Five ways to repair Switzerland's reputation

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Switzerland has recently encountered its most significant economic and financial upheavals since the second world war. But they cloud the biggest and most unexpected shock of all and one that may be hardest and take longest to recover from – that to its reputation.

This vital intangible element had first been damaged by unprecedented banking and investor losses (although these were minimised by nimble and intelligent government support), and was then compounded by the sudden demise of banking secrecy. The impact of the latter change should not be underestimated. It could be deeply negative for the country if there is insufficient modernisation Witness the recent market values of offshore "black" client portfolios, which have plummeted.

Equally, such a reputation crisis creates the "positive shock catalyst" needed to force a radical rethink. Switzerland has first to accept the reality and implications of the "secrecy" shock, then remodel itself to create a viable state containing a healthy, respected financial industry based on globally accepted ethical principles, as well as superior performance according to every quality indicator of measurement.

Here are five improvements that together should ameliorate any short-term difficulties and re-establish a base for longer term sustainable development and bolster the reputation of both the nation and its financial industry.

1. Make a clear globally accepted distinction between banking privacy and secrecy, and eliminate any other processes that keep the stigma of tax evasion lingering. Laws may need to be redefined. This will be painful but once achieved, and given the new-found transparency, stakeholders will regain confidence.

2. Governance at board and all other levels within banks and asset managers (including pension funds and insurance arms) must be upgraded to avoid unacceptable risks and losses, unethical practices, and to protect all stakeholders. A timely PhD dissertation on banking governance and sustainability by Julia Indera Ramlogan of St Gallen University indicates measures that could be taken according to industry leaders' feedback during the crisis.

3. While the Swiss authorities have so far successfully protected the country and financial industry from the worst effects of the banking governance crisis, they need the courage to ensure the financial community can be properly monitored and protected from systemic crisis repetition. The speedy actions of the Swiss National Bank, Ministry of Finance and financial regulator Finma have proved successful "after" measures. Next time, together with advance warning systems, they must prevent severe problems from becoming national disasters.

4. The dismal investment performance (2007-09) recorded by most financial institutions has been an embarrassment. They lost up to 50 per cent of the wealth entrusted to them. Furthermore poor attention was given to the governance of underlying investments, in many cases comprising certain asset classes and structured products with the lure of higher fees rewarding their creators. A fiduciary duty of care towards client assets is paramount. Banks, asset managers, pension funds and others must regulate investment processes and product risk assessment methodologies to ensure the safekeeping of clients' assets and obtain a sustainable return for the risk taken.

5. Image promotion is key but it must be supported. All stakeholders must introduce ethical practices that, over time, will recreate a culture of respectability and trust. If individuals have the highest ethical standards, laws and regulations are only needed as back-up measures in extreme cases.

Repairing the reputation of Switzerland is in the hands of its participants, individual and corporate. By achieving the five objectives it can recover to sustainable development and become again a highly reputed, innovative world centre. This is possible within a few years – a short period in a nation with such rich history.

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