The Swiss Regulatory Framework for Financial Stability—An International Assessment

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The views expressed are those of the speaker and do not necessarily represent the views of the IMF, Its Executive Board, or Management.
## Financial Sector Assessment Program (FSAP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Key Events</th>
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</thead>
<tbody>
<tr>
<td>1999</td>
<td>established after Asia Crisis</td>
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<tr>
<td>2009</td>
<td>mandatory for some economies</td>
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<tr>
<td>2014</td>
<td>systemic risk focus</td>
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### Three FSAP Components

#### Financial System Vulnerabilities and Resilience
- risks assessment
- stress testing

#### Financial Stability Policy
- banking, insurance, securities, FMI
- 2009: MaPP
- emerging issues: fintech; climate change; cyber risk

#### Financial Safety Net
- early intervention
- liquidity support
- deposit insurance
- crisis prep/mgmt incl. RRP
# Switzerland FSAP Workstreams

**Methodology & Workstreams**

<table>
<thead>
<tr>
<th>IMF methodology</th>
<th>Macrofinancial / Macroprudential</th>
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</thead>
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<tr>
<td>BCBS Core Principles</td>
<td>Stress Testing (banking + insurance)</td>
</tr>
<tr>
<td>IAIS Core Principles</td>
<td>Banking Supervision</td>
</tr>
<tr>
<td>CPSS/IOSCO Principles for FMIs</td>
<td>Insurance Supervision</td>
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<tr>
<td>IOSCO Principles for Securities Regulation</td>
<td>FMI Supervision</td>
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<td>FSB Key Attributes &amp; IADI Core Principles</td>
<td>Asset Management</td>
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<td>IMF/WBG Bali Fintech Agenda</td>
<td>Safety Net / Crisis Management</td>
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<td></td>
<td>Fintech Law, Regulation, Supervision</td>
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published material on IMF website:

Switzerland 2019 FSAP—main findings

1. Financial institutions well capitalized, but macrofinancial vulnerabilities are deepening

2. Important reforms since 2014, but several critical recommendations and emerging challenges have yet to be fully addressed

3. Capital buffers increased across all banks, and the 2 GSIBs downsized and deleveraged significantly, but since 2013 they have been growing again

4. Data collection, analytical capacity, and resources should be improved for stress testing and oversight

5. MaPP framework is constrained and no measures since 2014 (until recently)

6. FINMA has developed into a trusted supervisor, but it relies heavily on external auditors to conduct on-site supervision, needs enhanced governance and more resources, and should address data gaps

7. Combination of ex-post funding, low cap on banks’ contributions, and a private deposit insurance agency run by active bankers, weakens crisis management arrangements

…focus of this discussion
Financial Oversight Architecture

Swiss National Bank
- monetary policy
- lender of last resort
- oversight on systemic FMIs
- systemic risk surveillance
- designates systemic institutions

FINMA
- supervision of banking, insurance, securities sectors, and FMIs
- sole resolution authority

Federal Council
- responsible for financial sector laws, regulations, and policies
- decides on macroprudential policy

Federal Department of Finance
- prepares & executes financial sector laws, regulations, and laws
Large and Concentrated Financial Sector

- **865%** of GDP
- **54%** of financial sector assets
- **69%** of banking sector assets
- **53%** of banking sector
- **≥250%** of GDP
- 33% of corporate loans
- 33% of deposits
- 35% of banking staff
G-SIBs: Improved Capital Base, lower NPLs
50% of Cantonal Banks Has Assets Exceeding Cantonal GDP

Source: Swiss Bundesamt für Statistik; S&P Global Ratings.
Households Highly Exposed to Real Estate

Wealth
(Percent of GDP)

Sources: SNB; and IMF staff calculations.
Banks are still highly exposed to real estate
Historically High House Prices

Nominal House Prices by Selected Regions
(2000 = 100)

Switzerland - Real Housing Price Index
(Index, 2005Q1 = 100)

Price-to-Income Ratio
(Q4 1992 = 100)

Sources: Haver Analytics
Macroprudential Inaction Bias

“...there is need for an expanded, mandated, and more agile and accountable macroprudential framework to address inaction bias and rising risks.”

Findings
- despite increasing risks, no MaPP measures have been taken since 2014 (until recently, but effective 2020)
- toolkit constrained with one mandated tool and one self-regulation agreement with banks

Recommendations
- full, mandated toolkit → e.g., LTV, DTI, DSI
- greater expectation to act, incl. comply or explain → SNB triggers use of tools; FINMA calibrates the tools → SNB & FINMA propose new tools; MOF adopts (or not)
“...a more robust FINMA-led supervision is needed...[and] conflicts of interest risks need to be managed”

Since the 2014 FSAP, FINMA has:

- clarified expectations for risk management and corporate governance
- provided greater clarity on expectations for firms and supervisory audits in risk areas
- decided on improvements to strengthen supervisory effectiveness

Recommendations

- strengthen FINMA’s autonomy, governance, and accountability
- manage conflict of interest concerns that may affect supervisory objectivity
- address banks’ material risk management and control weaknesses
“The combination of an ex-post funding mechanism, the statutory CHF 6 billion cap on banks’ joint contribution for deposit insurance, and the lack of a formal public backstop could leave doubts that the DIS would always be able to fulfill its mandate, leaving taxpayers to pay what is required beyond the CHF 6 billion cap.”

Recommendations

- establish public deposit insurer without active bankers
- allow deposit insurer to fund resolution
- remove cap on banks’ contribution
- ensure fully funded ex ante deposit insurance with an effective target level, backed by government and ex post recovery from industry
“Only the five SIBs are required to maintain recovery plans...[and] FINMA has yet to establish the G-SIBs’ resolution plans and remove critical obstacles to resolvability.”

Since the 2014 FSAP, the Swiss authorities have:

- enhanced the arrangements to address the potential failure of the two G-SIBs, with
  - a new FINMA Recovery and Resolution Division;
  - progress on recovery and resolution planning and emergency planning; and
  - intensified cross-border cooperation in crisis management groups; and
- strengthened the legal framework for resolution

Recommendations

- prioritize removing the G-SIBs’ resolvability impediments
- enhance, expand, and expedite RRP(also for FMIs)
Contact Info and References

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Switzerland 2019 Financial System Stability Assessment (main FSAP report)
https://www.imf.org/~media/Files/Publications/CR/2019/1CHEEA2019003.ashx

9 Notes on the Swiss Financial System (w/ links to each technical note)