MULTINATIONAL

Switzerland Still Attracting Offshore Funds but Hong Kong Closing In

by William Hoke

Despite the steady erosion of Swiss bank secrecy and the government's agreements to share nonresidents' financial information with authorities in other jurisdictions, Switzerland remained the largest financial center for offshore wealth in 2017.

Swiss financial institutions managed $2.3 trillion in offshore wealth last year, according to a report on the global wealth management industry released June 14 by the Boston Consulting Group (BCG). That total was more than double the $1.1 trillion managed by financial institutions in Hong Kong, its closest competitor. Approximately $900 billion in offshore funds was managed in Singapore, which was third in total offshore assets under management.

While Hong Kong and Singapore trailed Switzerland, the rates at which they have been adding offshore wealth to their assets under management have far outpaced that of their alpine competitor in recent years. Although Switzerland has been increasing its offshore assets at an annualized rate of 3 percent over the past five years, Hong Kong has been growing at an 11 percent rate and Singapore at 10 percent during the same period.

Overall, worldwide personal financial wealth rose 12 percent in dollar terms during 2017, to $201.9 trillion — a total approximately 2.5 times greater than global annual gross domestic product. BCG said the expansion was fueled by a bull market environment in all major economies, with wealth held in equities and investment funds showing the strongest growth, and a significant strengthening of most major currencies against the dollar.

BCG said that in preparing the report, it used traditional segment nomenclature recognized by most wealth management institutions. The consulting group classified lower-high-net-worth (HNW) individuals as those with assets between $1 million and $20 million, and upper-HNW individuals as those with $20 million to $100 million in assets. Individuals with over $100 million in personal wealth fell into the ultra-high-net-worth (UHNW) category.

Global offshore wealth totaled $8.2 trillion in dollar terms in 2017, up 6 percent from a year earlier. BCG said many offshore centers have historically offered tax advantages. "As the regulatory climate has tightened over the past 10 years, we have seen significant flows back onshore, generally from lower-HNW individuals," the report says. "But new inflows into offshore centers, mainly from UHNW individuals — in particular from the developing world, but also, increasingly, from developed countries — have generally offset these outflows as financial institutions offering offshore services have successfully redefined their value proposition to target clients from mature markets."

The report says offshore wealth will likely grow at a compound rate of 5 percent a year over the next five years.

Assets Come In as Tax Info Goes Out

Switzerland's continued status as the world's strongest magnet for offshore wealth might appear counterintuitive now that the country has started sharing with other countries details about the financial holdings of foreigners that it once guarded so jealously.

In December 2015 the Swiss Federal Assembly approved the legal basis for the automatic exchange of information on financial accounts (AEOI), which entered into force at the beginning of 2017. Not counting the EU or its member states, Switzerland has AEOI agreements with over 60 jurisdictions.

In 2015 Switzerland signed a protocol to the EU-Switzerland savings tax agreement of 2004 to replace the agreement's information exchange provisions with the OECD's common reporting standard. Switzerland and EU member states began automatically exchanging information on the financial accounts of their respective citizens at the beginning of 2018.

"In Switzerland, the voluntary disclosure program has been very successful so far," said Fouad Sayegh, a tax attorney with Walder Wyss Ltd. in Geneva. "I guess the trend of individuals seeking to hide assets from tax authorities has somehow vanished, or at least they do not seek advice from lawyers in that respect."

Sayegh said he wasn't surprised that Switzerland maintained the top spot for attracting offshore wealth. "Switzerland has built a very strong expertise in private wealth management over the years and represents a major hub for high-net-worth individuals seeking high-end services, not only for banking, but also for all matters in relation to wealth management as a whole," he said. "The BCG report notably shows that investors who have chosen to move their assets back home are mostly lower-HNW, while UHNW and upper-HNW [individuals] have instead increased their use of foreign financial centers, such as Switzerland."

Sayegh said that while it is difficult to predict whether Switzerland will remain atop the wealth management rankings, it appears well equipped to do so. "Besides its long tradition in wealth management, the country offers an unequaled political, financial, and legal stability. Switzerland is also continuously expanding its network of double tax treaties," he said. It most recently signed treaties with Brazil and Saudi Arabia, was the first European country to sign a free trade agreement with China, and has the third-largest network of investment promotion and protection agreements in the world, Sayegh said. ■