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Hildebrand case puts spotlight on bank secrecy

By Haig Simonian in Bern

Switzerland's private banks, smarting under tax crackdowns in many neighbouring countries, could face new challenges after this week's resignation of Philipp Hildebrand as central bank chairman again highlighted the dangers of data breaches.

Mr Hlidebrand stepped down after revelations that his wife engaged in controversial foreign exchange transactions, rather than any tax issues. But his departure makes him one of the highest profile victims of a data breach since 2008, when Klaus Zumwinkel resigned from his position as Deutsche Post chief executive after stolen data revealed he held undeclared accounts in Liechtenstein.

But with its much bigger banking sector and famed bank secrecy, it is Switzerland's private banks that are now worried.

"What happened is the worst that can happen to a bank . . . but we have to live with this latent risk", says Christoph Gloor, deputy chairman of Switzerland's private bankers association and partner at Basel-based La Roche & Co.

"It is highly likely now that so-called "politically exposed persons" such as government officials and top business leaders, may become increasingly undesirable as clients for some banks", says Ray Soudah, founder of Millenium Associates, a private banking specialist.

"These are names that can carry reputational risks in the case of disclosure", he adds.

In recent months, Credit Suisse and Julius Baer have both suffered from data theft. The two Swiss banks paid the German authorities €150m and €50m respectively to settle investigations prompted after unknown thieves stolen hundreds of account details of clients with potentially undeclared holdings.

Earlier, HSBC, which has a big Geneva private banking operation, suffered similar embarrassment after information about more than 100,000 accounts was stolen by Hervé Falciani, an information technology employee. Mr Falciani passed the information to French investigators, who then transferred information about non-French account holders to other countries' tax authorities.

Swiss private bankers are understandably reluctant to discuss the subject, as they fear publicity will undermine client confidence. Many have taken expensive steps to improve security.

"There are task forces now in almost every bank re-examining and improving internal security", says Mr Soudah, whose company has been involved in many private bank mergers and acquisitions.

In spite of such efforts Swiss bankers recognise data breaches remain a powerful risk – especially when foreign tax authorities are willing to pay handsomely for information.

Mr Hildebrand's example was politically, rather than financially, motivated. But the ease with which his account information reached third parties shows how easy it can be to fall foul of theft or leaks of data.

The Hildebrands' account details were called up by a Sarasin IT support employee. The latter took three "screenshots", with a mobile phone or camera, which he then gave to Switzerland's ultranationalist People's party, which had been waging a campaign against Mr Hildebrand over his monetary intervention policies at the SNB.

The employee, who has since been admitted to a psychiatric hospital, this week told three Swiss newspapers he had not wanted to create a political storm or bring down Mr Hildebrand, but just to shed light on the controversial foreign exchange trades.

Although exonerated from having broken SNB rules, Mr Hildebrand stepped down after being unable to demonstrate conclusively that the most controversial trade, made in the thick of the SNB's attempts to hold down the Swiss franc, had been ordered by his wife without his knowledge. Mr Hildebrand maintains that he did not know about the large dollar purchase executed on August 15 until the following day.

However, as he conceded on Monday, documents released by the Swiss National Bank didn't entirely support his version of events. In fact, they suggested the former central bank chairman played a more active role in steering his family's foreign exchange exposure than implied.

An account of a conversation between Mr Hildebrand and his investment manager, Felix Scheuber, appears to show that on the very day of the transaction apparently carried out without his knowledge, Mr Hildebrand had discussed "increasing his USD [dollar] exposure but he would leave it up to his wife Kashya to so decide".

Sarasin has launched legal action against the employee and unnamed others for breaching bank secrecy. Zurich prosecutors, who have taken up the case, are currently gathering evidence and interviewing those involved.

Although their inquiries are secret, lawyers close to the investigations say criminal proceedings are likely to be instituted soon.