**Italy’s Crackdown on Tax Evasion Deals Another Blow to Swiss Banks**

Financial industry in Ticino, an Italian-speaking canton, is particularly hard hit

By **GIOVANNI LEGORANO** and **JOHN LETZING**

Feb. 9, 2016 11:12 a.m. ET

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](http://www.wsj.com/articles/inside-swiss-banks-tax-cheating-machinery-1445506381) 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 taxman 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](http://quotes.wsj.com/CS) AG and [Julius Baer Group](http://quotes.wsj.com/JBAXY) AG—each reported continued outflows related to Europe’s tax crackdown, which is culminating with Italy’s efforts. [Credit Suisse said Thursday](http://www.wsj.com/articles/credit-suisse-pushed-to-loss-by-restructuring-plan-1454567146) it saw 2.3 billion Swiss francs ($2.3 billion) in related asset outflows in the fourth quarter of last year, mainly from Italy.

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—Paolo Bernasconi, a Swiss tax lawyer based in Ticino

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 2012 alone, Credit Suisse reported 13 billion Swiss francs in outflows related to Western European tax crackdowns.

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.

The pressure has come as Switzerland works toward a program that will start automatically sending data about bank account holders to European countries, including Italy, by 2018. The U.S. has already implemented a similar program with Switzerland.

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 recently 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, said Mr. Santi. “It’s a process that’s still not over.”

BSI was sold to Brazil’s [BTG Pactual](http://quotes.wsj.com/BR/BVMF/BBTG11) in September. Two months later, BTG’s former chief executive was arrested on corruption allegations; his attorney has said he denies any wrongdoing. BTG has since sought to sell off assets including BSI. Mr. Santi declined to comment on the impact of the uncertainty on BSI’s operations.

The mostly smaller banks that make up the bulk of Ticino’s financial industry have more limited options to spend on expansion, on new branches in Italy to recapture Italian clients who have left, or on bolstering compliance. They have fared worse than their bigger peers.

The number of Ticino-headquartered 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](http://quotes.wsj.com/CH/XSWX/SNBN) provided by Ernst & Young. The survivors have seen costs mount.

Luca Soncini, chief financial and risk officer at Lugano-based PKB PrivatBank SA, estimates that profit margins at local private banks could decline as much as 30% this year due to increased costs and competition pushing down fees. Between 2009 and 2014, private banks in Ticino saw the sharpest decline in net revenue margin of any Swiss region, according to KPMG.

Ticino’s financial sector “needs to reinvent itself,” said [Boris Collardi](http://topics.wsj.com/person/C/Boris-Collardi/5812), chief executive of Julius Baer and a dual Swiss and Italian citizen, in a recent interview. The canton is “a very good illustration of the transformation of Swiss banking,” he said.

Ticino flourished alongside Italy’s economy after World War II, and benefited from proximity to wealthy Italians seeking a safe harbor for their money—particularly during the social and political turbulence of the 1970s.

But today it lacks other industries such as insurance, which augments the financial sector in the Zurich area, or the pharmaceutical firms in and around Basel, or the food giant[Nestlé](http://quotes.wsj.com/NSRGY) SA, luxury-goods groups and watchmakers that are located near Geneva.

In turn the decline of Ticino’s private banks is hurting the local economy. Financial services made up 12% of Ticino’s gross domestic product in 2014, down from 18% in 2008, according to the Ticino Banking Association.

In Lugano, the canton’s largest city, local taxes drawn from the financial industry fell by as much as 80% between 2007 and last year, according to a recent study by Mauro Baranzini, a professor at the University of Lugano.

Mr. Baranzini said alternative sources for local economic growth include its small pharmaceutical sector. A faster connection to Zurich, expected to open later this year via a 35-mile rail tunnel beneath the Alps, may also boost Ticino’s economy.

“Otherwise, we’re in the hands of God,” he said. “We don’t know what’s going to happen.”