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Swiss banks should step up Islamic wealth drive

Islamic finance is on the rise (AFP)

Switzerland faces a bigger threat from the developing private banking system in the Middle East than reaction to the minaret ban, according to one finance expert.

However, the controversial vote and subsequent condemnation should serve as a warning for the Swiss finance industry to better serve the needs of Islamic clients, observers believe.

Switzerland is waiting to see how far November's referendum decision to ban the future construction of minarets will damage the country's image and business interests.

So far, only Turkey has reacted with concrete retaliatory proposals by suggesting that its citizens withdraw assets held in Swiss banks. But the Swiss Bankers Association (SBA) is not expecting outflows of the estimated $200 billion (SFr208 billion) held by mainly Arabic clients in Switzerland.

"Muslim clients are very canny investors and appreciate the competence, quality of service, good advice and good performance they get from Swiss banks. Money knows no religion," SBA spokesman James Nason told swissinfo.ch.

John Sandwick, head of Geneva-based group Islamic Wealth and Asset Management, told swissinfo.ch that the vote had stirred up resentment in the Middle East, but not enough to spark organised financial reprisals from wealthy Muslims.

"Switzerland did something really offensive against people who could really hurt us, but on this occasion it looks like it will not have a big impact on Swiss private banking in the long run," he said.

Local competition

Having suffered setbacks in the United States and Europe in a bruising battle over tax evasion, Swiss banks are increasingly turning their attention to the Middle East, Asia and developing markets.

Switzerland is not the only European country to have identified lucrative prospects in the region and has long faced stiff competition from London, and to a lesser degree, from Paris to attract petro-dollars.

However the main threat in future may come from local banks setting up their own wealth management services, with a much wider array of Sharia compliant services.

"Lots of local private banks [in the Middle East] are starting up their own private banking businesses," Sandwick told swissinfo.ch. "The domestic wealth management programme is already in the process of destroying the Swiss private banking model. It is not there yet, but it will not take too long."

Sandwick believes the Swiss are taking too long to offer Middle Eastern clients a full range of private banking services that are compliant with Islamic legislation known as Sharia.

Sharia law, for example, prohibits the charging or payment of interest and investments associated with gambling, alcohol, tobacco, pornography or pork production.