



# **The Swiss Regulatory Framework for Financial Stability— An International Assessment**

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*The views expressed are those of the speaker  
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# RETHINKING FINANCIAL STABILITY

THE FSAP AT 20



October 14-15, 2019

IMF Headquarters, Washington, DC

Day 1

Handbook of Financial  
Stress Testing: Cutting Edge

Day 2

Strengthening Financial  
Stability: Quo Vadis?

## Financial Sector Assessment Program (FSAP)

1999

established  
after  
Asia Crisis

2009

mandatory for  
some  
economies

2014

systemic risk  
focus

### 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*

IMF methodology	Macrofinancial / Macroprudential
IMF methodology	Stress Testing (banking + insurance)
BCBS Core Principles	Banking Supervision
IAIS Core Principles	Insurance Supervision
CPSS/IOSCO Principles for FMIs	FMI Supervision
IOSCO Principles for Securities Regulation	Asset Management
FSB Key Attributes & IADI Core Principles	Safety Net / Crisis Management
IMF/WBG Bali Fintech Agenda	Fintech Law, Regulation, Supervision

published material on IMF website:

<https://www.imf.org/external/np/fsap/fsap.aspx?CountryName=Switzerland#Switzerland>



# 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

## Federal Council

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

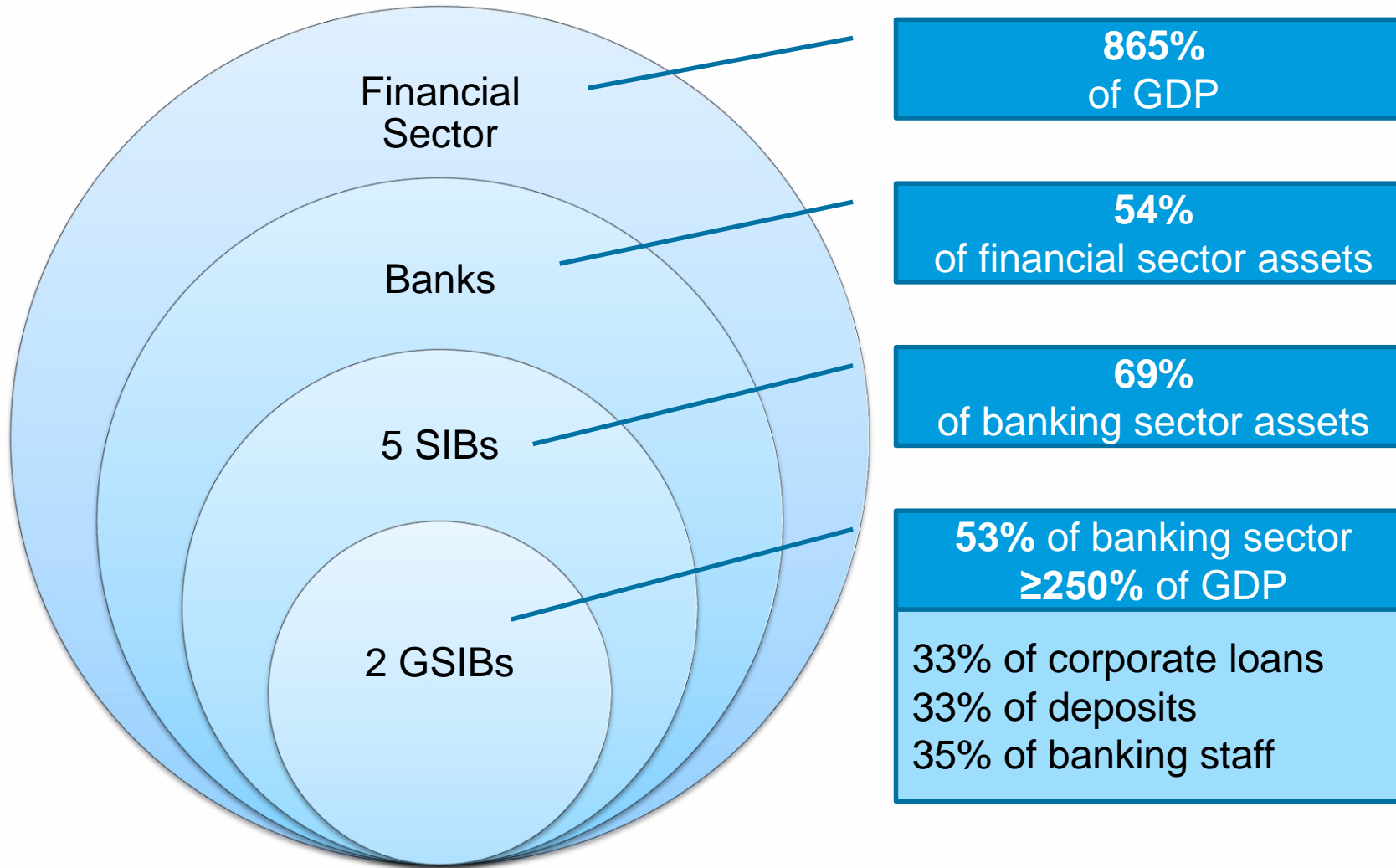
## FINMA

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

## Federal Department of Finance

- prepares & executes financial sector laws, regulations, and laws

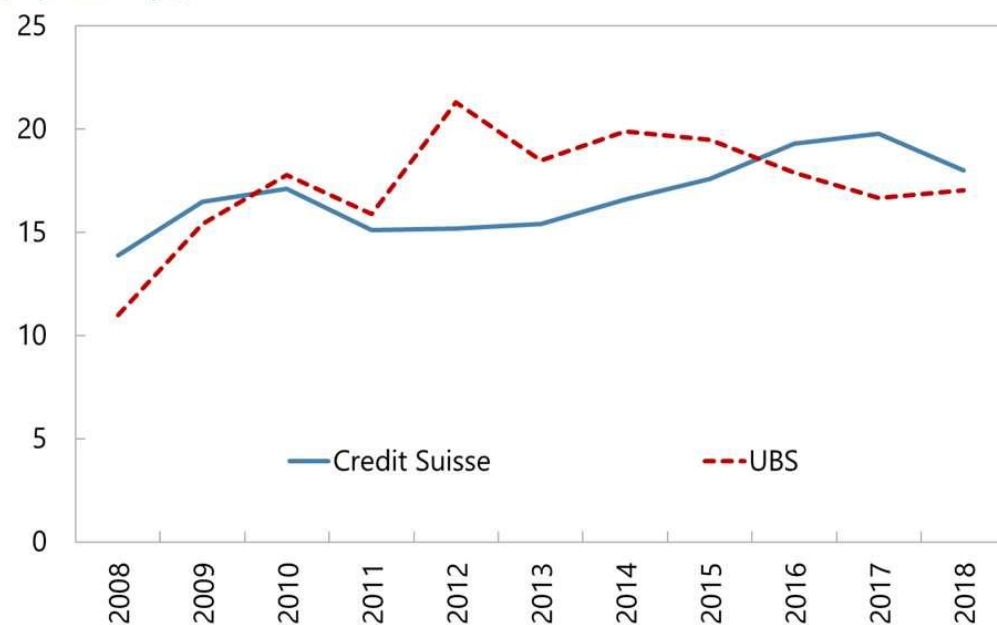
# Large and Concentrated Financial Sector



# G-SIBs: Improved Capital Base, lower NPLs

## Tier 1 Regulatory Capital Ratio

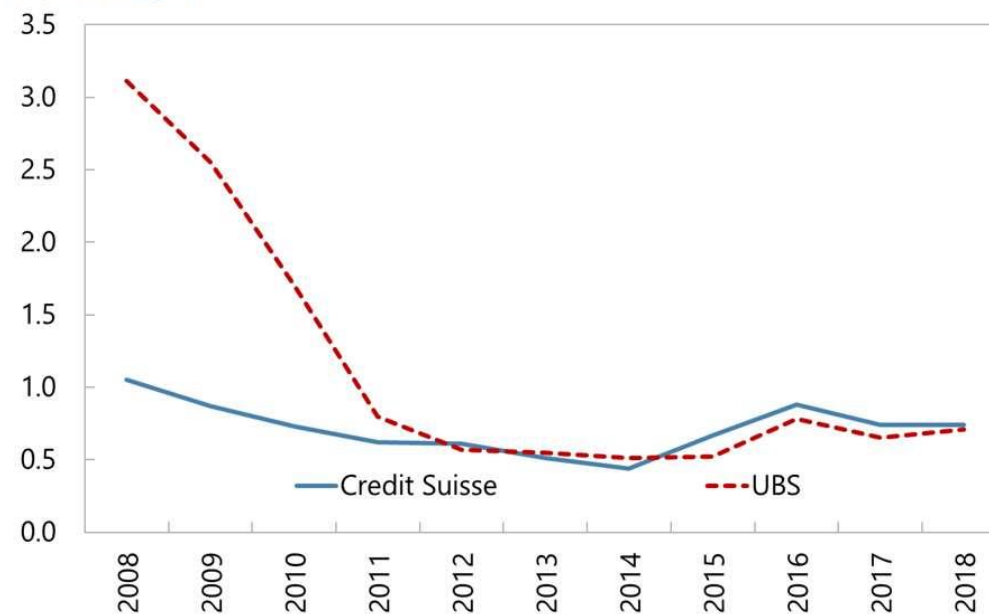
(In percentage)



Sources: Fitch.

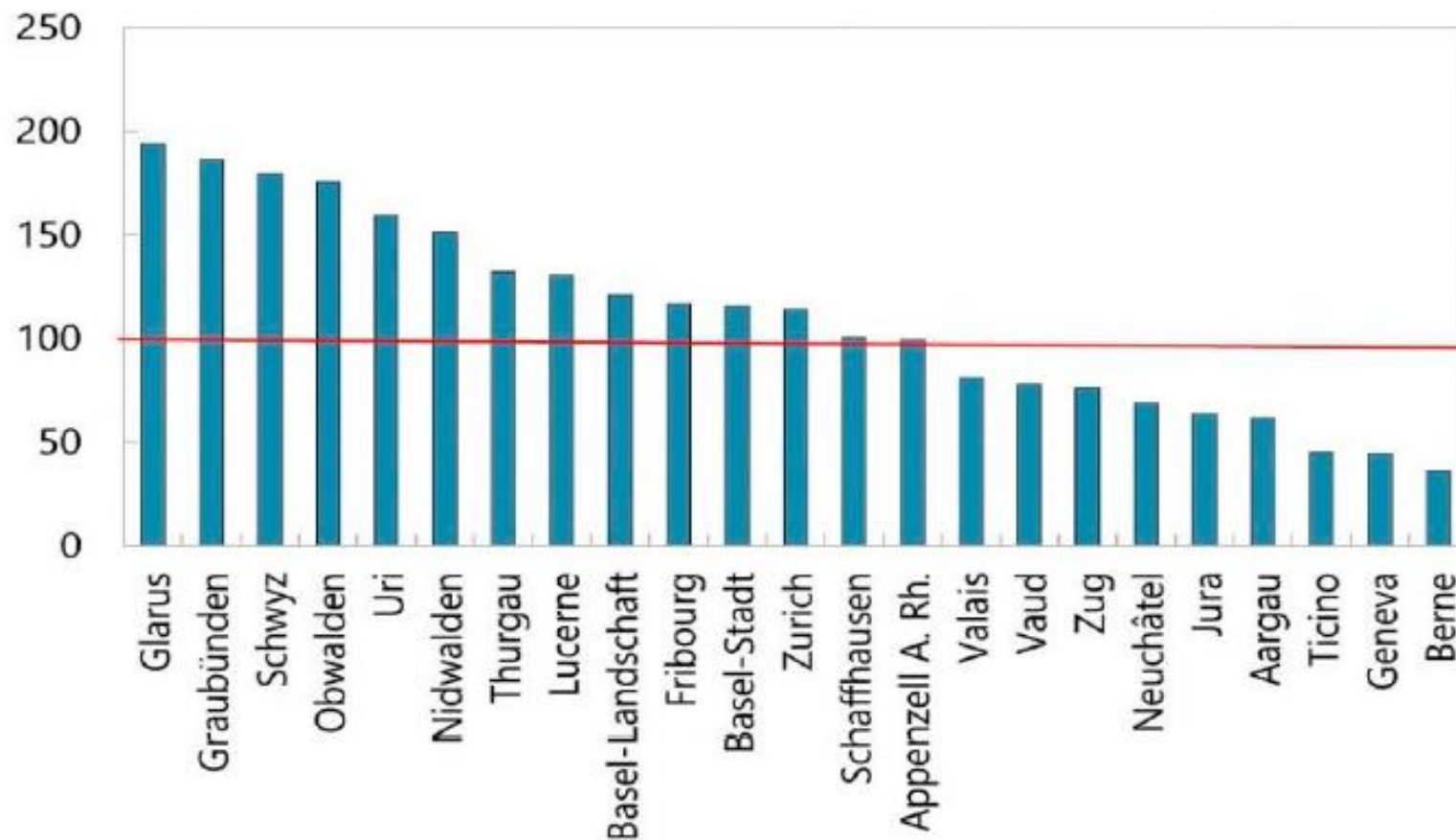
## Non-Performing Loan to Gross Loan Ratio

(In percentage)



Sources: Fitch.

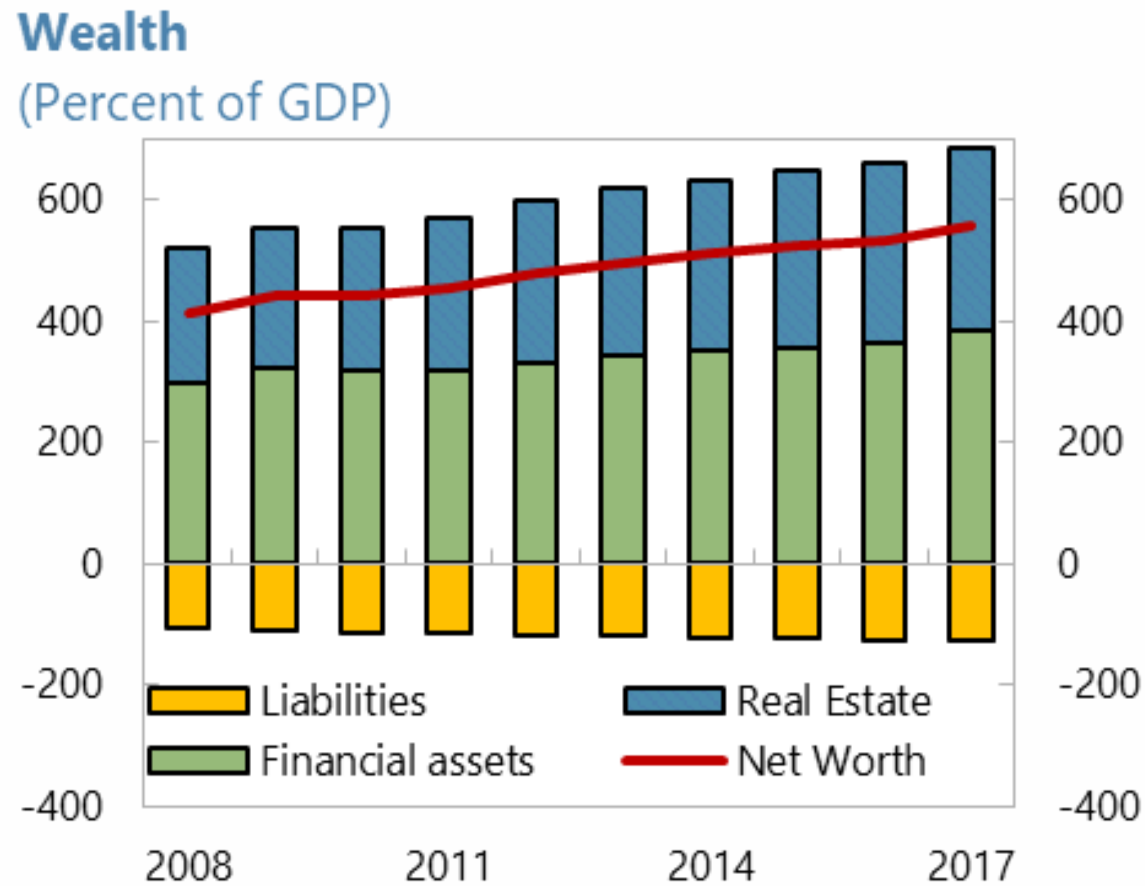
## 50% of Cantonal Banks Has Assets Exceeding Cantonal GDP



Source: Swiss Bundesamt für Statistik; S&P Global Ratings.



# Households Highly Exposed to Real Estate

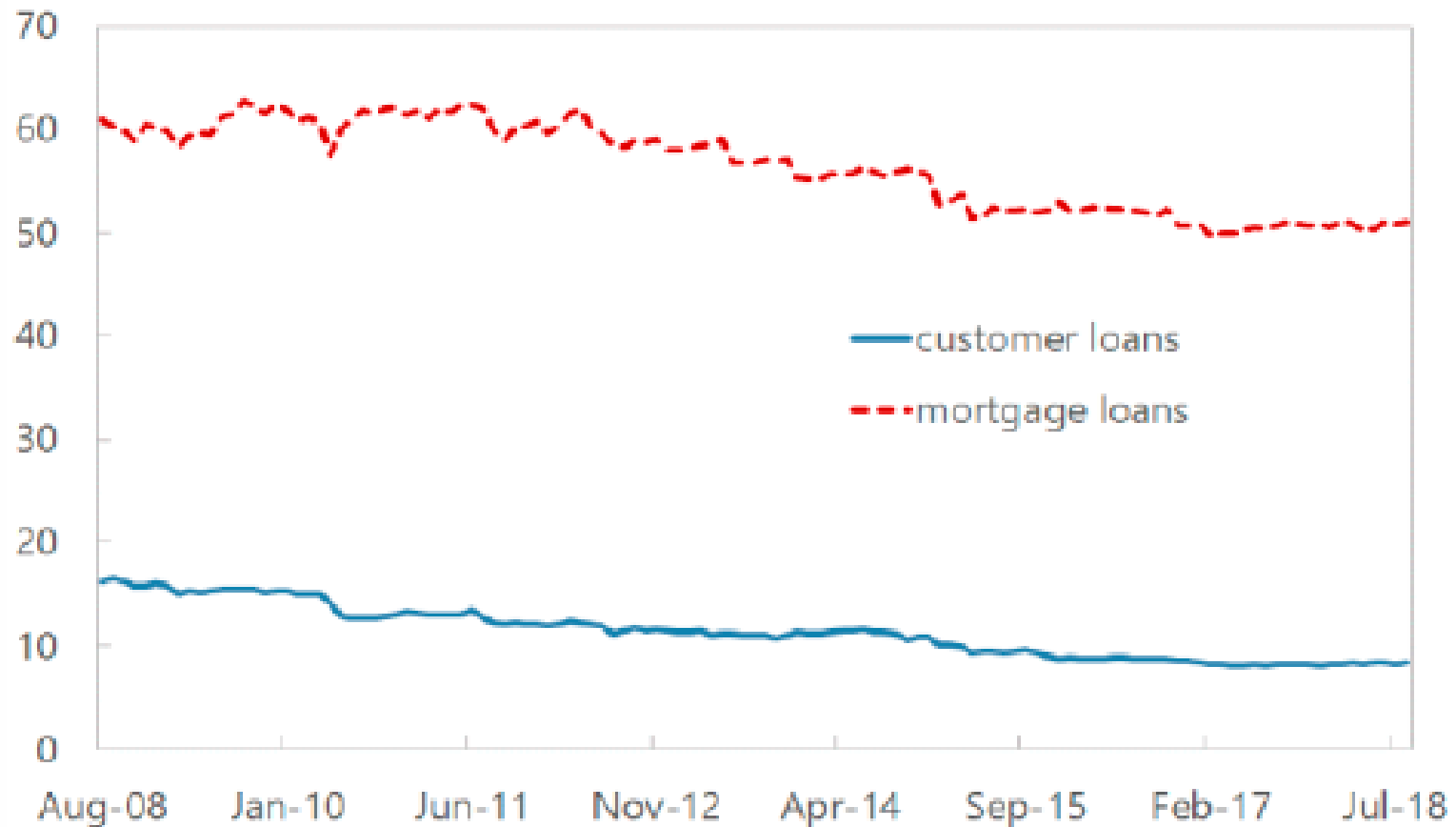


Sources: SNB; and IMF staff calculations.

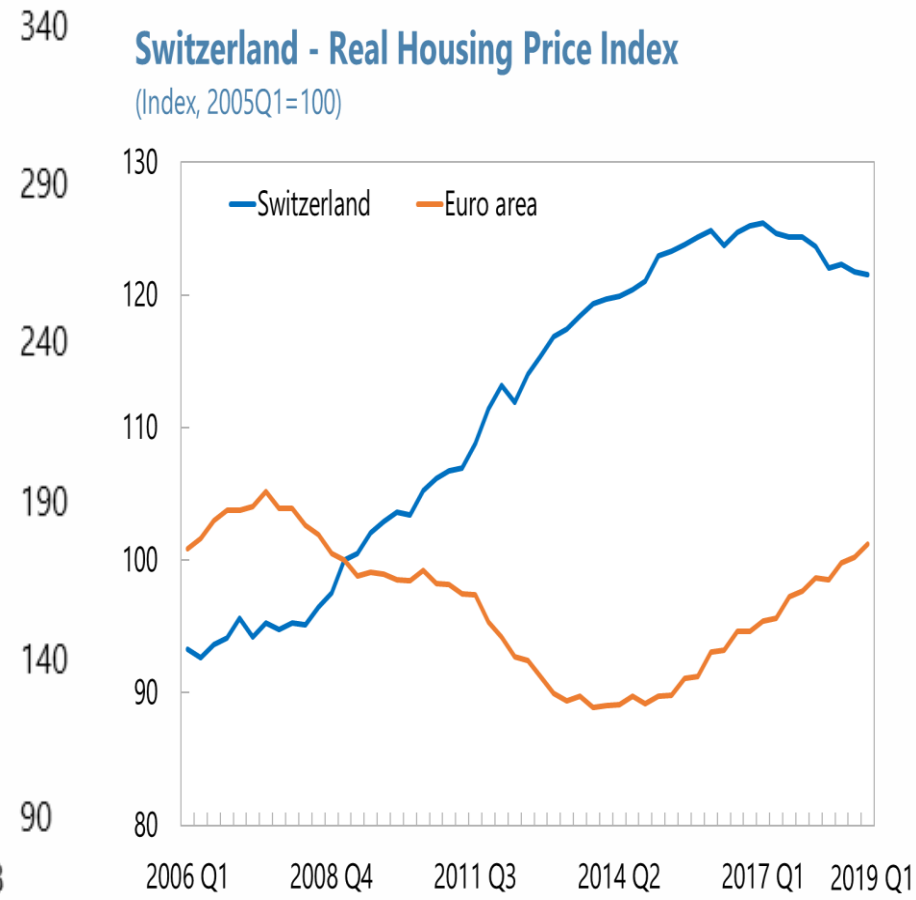
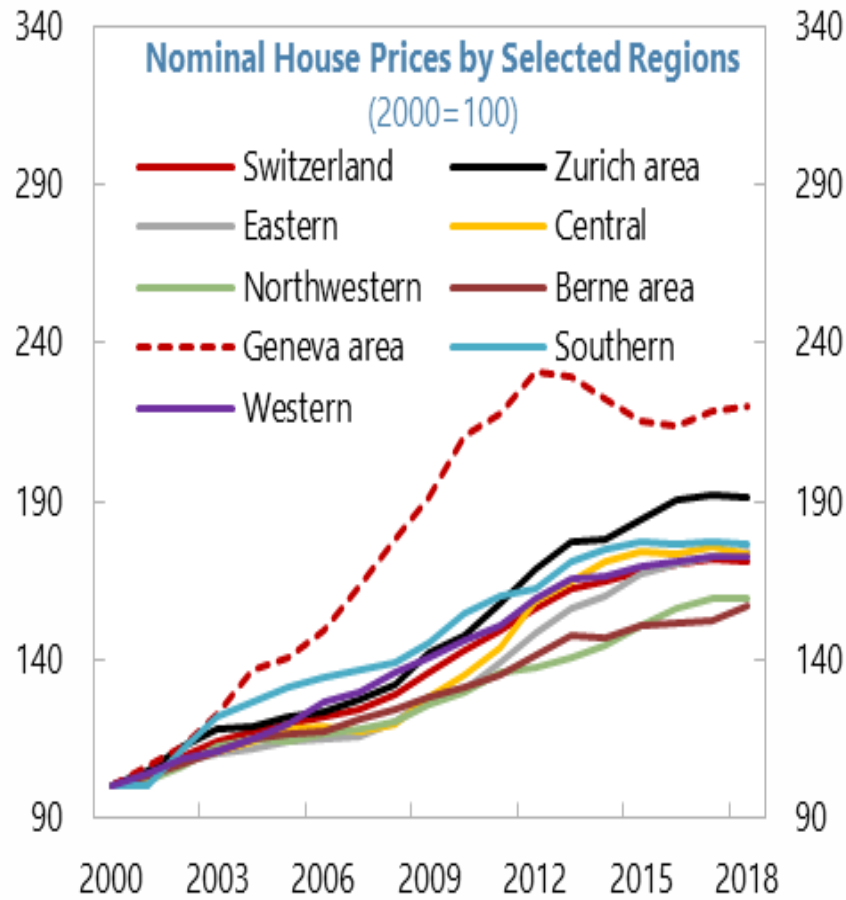
# Banks are still highly exposed to real estate

## Loan Allocation

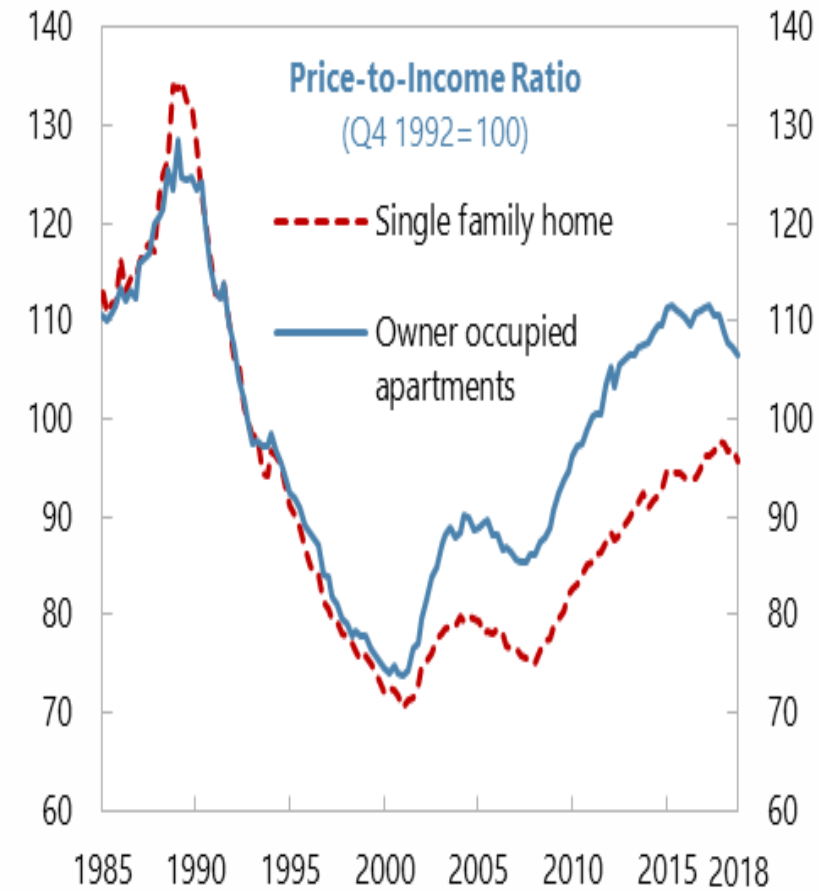
(Percent of assets)



# Historically High House Prices



Sources: Haver Analytics





# Macprudential 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)





# FINMA Is Trusted (and Trusting) Supervisor

*“...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



## Deposit Insurance (Sans Assurance)

*“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





## Recovery and Resolution (for Some)

*“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)  
<https://www.linkedin.com/pulse/9-notes-swiss-financial-system-atilla-arda/>





## IMF Market Insights

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