

Roadmap 2020

1 Background

The financial centre is a very important sector for Liechtenstein's prosperity. It has an international orientation and generates about 24% of GDP, contributes about 40% to tax revenue, and offers about 6,000 jobs to well-qualified employees.

Since 2010, Liechtenstein and its financial centre have repositioned themselves strategically and undergone an unparalleled transformation. The first phase of the new strategy (Roadmap 2015) was developed in 2010 with the goal of implementing the Liechtenstein Declaration on tax compliance and a clear commitment to the automatic exchange of information.

In 2016, the Liechtenstein banks formulated the next phase of the strategy, Roadmap 2020, with a view to the future. The vision is that Liechtenstein will position itself as a respected financial centre with sustainable and stable operations at the heart of Europe. Liechtenstein is to distinguish itself by its high level of innovation, efficiency, and proven expertise in the field of wealth management. Its demanding, internationally-oriented client base is to receive holistic solutions, tailor-made products, and outstanding services. Quality, stability, and sustainability are the strategic cornerstones of the Roadmap 2020. Based on this roadmap, growth opportunities are being generated for the key business sectors, and relevant fields of action, measures, and concerns are being formulated.

Diversified financial centre

The financial service business in and from Liechtenstein comprises several major business sectors: the retail and corporate client business in the Liechtenstein and neighbouring internal market, the international asset management business, and the fund business. Banks play a leading role in this regard. 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

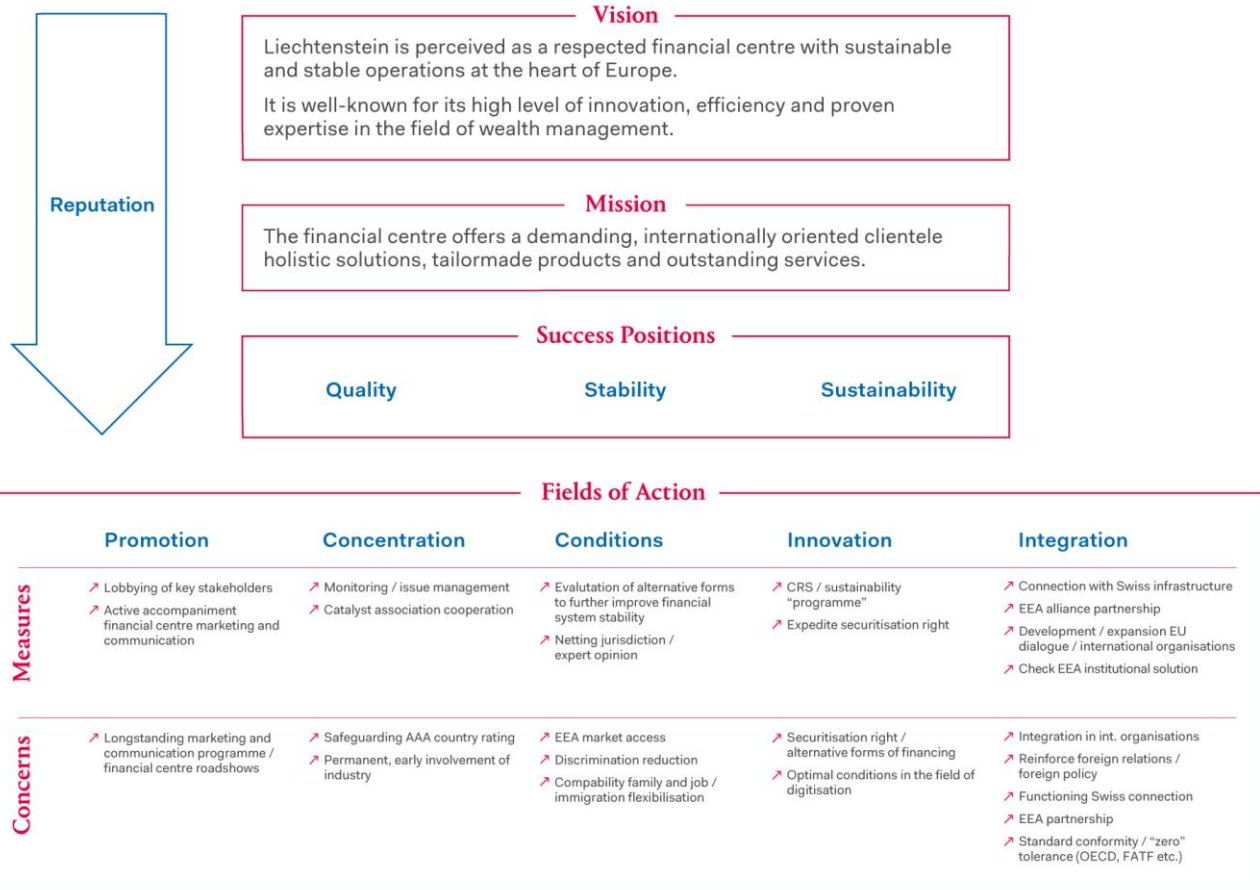
and extremely sound equity base. The equity of all banks licensed in Liechtenstein equals the country's GDP. This key figure is unparalleled internationally. The Tier 1 capital ratio averages more than 20%.

Private banking has always been and continues to be the core business of the Liechtenstein banks. Despite this homogeneous orientation, the banks differ substantially with respect to their size. The three major institutions in Liechtenstein (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 sector is dominated by these three banking groups, which hold a market share of more than 85% in terms of their balance sheet total. From the national perspective, they are thus considered to be systemically important. Of special note in this regard is that there is no lender of last resort, i.e. no central bank that would provide financial assistance in the event of a crisis. Moreover, Liechtenstein is also not a member of the International Monetary Fund (IMF).

Top-down approach of the Roadmap 2020

The Roadmap 2020 is based on a top-down analysis. Building on the analysis of global and sector-specific trends, opportunities and risks were derived for the Liechtenstein financial centre. Strengths and weaknesses were defined by analysing selected competitor financial centres. Options for action and standard strategies were derived by combining these external and internal factors. A holistic approach, taking the entire country into account, permitted an analysis of the 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 most likely scenario derived from the analysis) formed the basis for establishing the strategy. Drawing on the selected action options, goals were formulated, fields of action were identified and prioritised, and measures and concerns were developed in relation to policy, the Government, and supervision.

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



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2 Influential factors

The following four factors have a decisive influence on the strategy, concerns, and derived measures.

Environment of the financial centre – Assuming responsibility and strengthening external relations.

Sustainability is an important factor in the environment of the financial centre.

Especially in regard to financial products, the trend towards meaningful investments will continue to take root, in particular among wealthy and institutional clients. Consideration of the ESG criteria will be demanded more often in this connection. The creation of transparency (i.e. to what extent do investment products meet these criteria) is likely to become the standard in the medium term. Regulators as well as intermediaries and clients are putting more and more emphasis on sustainability and responsibility. Responsible, sustainable action and the corresponding CSR reporting is increasingly becoming a must. To create a

clear unique selling proposition (USP), responsible, sustainable action should be further expanded as a basic principle and component of the Liechtenstein financial centre's culture.

The "financial system" factor is divided into the two aspects of "financial markets" and "policy". The uncertainty resulting from the persistently low interest rates is expected to remain for the time being. Given that the Swiss franc is Liechtenstein's legal tender, Liechtenstein depends on a strong, smoothly functioning currency union and partnership with Switzerland. To relieve the burden on banks and their clients, non-wage labour costs should not be further increased, supervisory fees should be made competitive, and the general framework conditions should be further improved. The financial system similarly continues to depend on smoothly functioning international cooperation and integration. Further expansion of the international network is therefore a key strategic goal. Here again, the financial centre depends on the Government and its policies to a certain extent. Foreign policy measures and targeted strengthening of international relationships should be intensified. The LBA for its part will establish and expand a sustainable "ambassador" network abroad.

Social aspects – Promoting attractiveness and innovation

The main factors in this area are demographic change, digitalisation, and the question of how economic growth will be financed in the future.

Service quality and expertise in private banking are becoming increasingly important, especially in areas that depend heavily on advisory services. For this reason, the focus is on basic and continuing training as well as a high level of quality of employees. For Liechtenstein banks, it will be crucial to provide basic and continuing training on an ongoing basis and to recruit sufficient suitable personnel. The aim is to position Liechtenstein as an attractive job location in the field of banking and to position the banks as attractive employers. The LBA's measures include a minimum training standard for all banks, employee certifications, training platforms, and the establishment of a bank day-care centre for the entire banking centre. Moderate easing of immigration and residency requirements in Liechtenstein would also contribute to the success and positioning of the financial centre as a professional, excellent location with highly qualified employees.

In view of its limited domestic market, the financial centre must also look across its borders to attract clients. The international client base, digitalisation, and the rise in mobility are increasingly making national borders disappear. Modern asset allocation requires the possibility of offshoring and diversification. Additionally, protectionist tendencies and increasing regulation impede non-discriminatory market access from Liechtenstein, which plays a central role for the export-oriented Liechtenstein financial centre.

The increasing digitalisation in finance is fundamentally changing the expectations of clients with regard to communication and the use of various service channels (omnichannelling) in their relationships with banks. Expectations of "anytime, anywhere, anyhow" will have a significant impact on future banking

business. At the same time, new, innovative providers are advancing into areas of traditional banking services. It will therefore be crucial for the banks to have conditions comparable to those of these new providers and, where appropriate, to cooperate with them and to continue to benefit from the links with the Swiss payment and securities infrastructure (e.g. Twint). Key priorities thus include smoothly functioning cooperation under the Currency Treaty, the creation of optimum framework conditions for the implementation of digitalisation strategies, and the way in which new market players (fintechs) are integrated and supervised.

There are new challenges in data protection and data security. At the same time, big data also offers new opportunities. It is essential to provide guidance in the complex world of data, to reduce 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 implementation of the European Long-Term Investment Fund (ELTIF) regulation.

Governance – Strengthening dialogue and zero tolerance in regard to compliance with standards

A high level of international integration and compliance with standards has been achieved through measures already implemented. This high level is to be maintained and expanded where appropriate. For Liechtenstein, the EEA has proven to be the ideal form of integration. On the other hand, the unanimity principle has turned out to be a hindrance in the context of integration into the EU supervisory system. Integration and equivalence within the EU therefore continue to enjoy top priority. At the same time, cooperation with Switzerland must be further intensified. Integration with the EU should take place under consideration of the close relationship with and dependence on Switzerland.

The most important factors for the attractiveness of a business location are cooperation and membership in important international bodies and organisations to further improve the external perception of the location.

It is also important for Liechtenstein to maintain its AAA country rating, which constitutes a core asset in terms of stability.

Liechtenstein must rigorously continue to expand its comparatively small DTA network. In regard to information exchange in tax matters, the emphasis is on implementation of the Automatic Exchange of Information, the Convention on Multilateral Administrative Assistance in Tax Matters, and the projects in cooperation with the OECD against tax avoidance and profit shifting by multinational corporate groups. To further underscore the credibility and compliance of the Liechtenstein financial centre and to rule out future discrimination, the possibility of membership in or closer ties with important organisations such as the OECD and the IMF should be seriously examined. The

same applies to the fight against money laundering and terrorism. Compliance with standards and a zero tolerance policy will continue to be an absolute must in these areas. Here again, even closer ties with the FATF should be examined.

The Financial Market Authority (FMA) will continue to assume regulatory functions on behalf of the Government and at the same time will become the authority responsible for bank resolution. This means that new functions will be added to the FMA's list of responsibilities, but it also means that the FMA will continue to assume functions for which the Government has original responsibility. The existing contribution by the State is thus more than justified. To remain competitive, the supervisory fees and taxes should in fact be reduced and applied on the basis of risk.

For its part, the LBA has set itself the goal of further intensifying its dialogue with key stakeholders in Liechtenstein and abroad. This includes politicians, the Government and competent authorities, as well as associations, multipliers, and the media in Liechtenstein, neighbouring countries, other selected focus countries, EEA partners, and representatives of the relevant international and supranational organisations and supervisory authorities.

Financial centre – Maintaining stability and strengthening cooperation and marketing

The focus of the development of the financial centre strategy is on the prosperous development of the banks, with growth taking place mainly abroad. Private banking will in principle remain the core business of the Liechtenstein banks, whose many years of expertise and know-how in these areas represent a clear distinguishing feature. The persistently low margins and the steadily increasing compliance costs are exerting more and more pressure, especially on smaller banks.

To take advantage of possible synergy effects among the banks, the LBA plans to play a coordinating role and promote additional platform services (e.g. analogous to the existing framework agreements in the area of cross-border country manuals). Vertical cooperation and dialogue among the relevant stakeholder representatives are also key. The LBA aims to play an active role here and contribute to the use of synergy potential throughout the financial centre in the capacity of a catalyst.

The intermediary business continues to be very important, which is why – given the subcritical size of the Liechtenstein financial centre – existing resources must be pooled. Given that the LBA and its activities are financed by the member institutions, the LBA service portfolio and financing model must be critically questioned and reconsidered.

Permanent reputation management is essential, especially for a small, dependent country. The LBA would therefore like to strengthen the reputation of the Liechtenstein financial centre. This can be achieved by improving the availability

of data in international databases, but joint financial centre marketing is also necessary.

In the area of enterprise and infrastructure finance, the establishment of optimal framework conditions for alternative forms of financing and the creation of the legal basis for securitisations are key elements (also in light of the plan for an EU capital markets union). The need for debt capital especially in regard to start-up companies and venture capital will continue to increase. This is particularly important to drive innovation forward. Alternative forms of financing therefore offer opportunities.

In the area of stability, banks should above all maintain their solid equity base. The voluntary high level of equity capitalisation was a major asset, a sign of stability and financial security. At the level of the state, the country's freedom from debt and balanced budget are the main reasons for Liechtenstein's AAA country rating. In this context, it is crucial among other factors that the lean and efficient state structures continue to be maintained.

3 Conclusion

With its Roadmap 2020, the Liechtenstein banking centre aims to further expand its position as a professional, stable, and sustainable partner in the heart of Europe for the long term. Implementation of the strategy is supported by the unique position of Liechtenstein. It is the only country with unrestricted access to clients both in the European Single Market and in the Swiss economic area. The three strategic pillars of quality, stability, and sustainability form the cornerstones of the financial centre strategy. Thanks to the combination of these framework conditions and strengths, its high level of innovation and its efficiency, the financial centre will continue to be able to offer tailor-made products and outstanding services to its demanding, internationally-oriented clients.