Overview of banks and securities dealers

2014 saw a further narrowing of margins in interest and commission business and a modest slowdown in growth in the mortgage market. At the same time, cross-border wealth management remained beset with uncertainty because of increasing risks.

In 2014, the environment for banks and securities dealers in Switzerland remained challenging. With interest rates persistently low, interest income was practically unchanged. The debate over bank clients being tax-compliant continues unabated.

International pressure still high

International pressure on cross-border wealth management remained high in 2014, and will continue to preoccupy the financial sector and FINMA in the years to come. Germany, France, Belgium and Argentina have followed the US in launching high-profile criminal investigations, while Israel and India are threatening to do so. FINMA is keeping a close eye on these proceedings, deploying both supervision and, where necessary, enforcement[32] to ensure that banks adequately assess, manage and limit their legal and reputational risks in this area.

The programme launched in late August 2013 to resolve the tax dispute[33] between the US and Swiss banks has tied up considerable resources and generated high internal and external costs among banks that registered in category 2, even though no proceedings have yet been concluded. Banks had until the end of December 2014 to register in categories 3 and 4.

A number of institutions recorded asset outflows as they parted company with clients whose tax status was inappropriate or who had filed voluntary declarations in their countries of origin. This trend will intensify in the run-up to the planned automatic exchange of information scheduled to begin in 2017/2018.

Interest rate risks and mortgage growth

In the low interest rate environment, monitoring and managing interest rate risks remains extremely important. FINMA therefore carried out on-site supervisory reviews at various commercial banks in 2014 to gain in-depth insight into their risk management. The topic is also consistently addressed in regular discussions with bank representatives. If any issues of importance from a supervisory perspective are identified, the institutions concerned are ordered to make either organisational changes or strengthen their capital base as appropriate.

The mortgage market is currently dogged by uncertainty. The low interest rate environment that is principally driving the real estate market remains in place. However, FINMA noted a modest slowdown in mortgage growth in 2014. This is partly attributable to political factors such as the attitude towards immigration and to the implementation of regulatory measures. The Federal Council approved a further increase in the countercyclical capital buffer for residential property from 1% to 2% with effect from the end of June 2014. Following consultations with the authorities, the Swiss Bankers Association also made adjustments to its self-regulatory regime for mortgages, which essentially involved shortening the amortisation period for second tranche mortgages, increasing the amount of the initial down payment and the eligibility of second incomes to cases of joint and several liability, and introducing the lower of cost or market value for real estate evaluations.

FINMA conducted on-site supervisory reviews in 2014 focusing on investment properties, which revealed major differences in the valuations applied by banks. It also carried out mortgage stress tests of banks to highlight the potential losses in the event of a real estate crisis. These raised banks' awareness of the issue and required them to incorporate specific adverse scenarios for the property market in their risk management processes.

[32] See "Handling of US legal risks", p. 80.

[33] See FDF press release dated 30 August 2013 (http://www.efd.admin.ch/dokumentation/medieninformationen/00467/index.html?lang=en&msg-id=50049).

Decline in commission income, operating expenses stable

Despite the positive trend on the equity markets, commission income fell slightly compared with 2013. As in previous years, this was due to the high proportion of liquidity in most client portfolios. Operating expenses were stable. The number of institutions reporting losses remained high, with smaller institutions and those in the process of closing down their business particularly affected.