



LIECHTENSTEINISCHER
BANKENVERBAND

STRATEGY FOR THE BANKING AND FINANCIAL CENTRE
LIECHTENSTEIN

ROADMAP 2020

A. Situation

The financial centre is a key industry for Liechtenstein's wealth. It has an international focus and generates approximately 24 percent of the gross domestic product, accounts for about 40 percent of the tax income and offers close to 6,000 highly qualified jobs. The financial service business in and from Liechtenstein comprises several major business sectors: the retail and corporate client business in the Liechtenstein market and the neighbouring single market, the international asset management business (banks, insurance companies, fiduciaries, independent assets managers) and the fund business. In this context, the banks play a leading role.

The balance sheet total of the banks domiciled in Liechtenstein is about 12 times the amount of the country's GDP. The banks have always excelled with their solid business models and extremely sound equity funding. Close and successful business relationships exist with Switzerland. The independence of the banks from the government and the avoidance of a moral hazard have furnished the financial centre with great stability. The equity of all banks licensed in Liechtenstein equals the country's GDP. Compared to other countries, this key figure is matchless. The core capital ratio averages more than 20 percent. Private banking has always been and remains the core business of the Liechtenstein banks. Despite this homogeneous orientation, the banks differ substantially with respect to their size. The three large institutions in Liechtenstein (i.e. LGT Bank AG, Liechtensteinische Landesbank AG and VP Bank AG) account for a share of about CHF 54.5 billion of the balance sheet total of CHF 63.8 billion of all banks. The banking industry is dominated by these three banking groups, which hold a market share of more than 85 percent, measured on the basis of the balance sheet total. From the national perspective, they are thus considered to be systemic. A special aspect in this connection is that there is no lender of last resort, i.e. no central bank. Moreover, Liechtenstein is not a member of the International Monetary Fund (IMF).

Liechtenstein effectively mastered the financial crisis, and none of the banks requested any government aid during or after the crisis. On the international scale, the financial centre is faced with formidable challenges. Following the financial crisis and the resulting high national debt of many large countries as well as increasing protectionist trends and the ongoing flood of regulations, especially internationally successful, smaller financial centres of a subcritical size remain subject to intense pressure. Therefore, Liechtenstein needs to continue to pursue its path of increased international cooperation and integration as well as compliance.

B. Procedure and Goal of the Roadmap 2020

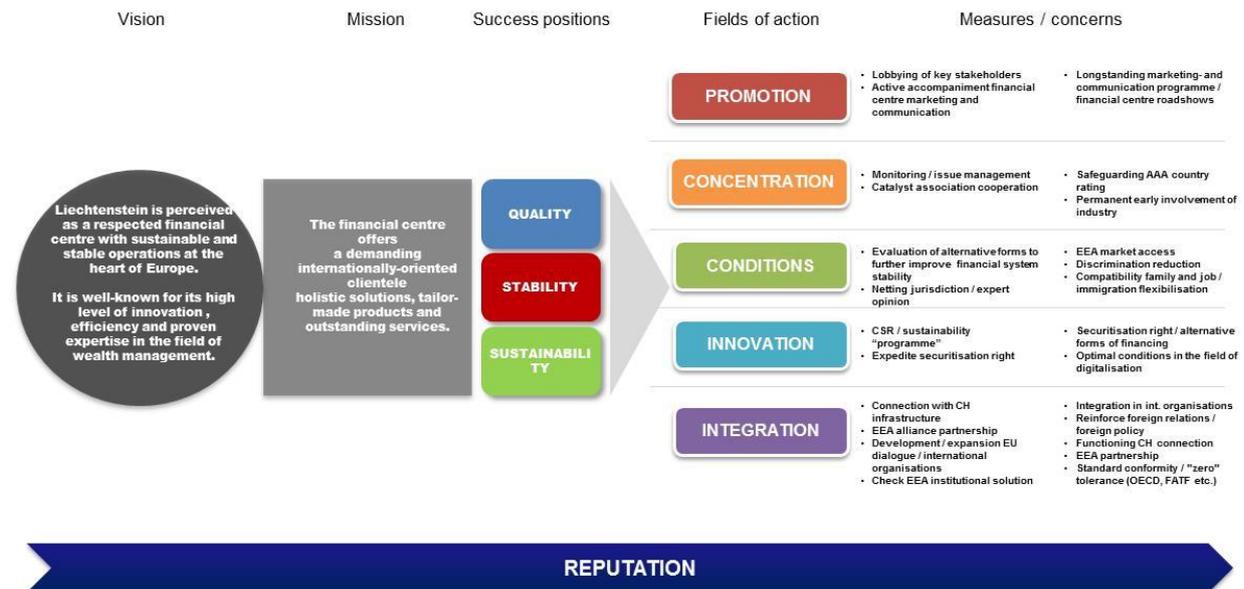
The Roadmap 2020 for the financial centre Liechtenstein is based on a top-down analysis. Based on the analysis of global trends and derivation of trends within the financial industry, opportunities and risks have emerged for the financial centre Liechtenstein. The strengths and weaknesses of the financial centre Liechtenstein have been identified by analysing selected competitors and making a comparison with these. Action options and standard strategies have been derived by combining these external and internal factors. A holistic procedure with respect to Liechtenstein has enabled the analysis of factors influencing the financial centre. Scenarios were drawn up to include probable developments in Liechtenstein in the analysis. The evaluation of the various action options (with a view to the elaborated probable scenario) formed the basis for establishing the strategy. Based on the selected action options, goals have been formulated, action fields have been identified and prioritised, and special measures and concerns towards politics, government and regulatory authorities have been developed on the basis of the Roadmap 2020 for the banking and financial centre Liechtenstein. The following section sheds light on the action fields derived from the Roadmap 2015, the environment analysis, the competition analysis and the SWOT analysis as well as its relevant scenario for the financial and banking centre Liechtenstein.

The objective of the strategy for the financial centre Liechtenstein – the Roadmap 2020 – is to generate growth opportunities for the central business sectors and to present relevant action fields, measures and concerns.

Quality, stability and sustainability – the long-term cornerstones of the financial centre strategy – represent the superior goals and success positions of the strategy approach. The vision is to ensure that Liechtenstein is perceived as a respectable, sustainable and stable financial centre at the heart of Europe, which excels with its high innovative drive and efficiency and proven competencies in the field of private banking. The financial centre is to offer integrated solutions, custom-tailored products and premium services for demanding clients with an international focus.

Cornerstones of the Strategy

The following overview serves as the basis for the financial centre strategy:



Key Factors

The following section examines the four factors on the basis of the most important areas they affect, their parameters as well as concerns and measures: 1. Environment 2. Social aspects and society 3. Governance 4. Financial centre

1. 1. Environment: Assume Responsibility and Strengthen External Relationships

In the environment field, the "sustainability" factor plays an important role. Especially in the field of financial products, the trend towards meaningful investments will continue to take root, especially among wealthy and institutional clients. In this connection, the consideration of the ESG criteria will be demanded more often. In the medium run, the establishment of transparency (i.e. how do investment products meet these criteria) are likely to become the standard.

Regulators as well as intermediaries and clients are putting more and more emphasis on sustainability and responsibility; enterprises and intermediaries will increasingly demand **sustainability in a very comprehensive sense**. The focus will be, not only on the requirement itself, but also on the public accountability. Thus, responsible, sustainable action and the respective CSR will increasingly become a must. To create a clear unique selling proposition (USP), responsible, sustainable action should be further established and be perceived as a basic principle and element of the culture of the financial centre Liechtenstein.

The "financial system" factor is divided into two parameters: financial markets and policy. The uncertainty resulting from the continually low interest rates is expected to remain for the time being. Forecasts predict that interest rates will continue to be low in the years to come. Owing to the Swiss franc, Liechtenstein depends on a strong, operable currency union and partnership with Switzerland. To relieve the burden on banks and on the markets, politicians are called upon **not to further increase ancillary payroll expenses, to make the regulatory fees competitive and to further improve the general framework conditions.**

Moreover, the financial system continues to depend on smoothly functioning international cooperation and integration. The debt of the Euro countries continues to have a major impact on the domestic politics in the EU. The search for government income sources will go on, and national structural reforms and austerity measures will persist. For this reason, the further expansion of the international network is an important strategic goal. In this connection, it must be remembered that to a certain extent, the financial centre depends on the government and its policy. In view of the dependence on other countries, foreign policy measures and **systematic strengthening of international relationships** should be intensified.

In line with its role, the LBA will continue to pursue **measures to systematically expand the international network** and advocate the establishment of a sustainable "ambassador" network abroad for the banking and financial centre Liechtenstein.

2. Social aspects and society: Promote Attractiveness and Innovation

The most important factors that affect the field of social aspects and society include the subjects of demographic change, digitalisation and the question of how the economic growth is to be financed in the future.

For Liechtenstein banks, it will be crucial to continue to train their own junior staff and to recruit enough suitable personnel. The service quality and expertise in private banking are becoming increasingly important especially in view of the amount of advice required in this business. For this reason, **education and training as well as a high level of quality of the workforce** are key aspects.

The goal is to position **Liechtenstein as an attractive employment location in the field of international banking and to make banks attractive employers.** Among other things, the measures of the LBA comprise a minimum training standard throughout the centre, employee certifications, training platforms and the establishing of a banking day-care centre for the entire banking centre as a clear signal of the banks' efforts to promote the compatibility of family and job. The controlled easing of immigration and residence possibilities in Liechtenstein would contribute to the success and positioning of the financial centre as a professional, excellent location with highly qualified employees.

In view of the limited domestic market, the financial centre depends on overseas clients. The international clientele, digitalisation and increased mobility are making national borders disappear. Modern asset allocation requires the possibility of offshoring and diversifying asset components.

Additionally, protectionist tendencies, increasing regulation and discrimination impede the **non-discriminatory market access from Liechtenstein**, which plays a central role for the export-oriented financial centre Liechtenstein and its cross-border services.

The increasing **digitalisation in the field of finance** is fundamentally changing client expectations with regard to communication and the use of various service channels (omnichannelling) to the bank. The demand for "anytime, anywhere, anyhow" concepts will have a significant impact on the banking business in the future. At the same time, new, innovative providers are penetrating fields of conventional banking services. From the perspective of the financial centre strategy, it will therefore be vital for the Liechtenstein banks to have circumstances comparable to those of these new providers and, where appropriate, to cooperate with these and be able to continue to benefit from the connection to the Swiss payment and securities infrastructure (keyword: Paymit). Other central issues include an operable connection under the Currency Treaty, the establishment of optimum framework conditions for the implementation of digitalisation strategies and the way in which new market players (FinTechs) are integrated and supervised. Problems and a clear positioning on the subject of **data protection and data security** should be taken into account in the process as well. New opportunities will also arise through big data. The challenge will be to streamline the complex data world in which we are now living, to reduce the complexity and thus to create trust and identification.

Moreover, the private sector is to be enabled to participate in infrastructure financing measures. This will generate opportunities especially for the fund segment, which could be strengthened through the proactive adoption and application of the ELTIF regulation¹.

3. Governance: Strengthen Dialogue and Zero Tolerance in the Field of Compliance

Through the measures that have already been implemented, a **high standard of international integration and compliance** has been reached. This standard should be retained and expanded. For Liechtenstein, the EEA has proved to be an ideal form of integration. On the other hand, the unanimity rule has turned out to be a hindrance, especially within the scope of the inclusion in the EU supervisory system. Therefore, the integration and equivalence within the EU remain the top priority, and solutions need to be sought out in these areas. At the same time, the collaboration with Switzerland must be perpetuated and intensified, and the integration with the EU should take place under consideration of the close relationship with and dependence on Switzerland.

¹ Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds

For the attractiveness of the location, especially the **collaboration and membership in important international committees and organisations** are important factors to further improve the external perception. Moreover, it is vital to retain the AAA country rating, which represents a core asset with respect to the stability. Everything possible should be done to maintain this rating (see also below).

Over the past years, Liechtenstein has continually established and expanded its **DTA network**. However, compared to other international financial centres, this network is still underdeveloped and disadvantageous. Therefore, the DTA network should be further expanded.

In the field of **exchange of information in tax matters**, the main focus is on the Convention on Mutual Administrative Assistance in Tax Matters and on the project against tax avoidance and profit relocation by multinational groups in collaboration with the OECD. The implementation of the Automatic Exchange of Information (AEOI) will continue to keep the financial centre busy for the next two or three years. To further underline the credibility and compliance of the financial centre Liechtenstein and to forestall future discriminations from the outset, the possibility of joining or even more closer cooperating with the OECD should be seriously considered.

The same applies to the **fight against money laundering and terror**. Compliance and a zero tolerance policy will remain a must in these areas. Here too, a closer involvement in or membership of FATF should be seriously considered.

The Financial Market Authority (FMA) will continue to assume regulatory functions on behalf of the government and become the authority responsible for bank resolution. Thus, new functions will be added to the list of duties of the FMA. Moreover, it will continue to assume functions for which the government is inherently responsible. Therefore, the existing government contribution is more than justified. To remain competitive, the **supervisory fees and charges** should be at a competitive level and be applied in accordance with the risk.

The LBA intends to further intensify the **dialogue with key stakeholders in Liechtenstein and abroad**. This includes politicians, the government and responsible authorities as well as associations, multipliers and media staff in Switzerland, neighbouring countries, other selected important countries, the EEA partners and representatives of relevant international and supranational organisations and supervisory authorities.

4. Financial centre: Maintain Stability and Step up Collaboration and Marketing

The development of the financial centre strategy mainly concentrates on the positive development of the banks in the future, whose growth will take place especially abroad. As a matter of principle, private banking will remain the core business of the Liechtenstein banks, whose long-standing expertise and know-how in these areas represent a clear differentiating feature. The need for employees will increase especially in the fields of legal, compliance, tax and sales. In the back-office area, the need is expected to drop due to the increasing automation. Persistently low margins and steadily increasing compliance costs are exerting more and more pressure especially on smaller banks. To **use possible synergy effects** among the banks, the LBA should play a coordinating role and actively promote additional platform services (e.g. similar to the existing framework agreements in the field of cross-border country manuals).

Another central issue is the **vertical collaboration and the dialogue between relevant stakeholder representatives at the financial centre Liechtenstein**. Especially the collaboration with fiduciaries, fund companies and external asset managers plays an important role. In this area, the LBA should assume an active role and contribute to the use of synergy potential throughout the financial centre in the capacity of a catalyst. Since the intermediary business will continue to be highly significant, the existing forces need to be bundled, especially in view of the subcritical size of the financial centre Liechtenstein and the anticipated further consolidation. The LBA will elaborate a separate strategy for this area.

As the LBA and its activities are financed by the member institutions, it is also vital to critically examine and review the **LBA service portfolio and the financing model**.

Permanent reputation management is essential, especially for a small, dependent country. Therefore, the LBA aims at strengthening and improving the image and reputation of the financial centre Liechtenstein. On the one hand, the data availability in international databases should be improved. On the other hand, joint financial market planning and a corresponding long-term marketing programme are necessary in order to improve the external presentation of Liechtenstein on a long-term basis.

In the field of enterprise and infrastructure financing, the establishment of optimum framework conditions for alternative forms of financing and the creation of the legal basis for **securitisations** are key elements (keyword: EU capital market union). The need of enterprises for debt capital (especially on the part of new companies) and venture capital will continue to increase. This is especially significant in order to push ahead and deliver innovations. Therefore, alternative financing forms offer opportunities and potential for the financial centre Liechtenstein.

In the field of stability, the banks should especially hold fast to the strategy of having a sound equity base. In the past, the voluntary high equity base was a major asset – a signal of security and of financial security.

At the government level, the fact that **the country is debt-free and has a balanced national budget** is the main reason for Liechtenstein's AAA country rating. Being debt-free and ensuring a balanced national budget are top priorities. For this, "modest" austerity measures should be planned, and the lean and efficient government structures should be maintained.

D. Conclusion

With its Roadmap 2020, the banking centre Liechtenstein intends to further expand its position as a professional, stable and sustainable partner at the heart of Europe on a long-term basis. Thus, the financial centre Liechtenstein endeavours to continue to offer its clients an attractive setting and remain competitive in the long run. In this context, the financial centre relies on existing strengths such as legal certainty and stability, long-standing experience and expertise in private banking and its outstanding service quality. At the same time, the financial centre already boasts outstanding framework conditions such as the access to the European single market as well as the Swiss economic area, which makes it unique and efficient. The three strategic pillars quality, stability and sustainability form the three cornerstones of the financial centre strategy, the Roadmap 2020.

Thanks to the combination of these framework conditions and strengths, the high innovative drive and efficiency and its long-term strategy, the financial centre will continue to be in a position to offer its demanding international clientele custom-tailored products and premium services.