impact of the pressure on the Swiss banking system really is on the assets under management. Have foreign account holders already moved substantial amounts of assets because of the pressure of the US, Germany and others on the banking secret? It is difficult to obtain precise data on assets under management from the Swiss banks themselves because of obvious concerns about possible retaliation by the financial authorities of countries like the US or Germany (who have proven that they are willing to use legal and less legal methods to obtain information on offshore account holders.)

Private Foreign and Domestic Assets in Swiss Securities Accounts



MyPrivateBanking.com Research
Data: Swiss National Bank

But we have found some interesting time series data which were published recently by the [Swiss National Bank](#). This data shows that apparently assets held by private persons from foreign countries have shrunk more substantially since the beginning of 2008 than assets held by private domestic persons in Switzerland. While the domestic assets have declined by 13.9% between January 2008 and November 2009 (latest data available), the assets held by foreign persons in Swiss bank accounts declined by 28.1%. This is almost a twice as big rate of decline. In absolute numbers domestic assets went from CHF 539 bn to 464 bn whereas foreign assets went from CHF 965 bn to 694 bn.

These numbers do not show the net outflow or inflow of capital. They just show the absolute amount of assets held at certain points in time in securities accounts of Swiss banks. The stronger decline of assets held by foreigners might be due to a riskier asset allocation - if they hold more stocks for instance. But this seems not to be the case: Only 18.2% of private foreign assets in Switzerland are stocks whereas domestic accounts hold more than 36% in stocks. However the decline might be due to currency

changes because foreign holders tend to hold more US-Dollars than domestic holders. But since the beginning of 2008 the US-Dollar has lost only a few percentage points against the Swiss Franc. All these factors can most probably not explain the steep decline of foreign assets. Only when you add in the pressure from G20 countries on offshore destinations like Switzerland, the numbers begin to make sense.

Therefore we have the strong suspicion that the increased pressure on some foreign account holders leads them to repatriate their money. This also explains why after Germany and the US have tried various scaring tactics now Italy, the Netherlands and other countries are following suit. Therefore, we reinforce our assumption that up to 10% of foreign assets might leave Switzerland over the medium term. If appropriate counter measures are not taken the outflow may be even more substantial.