Box 1. Structure of the Swiss banking sector

The recent financial crisis has shown that governments cannot allow systemically important banks to collapse – because they have become 'too big to fail' (TBTF). Switzerland is no exception, as demonstrated by the UBS case. Indeed, the TBTF issue is particularly pronounced in Switzerland, owing to the way in which the Swiss banking sector is structured.

A number of criteria are used in assessing the systemic importance of banks and, hence, the magnitude of the TBTF issue.[15] These are size, interconnectedness and substitutability. However, it is difficult to define suitable indicators, because these three criteria often overlap. Below, size as well as market share in domestic deposit and lending business are considered. In both cases, the indicators for Switzerland are particularly high. First, by international standards, Switzerland has a very large banking sector relative to its GDP, with two huge international banks. Second, both of these banks also dominate the domestic market.

At the end of 2009, Swiss banking sector assets totalled CHF 3,574 billion, or nearly seven times Swiss annual GDP. This is a considerable drop compared to the previous years, when the size of the banking sector represented up to nine times GDP. However, it is still the biggest ratio among the G10 countries. Furthermore, the two Swiss big banks on their own have total assets amounting to over four times Swiss annual GDP. This number, too, is the highest among the G10 countries (cf. table B1).

Thus, despite the reduction in their balance sheets, the big banks are still very large relative to Swiss GDP. Since the balance sheet reduction mainly reflected a retrenchment from foreign assets, the big banks' share of the domestic market – and hence the key component of their systemic importance – remains just as high as before.

Depending on the segment, the market share of the big banks in domestic lending is between 28% and 34%. For deposit business, market share is 30% (cf. table B2). The big banks are thus hugely important for the functioning of the Swiss economy. In their current setup, both big banks should be categorised as too big to fail on the basis of size and market share in domestic business.

The rest of the Swiss banking sector comprises 24 cantonal banks (29% of total domestic assets), 350 independent bank members of the Raiffeisen group (11%), 70 regional banks (8%) and 228 other banks. The 'other banks' category includes private banks, foreign-owned banks as well as branches of foreign banks, and accounts for a 19% share of total domestic assets. The private banks' main focus is on asset and wealth management, and it is therefore not surprising that they play a minor role in Swiss domestic commercial banking. Depending on the segment, their share of the domestic lending market lies between 0.3% and 1.4%. For deposit business, their market share is 9%.

Apart from the big banks, a few other banks have high market shares in some of the relevant markets and thus fulfil at least some of the TBTF criteria. However, compared to the two big banks, these banks are smaller and less complex, and lack the international dimension.

The figures emphasise the importance of analysing all main bank categories – the big banks (Credit Suisse and UBS), cantonal banks, Raiffeisen banks and regional banks – when assessing financial stability in Switzerland. However, due to their size, international exposure and TBTF status, special attention is given to the two big banks in this report.

Table B1: International comparison

	Size of the banking sector (ratio of total assets to annual GDP)	**Size of the largest two banks (ratio of total assets to GDP)**
Belgium	**5.2**	**3.1**
Canada	**2.4**	**0.8**
France	**5.6**	**2.0**
Germany	**4.6**	**1.0**
Italy	**2.2**	**1.1**
Japan	**3.0**	**0.8**
Netherlands	**4.8**	**3.2**
Sweden	**4.4**	**2.6**
Switzerland (2008)	**8.2**	**6.2**
Switzerland (2009)	**6.7**	**4.4**
United Kingdom	**6.3**	**2.3**
United States	**1.7**	**0.3**

Sources: FINMA, SNB, Bankscope, IMF

Table B2: Market share in domestic business, by banking category (in percent)

	Big banks	**Cantonal banks**	**Raiffeisen banks**	**Regional banks**	**Other banks**
Claims against non-financial firms					
of which secured	33.9	21.4	4.9	4.4	35.5
of which unsecured	27.5	47.6	0.8	3.1	21.0
Mortgage claims against households	34.3	33.5	17.6	6.8	7.8
Deposits at Swiss bank offices	30.4	25.7	10.9	6.3	26.6

Sources: FINMA, SNB

15 Cf., for example, IMF, BIS and FSB, *Guidance to assess the systemic importance of financial institutions, markets and instruments: initial considerations – report to the G20 Finance Ministers and Central Bank Governors*, October 2009, www.bis.org/publ/othp07.pdf, or, Commission of experts, *Preliminary report of the 'too big to fail'* commission of experts, April 2010, www.sif.admin.ch/dokumentation/00514/00519/ 00592/index.html