

Implications for banks, pension funds and the capital market

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For the banks of Basel and of Switzerland, the pharmaceutical groups are clients in several capacities. Their treasury centres, which Part G, Chapter II described, use banks for cash management, foreign exchange, hedging and bond issuance. A shift of manufacturing and profits to the United States, as in "Atlantic anchor" and more strongly in "Hollowing out", would lead to a larger share of treasury operations in dollars and possibly to the growth of American treasury functions at the expense of Basel. Swiss banks that serve these centres would need to follow their clients into American markets or accept a declining share of the business.¹

Pension funds and other institutional investors face a concentration problem. Roche, Novartis and Nestlé together have long made up a large share of the Swiss Market Index, and Swiss pension funds hold substantial domestic equity portfolios. If the scenarios of fragmentation or hollowing out materialise, the investment returns of these funds and the wealth of private clients would be affected by risks that are partly political and difficult to diversify within the Swiss market. Advisers to pension funds and private clients should therefore examine the exposure of portfolios to American trade and pricing policy, a factor that traditional sector analysis may underestimate. The pension funds of the groups themselves, among the largest in the country, depend on the long-term health of their sponsors in a way that Part G, Chapter II described.

The capital market of Basel and Switzerland has a further stake in the "Biotech renaissance" scenario. An active market for biotech listings on SIX Swiss Exchange, together with private financing rounds and licensing transactions, would generate business for investment banks, lawyers, auditors and wealth managers. The experience of earlier decades, described in Part G, Chapter IV, shows that Basel biotechs have often sought listings or acquirers in the United States, which limited the benefit to the local

financial centre. Whether this pattern changes will depend on the depth of the Swiss market and on the attractiveness of Swiss listing rules, subjects that Chapter III of this Part takes up in its discussion of the Swiss banking model.

1 Notes

1. On the treasury functions of Roche and Novartis in Basel, including cash pooling, in-house banking and currency management, see Part G, Chapter II, sections "Treasury in Basel: cash pooling and in-house banking" and "Currency risk and the strong franc". To be verified. ↩

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