Italy's Tax Crackdown Hits Swiss Banks

Financial industry in Ticino, an Italianspeaking canton, is particularly hard hit

BY GIOVANNI LEGORANO AND JOHN LETZING

LUGANO, Switzerland— Rome's latest crackdown on tax evasion is serving up fresh headaches for Swiss banks and dealing a sharp blow to the financial industry in Ticino, an Italian-speaking sliver of Switzerland pinched between the Alps and Italy's northern border.

Switzerland, the world's biggest repository for foreign wealth, has bled assets in recent years as tax evaders succumb to pressure from their home countries and come clean. Now Italy, in the thick of an aggressive new tax amnesty program, is squeezing money out of Ticino's banks, long dependent on Italians who flocked to the Swiss canton, or state, to avoid the tax man at home. That is leaving the canton grasping for a new future.

In December, Rome said its amnesty—which threatened possible criminal penalties for those who didn't step forward— had unearthed €40 billion ($44.6 billion) in undeclared money belonging to Italians in Swiss banks, about two-thirds of it in Ticino. That follows Italy's prior recovery of €60 billion from Switzerland during back-to-back amnesties in 2009-2010, mostly from Ticino.

"Italian clients found themselves with basically nowhere to go," said Paolo Bernasconi, a Swiss tax lawyer and former prosecutor based in Ticino. "Their safest option was to come clean. There are no more countries that offer the level of safety that Switzerland offered."

Last week, Switzerland's three biggest publicly traded wealth managers—UBS Group AG, Credit Suisse Group AG and Julius Baer Group AG— each reported continued outflows related to Europe's tax crackdown, which is culminating with Italy's efforts. Credit Suisse said Thursday it saw 2.3 billion Swiss francs ($2.3 billion) in related asset outflows in the fourth quarter of last year, mainly from Italy.

The Italian episode comes amid a seismic shift for Swiss banks, which have relented to foreign pressure in recent years and are weeding out money hidden from tax authorities in a client's home country. Switzerland's biggest lenders have systematically confronted clients from Germany, France and Italy, pressing them to declare hidden funds—a process that has trickled down, to varying degrees, among the country's smaller private banks.

UBS, Credit Suisse and Julius Baer have lost tens of billions of dollars in assets in recent years as Europeans withdrew money to pay taxes, or closed accounts.

In response, Swiss banks have shifted away from their traditional markets in Europe, where legacy problems with hidden accounts have been abundant, to new regions such as Asia. But banks are struggling to make up for the loss of undeclared money. A report published by KPMG in August noted that "no meaningful" net new money had flowed into Swiss private banks since 2009.

Big Swiss banks have been able to mobilize their bankers in northern Italy to convince clients to stay with them once they repatriate their money. Julius Baer has retained about 80% of its Italian assets over the past few years, the bank's CEO said in an interview.

Renato Santi, an executive board member at BSI SA, Ticino's biggest bank, reckons the canton's financial industry has lost as much as a quarter of its Italian assets over the years. The bank itself has cut its staff in Ticino by 10% since 2010, as part of a global reduction. "We're pushing [our clients] to regularize," or declare any hidden funds, Mr. Santi said.

The mostly smaller banks that make up the bulk of Ticino's financial industry have fared worse than their bigger peers. The number of Ticinoheadquartered private banks fell 30% from 2007 to 2014, compared with a 20% decline for the rest of Switzerland, according to figures from the Swiss National Bank provided by Ernst & Young. The survivors have seen costs mount.

Luca Soncini, chief financial and risk officer at Luganobased PKB PrivatBank SA, estimates that profit margins at local private banks could fall as much as 30% this year due to increased costs and competition pushing down fees.

Ticino's financial sector "needs to reinvent itself," said Boris Collardi, chief executive of Julius Baer and a dual Swiss and Italian citizen. The canton is "a very good illustration of the transformation of Swiss banking," he said.

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Banks in the city of Lugano, above, have long depended on Italians who wanted to avoid taxes.

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