Swiss Banking’s Emerging Markets Quagmire
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Swiss banking’s money-laundering scandals have piled up in recent months – in large part due to emerging markets. Many firms have ignored risks in favor of juicy potential returns.

Finma head Mark Branson sees banking in a «danger zone»: no fewer than 15 Swiss firms are vulnerable to money-laundering risks, Switzerland’s highest banking overseer said last October.

Since then, headline after headline trumpets the latest corruption cases involving Swiss banking, after a massive climb in cases of money-laundering. Most of the problems can be traced back to emerging markets – the last bastion of growth for battered private banks.

Banks Held Hostage

The Panama Papers, Petrobras, 1MDB and various FIFA functionaries: what initially looked to be boom markets turned out to be a costly foray for Swiss banking.

Branson’s warning list is full of «especially firms active in wealth management, often with clients from emerging markets,» he said.

Switzerland as a haven for money-laundering doesn’t fit the image that the alpine nation strove for following various scandals surrounding dictator loot in the 1990s, which led to rules being tightened.

Nevertheless, observers are forced to admit that «two out of three times, we ended up at Paradeplatz», referring to the square at the hart of Zurich’s banking district.

Even more alarming is the fact that Swiss banks seem to have allowed themselves to be hijacked by criminal interests – a finding which is relatively new to the industry.

Compliance as an Insult

The 1MDB case is an excellent example of this: several of the masterminds behind the complex scheme of money transfers appear to have abused their positions as board representatives at Falcon Private Bank to shut down objections from compliance staff.

At BSI, at least one prominent client quieted his private banker’s compliance queries by accusing him of being culturally insensitive.
To be sure, both banks have paid a high price for their misdeeds: BSI was shut down by Finma and the Monetary Authority of Singapore, or MAS, in May. In October, Falcon was forced to give up Singapore despite new management’s efforts to keep the bank alive in Asia.

Finma, Switzerland’s attorney general and foreign authorities are all probing various Swiss firms. Not just 2016 but next year also promises to go down in the history books as an «annus horribilis» for Swiss banking, not to mention the reputational wipeout incurred on the brand name.

**Change in Conditions**

Meanwhile, in the emerging markets themselves, signs are mounting that officials will no longer turn a blind eye to corruption, tax offenses and outright fraud. Tax amnesties in South America and Asia are also an indication of a change in tone within two key emerging markets.

Swiss bankers would be ill-advised to underestimate this development. As Branson said in October, «the question is whether in a few years we will be occupying ourselves with cases happening today.»