



Financial Stability in Switzerland: The SNB's Role

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Outline

1. Structure of the Swiss Banking Sector
2. The Swiss Financial Stability Framework
3. The Financial Crisis: Events and Measures Taken
4. Conclusion and a Peek into the Future



1. Structure of the Swiss Banking Sector

Market share of Banks in domestic lending

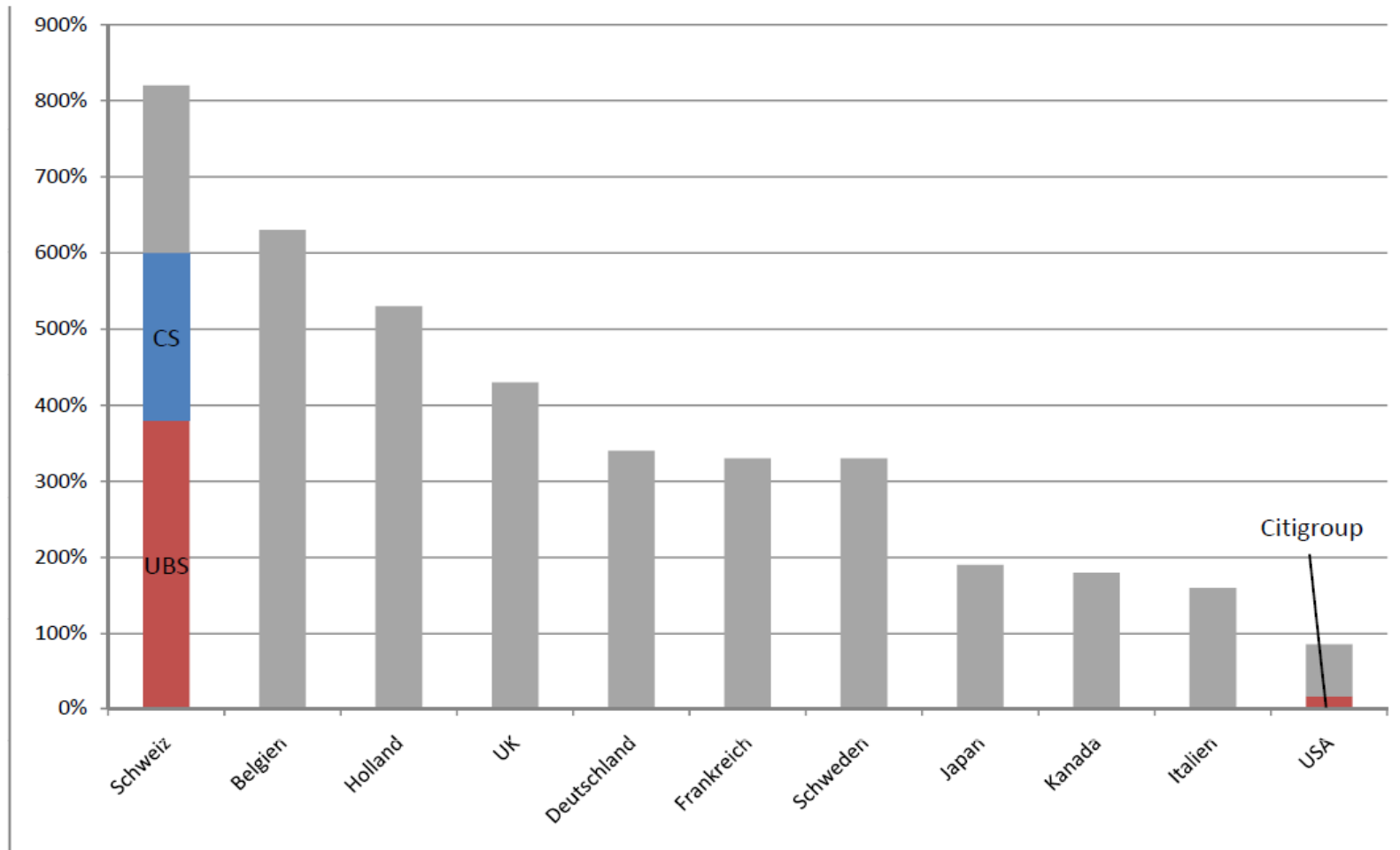
Market share: Domestic lending

In percent

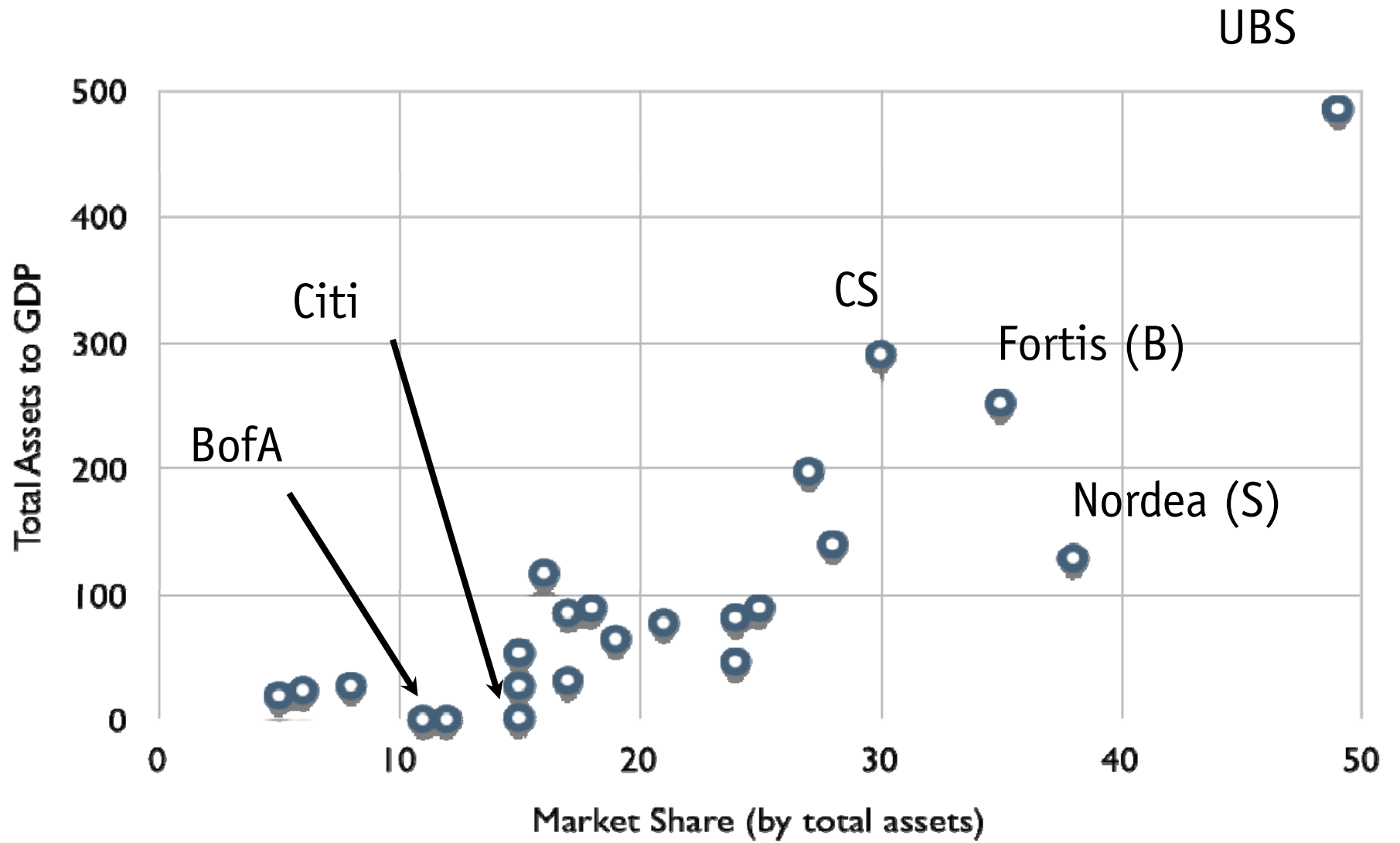
Big banks 34	Cantonal banks 32
Raiffeisen banks 13	Regional banks 9
Other banks 12	



Banking Sector Assets to GDP



Sources: SNB, *Annual Reports (2007 and 2008)*, IMF





Structure of Banking Sector

- The Banking Sector is
 - Large in international comparison
 - Contributes disproportionately to our economy
 - Highly concentrated
- Consequence: We have to pay close attention to the banks in Switzerland



2. The Swiss Financial Stability Framework



The Swiss Financial Stability Framework

- **FINMA: Swiss Financial Market Supervisory Authority** (Mainly micro-prudential approach)
- **SNB** (Macro-prudential approach)
- **Confederation** (Backstop)
- ***Swiss Bankers Association*** (Previously: Deposit Insurance)



The SNB's Mandate

- Monetary policy
 - The SNB shall ensure price stability.
 - In so doing, it shall take due account of the development of the economy
- Financial stability
 - The SNB shall contribute to the stability of the financial system

Interpretation



Macro-Prudential View of Financial Stability:

- Minimize occurrence, costs and risks of banking crises
- Preserve efficient banking sector and financial markets
- Maintain function for the real economy



Tools

SNB's contributions fall in three categories:

- a. Monitoring, reporting, research
- b. Regulation
- c. Crisis management (ELA)



a. Monitoring, Reporting, Research

- Financial Stability Report
- Internal, confidential stability report
- Analyses and special reports
- Briefing notes for the governing board
- Research papers



b. Regulation

- Supporting FINMA in regulatory matters
- Participating in working groups, e.g.,
 - Basel Committee on Banking Supervision
 - Financial Stability Board
- Policy papers
- Research on regulatory issues



c. Crisis Management

Emergency Liquidity Assistance (ELA)

Issues regarding ELA:

- Moral hazard
- Cost to tax payers
- Large and complex financial institutions
- Cross-border coordination
- Collateral



c. Crisis Management

Our Solution: “Constructive Clarity”

Clearly communicated guidelines for ELA.

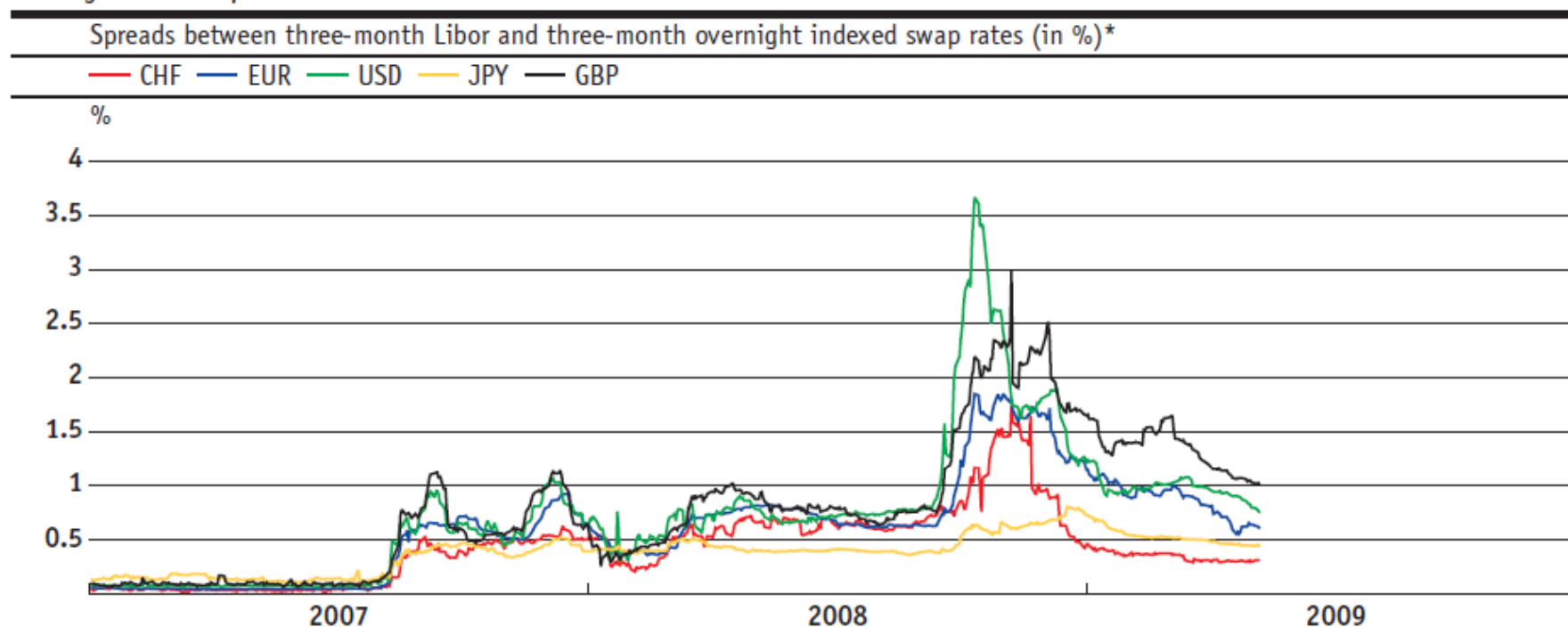
The receiving institution must

- be systemically important;
- be solvent; and
- have sufficient collateral



3. The Financial Crisis

The Financial Crisis: Money market spreads

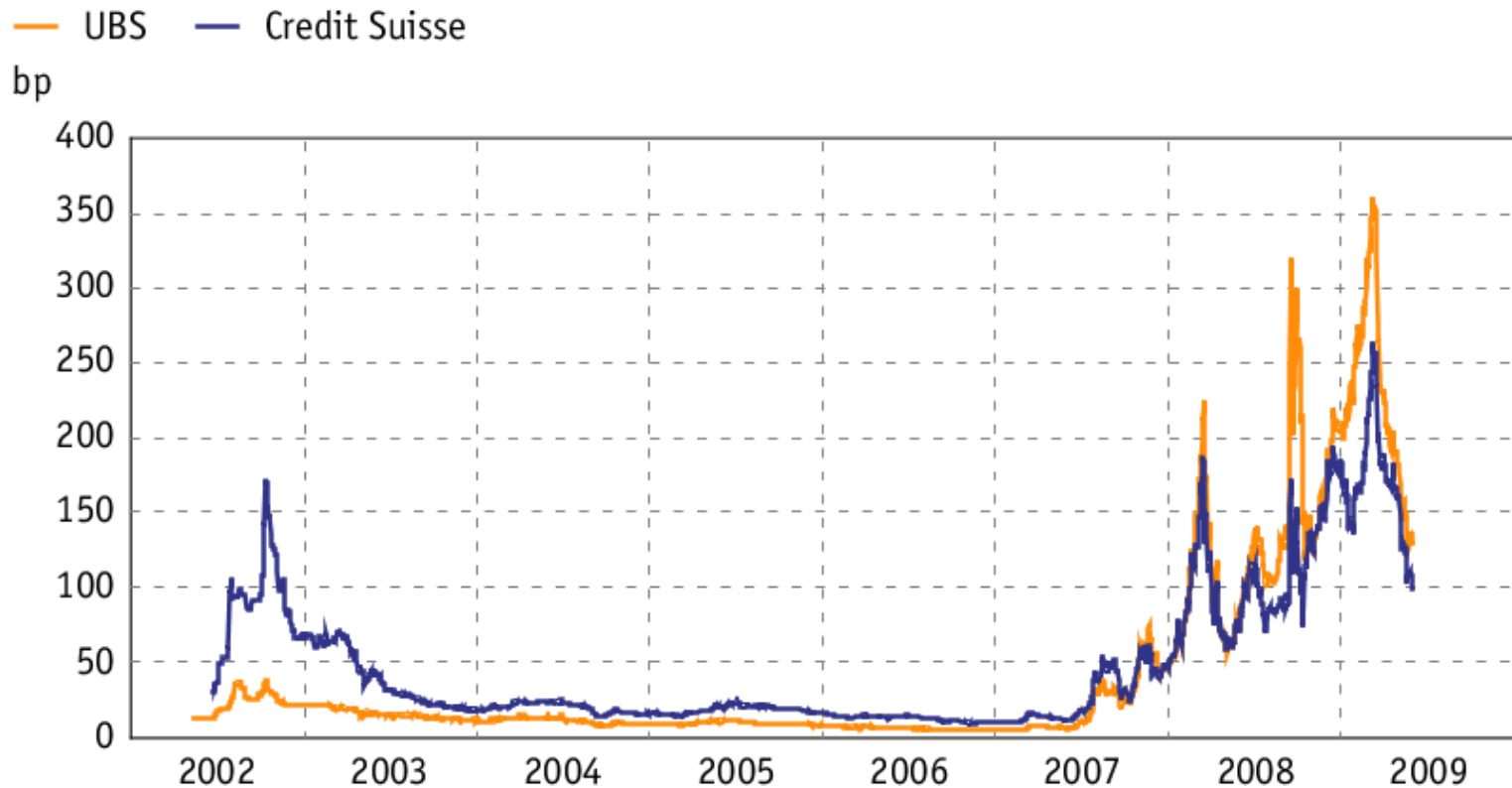


Sources: Bloomberg, SNB

* The overnight rates are: TOIS for CHF, EONIA for EUR, OIS for USD, TONAR for JPY, SONIA (GBP).

The financial crisis: The two big Swiss banks

CDS Swiss banks



Source: SNB Markets Analysis Platform, Bloomberg

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Support measures for the financial system, Autumn 2008

- Bad Bank
 - SNB provided the possibility for the big banks to transfer illiquid assets to a SPV controlled by SNB. UBS followed up.
- Capital injection
 - Confederation subscribed to mandatory convertible notes in UBS



Crisis Lessons Learned

Banks need

- More capital;
- more liquidity;
- improved risk management;
- more transparency; and
- sounder incentive structures.



Measures taken: Strengthening of capital requirements

- Risk-based requirements:
 - Big banks have to hold twice as much capital as required by international standards (“Basel II”)
- Leverage ratio:
 - Complementary instrument only for big banks.
 - Minimum 3%, SNB expects at least 5% in good times
- Both measures to apply from 2013



Measures taken: Reform of Liquidity Regulation

- Scenario based approach
- Tightening of requirements



Other Measures Taken:

- Risk management
- Incentives: FINMA's adaptation of FSB principles for compensation to Swiss financial sector.



4. Conclusion

- The challenges are being dealt with:
 - Tightened Capital and Liquidity Requirements, compensation.
- Challenges for the longer term:
 - The too-big-to-fail problem
 - Strengthening of macro prudential framework