

Zurich hopes revamp will help it climb global ranks

News Analysis

Switzerland plans to take world number three spot among financial centres with its restructuring. Haig Simonian explains

Switzerland's powerful banks, bourse, fund managers and insurers want to establish their country as the world's third financial centre by 2015.

Less than a year after unveiling plans for far-reaching organisational, regulatory and fiscal reforms to get there – and notwithstanding the setback that the problems at UBS might have caused – one piece of the jigsaw has fallen into place. The ambitious project

to merge the country's cash and derivatives markets, clearing and settlement and payments systems, into a new group has gone smoothly.

Much of that is down to Urs Rügsegger, chief executive of Swiss Financial Market Services, as the amalgam of the SWX Swiss Exchange, the SIS clearing company and the Telekurs financial data and payments system is called.

In the job since SFMS came into being on January 1, Mr Rügsegger acknowledges Switzerland will never beat New York and London. But he believes measures like the bourse consolidation can help Switzerland – prin-

cipally Zurich – pull away from neighbours like Frankfurt and Paris and more distant rivals such as Hong Kong or Tokyo.

"Creating SFMS was an important step. Although it involved a triple merger, it has worked without problems from the start", says the former information technology, organisational and finance specialist.

Harry Hürzeler, director of the Swiss Finance Institute, an independent financial research and education body, believes the merger was necessary: "Competition between international markets has been growing ever fiercer, with infrastructure worldwide being redefined and reconstructed. The Swiss initiative brings together the infrastructure needed to sharpen the country's position in its aim to become the world's third financial centre," he says.

Previously chief executive of a big cantonal bank, the straightforward, strategically minded Mr Rügsegger has overseen essential organisational changes to make SFMS work.

While six of the eight divisions stem from the group's formative companies, two – finance and risk, and IT and logistics – are new, group-wide support structures for functions undertaken previously by the divisions themselves. Further, albeit gradual, rationalisation is likely.

"We've made a very good start and are prepared for further co-operation. Progress has been better than I expected", says Mr Rügsegger.

SFMS has also made time for strategy and growth, as well as reorganisation. Opportunities have been identified in payments systems, where the group believes it can win business, partly through acquisitions, as international markets consolidate.

Value-added services based on the SFMS's combination of talents are seen as another potential winner. Web-based infrastructure products, combining the SFMS's trading, clearing, settlement and supervisory savvy, could, for example, appeal to other markets seeking specialised software to simplify the multiple data entries required to list and register a new derivatives product, where speed is essential.

Above all, Mr Rügsegger believes SFMS has gained weight to develop its relationship with Deutsche Börse, its powerful German neighbour and occasional suitor. In the past, the Swiss bourse was often portrayed as a likely target for the Germans amid wider international consolidation.

With annual sales of about SFr1.5bn (\$1.47bn), 3,600 employees and pro forma 2007 operating profits of

almost SFr500m, Mr Rügsegger thinks SFMS has achieved a size that should eliminate doubts about its independence.

Greater financial firepower should also help SFMS to develop its joint ventures with Deutsche Börse, notably Eurex, a leading derivatives exchange,

and Scoach, a new venture for structured products.

But SFMS has not been all plain sailing. Three division heads have left. Peter Sami, former head of SIS, moved to Bank Sarasin after not

securing the chief executive slot. Heinrich Henckel, head of cash markets, has departed after reported hostility to the creation of a vertically integrated "silo" model. And Jim Gollan, chief financial officer and previously head of virt-x (now renamed SWX Europe), has left on health grounds.

Plans to internationalise securities clearing, a major growth target, appear becalmed. An apparent breakthrough in May 2006, when SIS gained the right to compete with LCH.Clearnet on the London Stock Exchange, has failed to progress, amid Swiss mutterings about covert protectionism in London.

"We'd like to be accepted as a clearing member of the LSE. We are convinced we can offer competitive prices," is all Mr Rügsegger will say.

Most ominously, SFMS, like other established bourses, faces competition from assorted new equity trading platforms, such as Turquoise, Chi-X and others, either running or under development.

"So far, the impact on the SWX has been limited," says Mr Rügsegger.

But he acknowledges that the battle may only be commencing. SFMS has responded by slashing its charges as part of a wider fee reform. Technology is

being upgraded, to meet another of the newcomers perceived advantages, with the first phase introduced and a second step due in the fourth quarter.

And next month will see the arrival of Swiss Bloc – an innovation to allow so-called dark pool trading. "The new trading platforms are not just a challenge for us: we all want to know what is going to happen to the liquidity pool", admits Mr Rügsegger.

"These moves will substantially improve our position. But it would be naive to think matters will stop there."

Who owns SFMS

UBS/Credit Suisse: 31.1%
 Trading banks & asset managers 19.5%
 Foreign banks 19.3%
 Cantonal banks 14.1%
 Private banks 10.5%
 Regional and co-operative banks 4.3%
 Others 1.3%



Goal: Urs Rügsegger



Swiss on a roll: Financial institutions now hope Zurich can pull away from neighbours such as Frankfurt and Paris

Alamy