

The banks in Switzerland 1997 - Preprint

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The Swiss banks look back on a highly successful year. They succeeded, in 1997, to lift their gross profit by 24% to Sfr 21.5 billion, a level last reached in 1993. The balance sheet total of the 394 reporting banks rose by 19% (1996: 13%) to Sfr 1,782 (Sfr 1,495) billion. This development was largely attributable to the banks' foreign business, notably interbank business, customer business and money market and securities transactions. The banks, however, again exercised significant restraint in granting credits (including mortgages) to domestic nonbanks. Credit balances and liabilities denominated in foreign currency increased by approximately 40% each - to some extent due to exchange rate developments. Swiss-franc business, by contrast, suffered from considerable stagnation.

At the end of 1997, 394 (1996: 403) banks submitted their financial statements to the Swiss National Bank (SNB). The decrease by nine banks was the net result of takeovers and closures and the establishment of a number of new institutions. This development is an expression of the ongoing restructuring process in the banking sector. The merger between Union Bank of Switzerland and Swiss Bank Corporation announced in autumn 1997 will be completed in the course of 1998 and is therefore barely reflected by the present figures.

Interbank business again showed an above-average increase in the past year. Claims vis-à-vis other banks grew by 38% (17%) to Sfr 414 billion, and liabilities vis-à-vis other banks by 26% (16%) to Sfr 394 billion. Claims (+43%) and liabilities (+114%) arising from money market paper expanded even more markedly. These rises were due largely to the development of foreign business, which still concentrates on the industrialised countries, notably the financial centres London and New York. Asian countries and Oceania account for 16% (1996: 13%) of foreign credit balances and 11% (9%) of foreign liabilities, a proportion that led the Swiss banks to react with considerable composure to the crises of the Asian countries. Credit balances and liabilities vis-à-vis Singapore and Japan exhibited a particularly marked rise. Interbank business is also characterised by a further strong expansion in the amounts involved in securities lending. Overall, the position for this line of business increased to Sfr 72 billion (+38%) on the assets side and to Sfr 102 billion on the liabilities side (+72%).

Customer business exhibited distinctly lower growth rates. Claims vis-à-vis customers rose by 9%, mortgage claims by a mere 3%. Liabilities vis-à-vis customers also increased: in the form of savings accounts by 4%, in the form of special accounts by 12%, sight deposits by 16% and time deposits by 15%. Outstanding medium-term notes underwent a further decline (-15%), while issued bonds mounted by 19%. The strong expansion in "Other Assets" (+52%) and "Other Liabilities" (+46%) both included under "Others Items" is largely due to the now strictly applied rule to enter the replacement values for derivatives business under these positions.

At the end of 1997 fiduciary credit balances and liabilities exceeded the previous year's level by 14% (1996:21%). As usual, funds flow into Switzerland from all parts of the world and are invested by the banks almost exclusively in European financial centres - mainly the United Kingdom. Fiduciary business is primarily the domain of the category of foreign-controlled banks and of the big banks.

The restructuring process in the Swiss banking system also clearly left its mark on the 1997 income statement. The annual profits of all the banks combined totalled Sfr 6.0 billion, annual losses Sfr 1.9 billion. The latter are due mainly to provisions in connection with the planned merger of two big banks referred to earlier on. Overall the banks once more achieved markedly better earnings from interest differential business (+10%), from trading (+13%) and particularly from commissions and services (+29%). After taking account of similarly strong increases in personnel expenditure (+11%) and general overheads (+17%) a gross profit of Sfr 21.5 billion resulted, topping the year-earlier level by 24%.

At the end of 1997, the banks (bank categories 1.00-5.00) had substantially higher capital resources of Sfr 102 (1996: 97) billion than at the end of the previous year. The legally prescribed amount in this period was Sfr 76 (74) billion. Thus, at Sfr 27 billion, the capital resources that count towards the capital ratio of at least 8% of the risk-weighted positions according to the Banking Ordinance (Art. 12) was more clearly exceeded than in the previous year at Sfr 23 billion.

Measured by the balance sheet total, the share accounted for by the cantonal banks, the regional banks and the "Raiffeisen" banks continued to diminish while the big banks' share increased from 58% to 63%. In the personnel sector the big banks also hold a dominant position, accounting for more than half of all bank staff. The banks' total staff again decreased only negligibly by 80 jobs to 119,691. As in the previous year, however, the facts behind these figures are a decline in Switzerland and a rise in other countries of approximately 1,000 jobs in each case.